

## RESEARCH REPORT SERIES

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IZA COVID-19 Crisis Response Monitoring

### **Short-Run Labor Market Impacts of COVID-19, Initial Policy Measures and Beyond**

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## Summary

The unprecedented COVID-19 pandemic has a severe impact on societies, economies and labor markets. However, not all countries, socio-economic groups and sectors are equally affected. For example, occupational groups working in sectors where value chains have been disrupted and lockdowns have had direct impacts are affected more heavily, while the slowdown of hiring activities mostly affects young labor market entrants.

As a result, there has been a steep increase in unemployment rates in many countries, but not everywhere to the same extent. Part of this difference can be related to the different role and extent of short-time work schemes, which is now being used more widely than during the Great Recession. Some countries have created or expanded these schemes, making coverage less exclusive and benefits more generous, at least temporarily. But short-time work is certainly not a panacea to “flatten the unemployment curve”.

Furthermore, next to providing liquidity support to firms, unemployment benefits have been made more generous in many countries. Often, activation principles have also been temporarily reduced. Some countries have increased access to income support to some extent also for non-standard workers, such as temporary agency workers or self-employed workers, on an ad hoc basis. A major change in working conditions is the broad move towards telework arrangements and work from home.

Nonetheless, it appears too early to assess the relative success of national strategies to cope with the pandemic and to revitalize the labor market as well as the medium-term fiscal viability of different support measures. Future monitoring will also have to trace policies to cope with the imminent structural changes that might result from the crisis or might be accelerated by the crisis.

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## Introduction

Economic and social disruptions caused by the COVID-19 pandemic may have lasting effects on employment, income and working conditions. At the same time, there are significant cross-country differences in the labor market and social policy responses that are deployed to help mitigate the imminent crisis effects as has been shown by policy inventories released by the OECD and other institutions.

Against this background, several renowned labor economists have agreed to jointly monitor these crisis responses as country experts. Based on a qualitative survey among these experts, this report establishes an independent assessment of actual crisis-related policy responses, also drawing on the invaluable input of individual country reports (see Box 1). The interested reader may refer to the country experts' studies for more detailed information on individual countries, while this report summarizes their results and puts them into a broader perspective. Furthermore, it identifies some remarkable similarities and patterns across countries in the labor market impacts of COVID-19 and initial policy responses. But it also highlights important cross-country differences. The remainder of this report is organized along the set of eight questions included in the qualitative survey.

### **Box 1: List of Countries, Country Experts and Country Reports**

While the following individual country reports have been used as background information for this report, updates will become available via the project website <https://covid-19.iza.org/crisis-monitor/> in the near future.

**Austria:** René Böheim and Thomas Leoni

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_at\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_at_202006.pdf)

**France:** Pierre Cahuc

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_fr\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_fr_202006.pdf)

**Germany:** Werner Eichhorst and Ulf Rinne

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_de\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_de_202006.pdf)

**Italy:** Tommaso Colussi

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_it\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_it_202006.pdf)

**Netherlands:** Egbert Jongen and Paul Verstraten

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_nl\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_nl_202006.pdf)

**Portugal:** Priscila Ferreira, João Cerejeira and Miguel Portela

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_pt\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_pt_202006.pdf)

**Slovakia:** Martin Kahanec and Monika Martišková

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_sk\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_sk_202006.pdf)

**Spain:** Raul Ramos

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_es\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_es_202006.pdf)

**Sweden:** Lena Hensvik and Oskar Nordström Skans

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_se\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_se_202006.pdf)

**Switzerland:** Patrick Arni

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_ch\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_ch_202006.pdf)

**United Kingdom:** Rui Costa and Stephen Machin

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_uk\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_uk_202006.pdf)

**United States:** Susan Houseman

[https://www.iza.org/wc/files/downloads/iza\\_\\_crisismonitor\\_countryreport\\_us\\_202006.pdf](https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_us_202006.pdf)

## Labor market impact of COVID-19

Early forecasts about the economic impact of COVID-19 were clearly too optimistic. Over the past months, there has been a progressive deterioration of forecasts and of the actual economic situation. Recent forecasts expect dramatic declines of GDP between 6 and 12 percent in 2020 (but can be as high as 14 percent; see, e.g., OECD 2020). Quite negative scenarios apply to countries with severe and long-lasting lockdowns such as Spain, Italy or France. However, the labor market impact is likely to also differ depending on the specific institutional arrangements, employment structures and crisis response measures, as well as depending on the further development of the pandemic.

Currently, getting a reliable and timely overview of the labor market situation in the countries which are monitored in this report is not an easy task. Data is becoming available only with a substantial time lag and with limited reliability in some countries. This holds for survey data on unemployment, but in particular for the intensity with which some labor market instruments (e.g., short-time work) are actually being used. Due to these circumstances, data on unemployment rates based on standardized surveys as, for example, published by Eurostat or the OECD lack timeliness and reliability. Hence, the current situation with respect to unemployment appears to be best approximated by not necessarily strictly comparable administrative data.

Taking the number of registered unemployed from May 2020 relative to May 2019 as benchmark, there has been a massive increase by more than 50 percent in countries like Austria, the United Kingdom, Sweden or Switzerland. However, this increase has been even larger in the United States, while other countries reported rather moderate increases in unemployment between May 2019 and May 2020, e.g., France or Italy. This might be due to some delays in data reporting on the one hand, but institutional explanations might matter more. In fact, some countries have seen a massive decline in working hours in general, and in particular a massive increase in notifications for and take-up rates of short-time work.

Hence, it seems plausible to map countries along the following two dimensions: a) the year-over-year increase in unemployment, and b) the current extent to which short-time work is used. While Table 1 shows that there is no clear inverse relationship between the two dimensions, this illustration can nonetheless provide a broad picture (despite some measurement issues with both dimensions).

For example, the United States is the most prominent case of a steep unemployment increase in this country sample. Unemployment in the United States rose to almost 16 percent in April 2020 (with some difference in survey data and register data) with some improvement since then. Job destruction has been relatively quick there, but also some early signs of recovery are potentially visible. On the other hand, work sharing plays only a very minor, albeit growing role in the United States. A similar case can be made for the United Kingdom where employment has markedly declined and unemployment has more than doubled compared to one year before. This is accompanied by a fall in working hours outside short-time work, but also – and different from the situation in the United States – in the context of a job retention scheme that allows for furloughing (stabilizing more than a fourth of all jobs in the United Kingdom at the time of writing).

**Table 1:** Unemployment and Short-time Work

		Share of employees in short-time work (in % of total dependent employment in May 2020)		
		High (> 30%)	Medium (10-30%)	Low (< 10%)
Year-over-year increase in registered unemployment  (May 2020 relative to May 2019)	Very strong (> 100%)		United Kingdom	United States
	Strong (> 50-100%)	Austria, Switzerland		
	Moderate (25-50%)		Germany, Portugal, Spain	Sweden, Slovakia
	Small (< 25%)	France, Italy	Netherlands	

Source: Authors' illustration based on country reports (listed in Box 1) and OECD data.

Notes: Regarding short-time work, some countries only provide notifications that are not necessarily identical with the number of individuals actually taking up short-time work at a later stage.

In Austria, while experiencing also a remarkable decline in employment and record levels of unemployment, about one-third of the (dependent) labor force is in short-time work that was adapted to mitigate the consequences of COVID-19. Parallel to a steep increase in unemployment, Switzerland is also using short-time work quite intensively, potentially for about 37 percent of its workforce.

Other countries have not (yet) seen a comparable increase in unemployment. Germany has used short-time work successfully in the past during the Great Recession, but current take-up is estimated to be significantly higher than during the 2008-09 crisis. While exact figures of workers actually relying on short-time work only become available with a significant delay in Germany, the latest estimates are about 6 to 7 million short-time workers (i.e., about 20 percent of all dependent employees in Germany). This probably corresponds to more than 1 million workers in full-time equivalents in 2020, buffering against a massive increase in unemployment (which nonetheless grew by 26 percent between May 2019 and May 2020).

The Netherlands report a drop in working hours, too, with particularly strong declines in catering, in the cultural sector and for the self-employed, while registered unemployment increased by less than 10 percent since May 2019. More than 20 percent of all Dutch workers are employed in firms with short-time work arrangements at the moment. The same is true for Spain, where the new temporary employment adjustment scheme ERTE is covering about one in five workers, preventing (or least delaying) massive job destruction at the moment. Nonetheless, Spain has recorded about 25 percent more unemployed in May 2020 than in May 2019.

Despite relatively mild restrictions on economic activities and daily life, Sweden shows a rather strong increase in unemployment by more than 35 percent. In addition, the role of the newly created short-time work scheme is growing, albeit rather moderately in comparison (it covers about nine percent of the Swedish workforce). Slovakia, having implemented strict control measures, saw a comparable rise in unemployment, but also rolled out a short-time work scheme with limited importance so far. National data for France also show some resilience in employment (and no strong unemployment reaction, based on the data reported), accompanied by a very strong reliance on short-time work (used by about half of the employees). About one-quarter of all workers have been laid off temporarily in Portugal, while unemployment has increased by more than one-third.

Italy seems in a peculiar situation with a reported decline in unemployment, driven by discouraged job seekers leaving the labor force, and a very prominent role of short-time work covering about half of the Italian workers in the private sector or about one-third of total employment. Yet, the severe lockdown is likely to lead to major short-term disruptions in the Italian labor market with an imminent increase in unemployment.

While the crisis affects virtually all sectors to some extent and in different ways, the impact of the crisis is highly unequal across socio-economic groups in the labor force. Even in countries with moderate overall unemployment reactions, not all sectors use external flexibility (dismissals, termination of fixed-term contracts, reduction of temporary agency work) and internal flexibility (short-time work, work sharing) to the same extent. This strongly depends on the willingness of employers to hoard certain types of labor, given required skill levels and qualifications (and their degree of substitutability), as well as on employment protection legislation.

When studying country experiences more closely, employment losses tend to be concentrated in sectors that were directly affected by lockdown measures or disrupted value chains or general economic uncertainty. In fact, the sectoral composition of jobs destroyed appears quite similar across countries. The hospitality sector, leisure and tourism (hotels, restaurants, and travel), cultural activities and events, local retail trade, and logistics were most affected by declines in working hours and employment rates. In some countries, declining employment in manufacturing was noted (Portugal, Switzerland). At the same time, temporary peaks in demand could be observed in health, supermarkets or online retail trade and delivery services.

Furthermore, particular difficulties are clearly visible for low-skilled workers (and migrants), given the sectoral composition of their jobs and limited ability to work from home. The latter has critically contributed to the continuation of work in many white collar jobs. At the same time, many young labor market entrants, but also jobseekers in general, suffer from a massive decline in vacancies (for entry level jobs and jobs in general) and new hirings. In general, the crisis has so far rather reduced hiring rates than increased dismissal rates (in the continental European context). Particular difficulties can be expected for recent school leavers and graduates as well as apprentices in their final stages as job transitions will be hampered this summer.

There is a general inequality of the labor market impact of COVID-19 to the detriment of those with temporary or variable contracts. For example, fixed-term employment is declining more strongly than permanent contracts in countries where this divide is particularly relevant such as Spain, Portugal or France. Temporary agency workers face a larger risk of being made redundant (e.g. in the Netherlands or Slovakia). The same holds true for marginal part-time workers, on-call workers and independent contractors in sectors that are heavily affected, despite some efforts to include them better into social protection and short-time work schemes (e.g., in Switzerland). The actual effect of the crisis on specific categories of workers, however, also depends on the institutional setting in the respective country and on the sectoral or occupational composition of non-standard work. In many cases, those affected by labor market disruptions have no or only very limited access to social insurance, and thus heavily depend on means-tested income support and ad hoc relief measures.

Most experts agree that the peak in unemployment rates is yet to come, due to dismissals after an initial phase of short-time work, fewer hirings, very limited active labor market policies and increasing unemployment durations (in the continental European context). Hence, it appears too early to assess the success or failure of different national strategies.



## Orientation and targeting of adopted measures

The measures adopted to mitigate the consequences of COVID-19, as compiled in the OECD inventory and confirmed by the country papers, show large similarities and form a broad immediate crisis response package. They typically include four types of schemes:

1. A direct labor cost relief and liquidity support to firms in order to allow them to continue their activities in a critical situation so as to maintain staff. This typically includes loans and guarantees, but also tax and contribution deferrals.
2. Special ad hoc programs have been adopted to support freelancers, i.e., self-employed that are typically not included in unemployment insurance. Some countries were quick to adopt these measures, others exhibit some delay. Also, these measures do not necessarily provide income support, but cover running business expenses; and they could be limited in terms of amount and duration as well as focusing only on certain types of businesses or freelance activities.
3. Probably the most important program to deal with the crisis in this early stage is the expansion of short-time work schemes or equivalent schemes. Alternative schemes are called work sharing (at the state level in the United States), temporary layoffs (Portugal) or temporary adjustment (Spain). New schemes have been introduced in Portugal, Sweden and Slovakia, whereas other countries such as the Netherlands, Switzerland, Austria, France or Germany have enlarged existing schemes and made them more attractive to employers and/or workers. Some of these countries have also explicitly widened the scope of short-time work to include fixed-term workers, temporary agency workers or (quasi) self-employed. During short-time work, dismissals for business reasons are difficult if not legally prohibited in order to ensure the stability of permanent contracts at least for some time. It is obvious that compared to the Great Recession, in the current crisis more countries are using this instrument. While short-time work is still biased in favor of permanent workers and certain industries, the formal and actual range of workers and sectors covered is wider than in the 2008-09 crisis.
4. Lastly, some countries have raised unemployment benefit levels (in some constellations) and prolonged benefit duration in unemployment insurance, in particular to account for the lockdown period when active labor market policies have been disrupted (and activation requirements waived). Coverage has sometimes been extended to include some categories of non-standard workers. Unemployment assistance generosity has been temporarily increased in Austria, and a new income support scheme has been introduced in Spain.

Individual countries have attached different weights to these four broad categories of schemes.

According to current assessments, the measures adopted in the early phase of the crisis are seen as broadly effective in stabilizing liquidity of firms and income of those with no job or shorter working time. However, their fiscal implications might be severe in the medium and long term if economic activity does not pick up again.

Yet, we can see some areas that have not been addressed (systematically):

- Generally speaking, there is no targeted policy for labor market entrants (e.g. university graduates, school leavers, VET graduates) and no clear initiative to restart ALMPs.
- Many countries have experienced tensions with respect to child care facility closures and school closures as well as their consequences on parents' employment.

- Some groups have lost their jobs without registering as unemployed, in particular if no unemployment insurance benefits are accessible to them. For example, this is the case for marginal part-time workers in Germany. These discouraged workers withdraw from the labor market and move towards inactivity (as can be already observed in Italy).

## Immediate liquidity support to businesses

The initial lockdown period meant a profound shock for businesses in Europe. A particular challenge has been the rapid and simultaneous disruption of operations in the domestic sectors and the export industry. As a consequence, there has been widespread concern about massive increases in bankruptcies even among financially healthy firms.

All countries in our sample therefore had to take measures to support the liquidity of companies. This usually took the form of guarantees, loans, or deferred tax and social security payments. This was often complemented with more idiosyncratic initiatives to support specific segments or industries. For instance, several countries decided to support airlines with rather large sums. The relative size of these different programs is currently difficult to assess. It can be expected, particularly if the recession will last, that the pre-crisis fiscal situation of individual countries will influence the size of liquidity measures.

The situation of small businesses has been a particular concern for policy-makers in most countries analyzed here. One potential problem is that such businesses do not have sufficient financial buffers to survive a period with no or significantly reduced revenues. Several countries have therefore set up funds from which lump-sum payments to small businesses are financed. This happened, for example, in Austria, France, and Germany. Germany provides higher payments than most other countries, ranging from 9,000 Euro to 15,000 Euro, depending on the number of workers. However, the sum is strictly reserved for business expenses and must not be used as income replacement. Sometimes tax reductions (e.g., in Sweden) or specific loans (e.g., in United States, Italy, and Sweden) were reserved for small companies.

A second concern is the social security of the self-employed with no or few workers, who usually are poorly integrated in unemployment insurance. Already over the past decade, a debate has emerged about whether European employment models depend excessively on low-paid and precarious forms of self-employment. In any case, the problem pressure of unprotected jobless individuals who were previously self-employed forced many countries to adjust their social security systems. Generally, the trend is to provide benefits roughly at the level of social assistance, but with more lenient access and behavioral requirements. The variety of measures can be illustrated with some examples.

The Netherlands created a temporary benefit scheme for three months on the municipal level that provides benefits (at the level of social assistance) for the self-employed without strict means-testing (called Tozo). Until May 2020, Tozo was claimed by almost a fourth of all self-employed workers in the Netherlands. The scheme was recently extended until October 2020, but it now includes a partner income test. Italy temporarily pays an allowance of 600 Euro per month to the self-employed and other non-insured types of workers. In the United Kingdom, a new scheme provides taxable grants corresponding to 80 percent of the self-employed's average monthly trading profits up to a total of 7,500 GBP. By mid-June 2020, already 2.6 million persons had applied for such grants.

A particularly generous treatment of the self-employed can be observed in the United States. Here, self-employed workers were made temporarily eligible for unemployment insurance (that was extended considerably, see Section 4 below) through a federally

funded program. This means that many freelancers and independent contractors should receive much more generous insurance benefits than comparable workers in Europe, who often have to rely on social assistance or equivalent payments.

In most countries, the measures taken to protect the self-employed were ad hoc and adopted temporarily. Against this background, it is remarkable that Spain used the crisis as an opportunity to permanently modernize its social assistance, which previously differed across municipalities. Since June, there is a unified system (Ingreso Mínimo Vital) that pays up to 1,000 Euro to families and 460 Euro to singles who fall in the definition of severe poverty (below 40 percent of median income). This will make the social security net much more consistent. The Spanish government expects around 850,000 households and more than 2 million people to benefit from this scheme. The costs are estimated to be approximately 3 billion Euro.

In sum, there is a variety of measures to support the liquidity of companies and the income of the self-employed. Many of the schemes were rather improvised and to date, it is not clear whether the implementation has been appropriate to provide rapid assistance. In Italy, for instance, the Central Guarantee Fund provides loans up to 2,500 Euro to SMEs that are fully guaranteed by the Italian state. According to preliminary research, only a minority of eligible firms have applied, presumably because of excessively bureaucratic applications procedures. In Switzerland, it has been noted that there is a gap between guaranteed loans that have been approved and that have actually been taken up by firms. A reason could be that SMEs that are not forced to do so try to avoid indebtedness. This links to the question of what happens if the crisis lasts longer and SMEs will face difficulties to repay their state-provided or guaranteed loans. Another implementation issue has arisen in Germany with lump-sum payments to the self-employed and small businesses. During the improvised roll-out, miscommunication initially led to a widespread impression that the money can be used for personal expenses, whereas it really is reserved for business-related expenses. The self-employed can only rely on social assistance for income replacement. It is currently uncertain if and to what extent the state will reclaim misappropriated payments. Also in the United Kingdom, surveys show that at least in the initial period of the above-mentioned Coronavirus Self-Employed Income Support Scheme, there was widespread confusion about the eligibility criteria.

Problems such as these illustrate that the countries in our sample have much less experience with taking measures to protect self-employed compared to dependent workers. The next months should be a period of intense evaluation and policy learning in this field.

## **Support of dependent workers**

The initial crisis response of the covered countries has shown some remarkable similarities. Most countries have tried to use a version of short-time work schemes to keep workers in their jobs and unemployment low. This makes a lot of sense, because the COVID-19 crisis looked (at least initially) more certain than ordinary shocks to take a V-shaped pattern. In such a situation, short-time work schemes have their strongest justification.

Several countries already had such scheme in place at the beginning of the crisis. In almost all cases, additional measures were taken to expand these existing schemes. The goal usually was to make them more inclusive and to lower residual costs for employers. Austria introduced, for instance, a temporary “Coronavirus short-time work scheme” that is more generous than the usual version. In France, Spain, and Italy, additional sectors

were included in the scheme and/or requirements for eligibility were relaxed. Germany, which made positive experiences with short-time work in the Great Recession, eased eligibility requirements for firms, raised replacement rates, and opened up the possibility for temporary agency workers to benefit from the scheme. The idea to include vulnerable types of workers was pursued even more decidedly in Switzerland, where workers on fixed-term contracts, apprentices, temporary workers, on-call workers and even family members helping in small firms have become entitled, at least temporarily. In the United Kingdom, the Coronavirus Job Retention Scheme allows companies to send employees on leave, while 80 percent of the salary is compensated by the state. Compared to short-time work schemes in most other countries, this program now also allows workers to take up part-time jobs in other companies (furloughing). This is an interesting institutional feature that could be considered in other countries. The Netherlands, Slovak Republic and Sweden have set up schemes in the crisis that closely resemble the typical parameters in other countries.

In most countries, applications for short-time work have soared in the crisis. It certainly is at the core of the European crisis response. Besides the replacement rate, important institutional differences relate to the extent to which employers can reduce labor costs. This includes the remaining wage share that has to be covered and the question of whether social security contributions are waived. Some countries, such as France and Germany, allow short-time work without any costs to employers, but that is not the standard in Europe. At the other end of the spectrum is Portugal. In its temporary layoff scheme, employers still have to cover 30 percent of the wage, which makes the scheme considerably less generous.

In the United States, short-time work schemes are administered at the state level. At the beginning of the crisis, only 26 states had such programs in place. The federal government decided to provide financial assistance to these programs and to support the remaining states to develop similar ones. The main reaction in the United States, however, was to considerably extend the coverage of unemployment insurance, which has been comparatively ungenerous. This happened most notably by paying an additional 600 US-Dollar per week out of Federal funds and by extending maximum benefit duration by 13 weeks. By some estimates, this generous treatment of low and medium incomes (in place at least until July 2020) has shifted the median replacement rate to more than 130 percent, so that many eligible workers could earn more than on their jobs.

Although unemployment was less in the focus of European policy makers, many countries have extended eligibility or eased access (see also Section 3). The question was particularly relevant in Sweden, where the income ceiling for calculating benefits is rather low and which has a Ghent system with limited coverage through unemployment insurance funds. The government reacted, *inter alia*, with shortening the membership duration in funds that is necessary for eligibility to insurance benefits and with raising the benefit ceiling. Spain went into a similar direction by temporarily suspending minimum contribution periods for unemployment insurance.

Complementing the focus on keeping workers in their jobs during the crisis, some countries have temporarily changed dismissal regulation. Layoffs were banned or restricted in Italy, Portugal, Slovak Republic and Spain (a tighter control of collective dismissals was announced in France but has not yet been implemented).

## Working conditions and work organization

COVID-19 led to a lockdown of economic activities in most countries, albeit with a different timing and intensity. Simultaneously, a massive expansion in working from home was observed – not only because of legal restrictions, contact bans and new guidelines by health and safety at work authorities, but also because of individual health concerns (especially for persons belonging to at-risk groups) and additional care responsibilities (due to school and child care facility closures). Against this background, COVID-19 pushed firms, schools, universities and public administration to consider the adoption of new technologies that allow employees to work from home.

To give just one representative example illustrating the expansion of telework, the share of employees who work from home at least two hours a day has doubled in the Netherlands compared to the pre-crisis situation (von Gaudecker et al. 2020). Similar increases can be observed in other countries, but there is also substantial heterogeneity across sectors. For example, in France telework is particularly frequent in the information and communication sector (63 percent of employees), and in financial and insurance activities (55 percent). These are sectors in which telework was already relatively common before the current crisis. In other sectors, including hotels and restaurants (6 percent of employees), construction (12 percent), the food industry (12 percent) and transport (13 percent), work from home still relatively rarely occurs. Pre-crisis patterns in work from home across sectors were therefore amplified.

It should be noted that the Swedish case is somewhat exceptional, also in this context. While recommendations by public health authorities to work from home, if possible, had a substantial impact on the time spent at work, the shift to telework was more gradual and less pronounced in Sweden than in its neighboring countries. This can be explained by the fact that some workplaces that were closed by law in other countries remained open in Sweden, most notably schools and child care facilities, allowing parents to continue working as before.

While the adoption of work from home has generally helped to mitigate the drop in working hours, in some countries – especially in those that were heavily affected at a rather early stage – a larger share of workers had to actually stop working. For example, six weeks after the beginning of the lockdown in Italy, the share of workers who (temporarily or permanently) stopped working was estimated at about 34 percent (Galasso, 2020). This share was particularly large among blue collar workers and, more generally, for jobs that could not be done remotely.

The effects of border closures or intensified border controls appear especially relevant for smaller, open economies and for regions in closer proximity to a border with strong cross-border links. For example, the number of cross-border workers in Slovakia amounts to about 5 percent of the country's labor force. Many of these workers are employed in health care; and a larger share adapted by staying in their host countries. In addition, special arrangements came into effect which included back-and-forth commuting options for those living in closer proximity to the border. Such temporary and discretionary measures aimed at containing COVID-19 as much as possible without limiting economic activities by a too large extent.

Economic activities in “essential” sectors were generally not restricted. On the contrary, in some cases the workload in these sectors increased quite substantially. These sectors were mainly the health care sector and wholesale and retail trade (groceries). But workload also increased to some extent in public administration or banks (e.g., to handle applications for unemployment benefits, short-time work, credits or loans). For example, almost 8 percent of workers in the United Kingdom responded in a representative survey



that they have been working longer hours with no or reduced breaks in early June (ONS, 2020).

New hygiene rules, standards and guidelines by health and safety at work authorities to reduce the imminent risk of COVID-19 infections (also in effect after the initial period of lockdown) have been introduced in many countries, often sector-specific and not just limited to essential sectors. It can be expected that these measures will be gradually adapted in the future, also depending on the spread of COVID-19. While it is clear that these health measures could reduce productivity now and also in the future, the precise extent to which this may be the case is not yet clear. According to anecdotal evidence from Austria, special working arrangements are still in place in many firms because the workplace organization makes it difficult to apply the hygiene rules prescribed by the government. This is the case, for instance, in many larger firms, where workplaces are organized in open-plan offices. Many firms have therefore shifted towards weekly, or sometimes daily, worker rotation schemes (i.e., workers rotate between working from home or in the office or groups of workers attend the workplace while other groups work from home).

In response to the crisis, quite a few countries have introduced new temporary regulations of working time and holidays (e.g., Germany, Switzerland, or France). These new regulations are often in effect until December 31, 2020 and usually imply relaxed rules, most notably with respect to working hours and resting hours, but are sometimes sector-specific. For example, the Swiss government temporarily relaxed the rules governing working conditions for medical institutions and gave specific exceptions to extend weekly working hours beyond the usual legal maximum to the meat industry and banking sector (in the latter case to handle the bridging loans applications). In Sweden, to accommodate the increased demand in the health care sector, medical unions and employers have agreed on a crisis agreement, which requires staff to potentially work more hours and adapt to location changes in case of an emergency situation. In return, the employees receive a bonus payment, but this agreement has so far only been activated in one area of Stockholm that was most heavily affected by COVID-19. In Slovakia, some aspects of working time regulation generally do not apply to workers for which working from home (or telework) is their main form of work.

These ongoing changes in working conditions and in the work organization within firms may contribute to an intensifying polarization in the labor market. Some observers point to a new labor market divide between those workers that are able to work from home (with differences between workers with or without care obligations), those working in the service sector or in essential sectors (e.g., frontline workers with a higher risk of infection and an increased workload) and those workers with a high risk of losing their jobs (e.g., hotels and restaurants, tourism, cultural sector). For example, in Austria the share of working from home varies greatly across skill-levels and occupations. While only 14 percent of workers with compulsory education and 26 percent of those with a dual vocational education degree worked remotely, half of the workers with upper secondary education and almost two thirds of those with tertiary education did so (Pichler et al. 2020). Similar findings in a disaggregation by income level also highlight the social gradient of COVID-19's labor market impact.

At the broader level of society, traditional gender roles regarding care responsibilities may be reactivated in the wake of the current crisis. For example, primarily due to school and child care facilities closures, COVID-19 is estimated to have directly affected care arrangements for about 10 percent of the working age population in the United Kingdom. Gender differences are large: only 7 percent of men have been directly affected, but almost 13 percent of women (ONS 2020). However, while women still appear to have been doing the greater share of child care, the gender child care gap for the additional, post-COVID-19

hours is smaller than that for the allocation of pre-COVID-19 child care (albeit with a substantial degree of heterogeneity across families; Sevilla and Smith 2020). Again, this situation is different in Sweden as school and child care facilities have remained open. This clearly helped parents to continue working as before, especially in the context of a Nordic country with a very clearly developed dual-earner model and a near universal residential separation between children and their grandparents.

The longer-term implications of changes in working conditions and in the work organization within firms are not yet clear. The sudden rise in work from home may, however, trigger a debate about new regulations for this type of work arrangements (e.g., in Germany). While it is too early to judge whether this discussion will ultimately result in a new legal framework in some countries, the outcome of the debate will very likely depend on how lasting the shift towards working from home actually turns out to be. Regarding the possible return to more traditional gender roles, there appears to be no consistent evidence so far.

## **New labor market entrants**

Although there is a very broad consensus that new labor market entrants will be facing particular difficulties this year and potentially severe and long-lasting scarring effects, only few actual policy responses targeted at this particular group can be observed.

Within the group of new entrants to the labor market, three subgroups can be distinguished:

- Graduates (from schools and universities), apprentices: Many of those individuals who were supposed to finish their studies soon are currently confronted with short-term practical problems how to continue their studies and to actually obtain their degree. Moreover, they will enter the labor market in a period of a severe recession, which can have very substantial long-term effects (Kahn 2010; Oreopoulos et al. 2012).
- Unemployed, out of the labor force: These individuals are confronted with reduced hiring activities by firms and a massive drop in posted vacancies. This sharp drop in labor demand may also lead to increasing inactivity rates and more discouraged workers.
- Crisis layoffs: Individuals who lose their job in the current recession may face particular challenges to quickly return to employment. Although at this stage, in some (predominantly European) countries with a larger welfare state, the increase in unemployment is mainly driven by a massive drop in vacancies and hirings, a longer recession will ultimately lead to layoffs also in these countries. When this happens, the affected individuals are not only confronted with the slump in labor demand, but also with continued and potentially accelerated structural change. Job profiles and skill requirements may change accordingly, and dismissed workers may therefore not be able to easily return to their former job.

More generally, younger workers and immigrant workers may be particularly hit by the current crisis. The important difference to previous recessions is that in the current situation, also many sectors that offer entry-level jobs are affected (e.g., hotels and restaurants, retail). In some countries (e.g., United Kingdom), it is even the case that precisely those sectors which used to absorb part of the downturn employment in previous recessions are currently the most affected. This considerably worsens the outlook for new labor market entrants – and also for groups such as refugee immigrants, for which labor

market conditions upon entry may have lasting negative effects (Aslund and Rooth 2007). This could pose a particular challenge for countries that still deal with the labor market integration of the most recent refugee influx (e.g., Germany).

While it is also possible that some firms may even increase their hiring activities and may act countercyclically in this respect, this is clearly not a dominant strategy in the current situation with large uncertainty. It may also be more relevant in countries facing demographic change and imminent skill shortages (such as Germany). In these countries, firms in a relatively strong position (e.g., in terms of liquidity or business expectations) could even increase their hiring activities, especially focusing on younger workers with sought-after skills. To avoid time-consuming, competitive and costly staffing in the future, it could be a rational approach to hire such workers even when product demand is weak.

The situation for younger workers may be particularly challenging in countries that heavily rely on the dual apprenticeship system (e.g., Germany, Austria, Switzerland) as this form of the vocational training system also depends on firms' demand for apprentices. This could imply that younger workers in these countries do not only face deteriorating employment prospects after their graduation, but also that a larger part of the usual vocational training system leading to degrees and certificates may come to a halt. For example, preliminary figures for Austria indicate that the number of vacancies for apprentices in May 2020 declined by about 30 percent in comparison to the previous year. In Austria, about 71 percent more persons were looking for an apprenticeship position in May 2020 than in May 2019. More positive signals can be observed from Switzerland, where for the upcoming cohort two thirds of all offered apprenticeship positions have been already filled. However, as the majority of apprenticeships usually start only in late summer, it seems too early to judge how this situation will evolve until then. In any case, demand and supply on the vocational training market should be closely monitored – especially in countries with a strong dual apprenticeship system.

Other countries, mainly in Southern Europe, may also face huge challenges with respect to new labor market entrants. Although these countries do not rely on dual apprenticeships systems, they have to deal with notoriously high youth unemployment rates – even in the pre-crisis situation. For example, in Spain the situation for new labor market entrants could be very difficult this year, especially during summer when they are usually offered internship positions that are often converted into temporary employment contracts. A similar situation may actually occur in Sweden, where summer job contacts play a major role for the school-to-work transitions of high school graduates. Hensvik et al. (2017) show that as many as one-third of the vocational high school students in Sweden find their first stable job in firms in which they had previously held a summer job during high school. This share is moreover notably higher during recessions.

Concerning school-to-work transitions, it appears as a rational approach in the current situation to stay longer in education than otherwise. However, this implies an increased competition after the crisis. It may also imply the need for additional funding on an emergency basis aimed at both students and educators.

Next to that, various policy responses how to best support labor market entrants are currently discussed – albeit with remarkable heterogeneity in the intensity of these discussions across countries. While there is an intensive policy discussion and also rather concrete initiatives in some countries, the situation of new labor market entrants has not yet received much attention in other countries. The latter seems to be the case in Southern European countries such as Italy, Portugal, and Spain, but also in Sweden, Switzerland, or the United States. In countries with rather concrete initiatives, these measures appear



to strongly depend on institutional context. For example, a joint federal support initiative to make apprenticeship capacities more resilient in times of crisis will come into effect in Germany. The program includes bonus payments to SMEs that provide apprenticeships, bonus payments to firms taking over a current apprentice from a firm that has gone bankrupt during the crisis, support to avoid short-time work among apprentices, and incentives for training in facilities outside individual firms. Hiring subsidies targeted at younger workers and subsidies for apprentices have been announced for the next coming months in France (but details are not yet clear). An internship scheme to support school-to-work transitions of graduates has been proposed in Slovakia.

## Policy innovations and labor market trends

In many countries, one can currently observe governmental interventions at an unprecedented speed and breadth. The short-run objectives of various policy responses are predominantly income and employment stabilization. In some countries, these responses rely to a larger extent on automatic stabilizers, while the amount of discretionary measures is generally large and often unprecedented. Nonetheless, the degree of policy innovation appears rather incremental than revolutionary – possibly with the exception of short-time work schemes. This instrument has been expanded or newly introduced in a number of countries.

In the current stage of the crisis, a policy debate about the need for additional measures to stimulate the economy and mitigate unemployment – mainly fiscal stimulus packages – appears to gain momentum. The situation in the United States can serve as a prime example illustrating the different views in this debate. On the one hand, it is argued in favor of extending measures and adopting a major economic stimulus package that would include significant infrastructure spending. On the other hand, it is argued to wait for the effects of existing measures and to see how the economy responds when initial restrictions on business openings are gradually lifted. The outcome, however, may be similar as in Germany, where the government has agreed upon another stimulus package in June 2020. Including this latest stimulus package, Germany's measures – together with liquidity aid and loan guarantees – equal more than 30 percent of the country's annual GDP (BMF 2020a; BMF 2020b).

It is a very common perception that the current crisis may accelerate structural change and digitalization. Firms may increasingly view digital tools as a hedge and reinsurance against external shocks. In this respect, the crisis is also an endurance test of firms' (and countries') past digital achievements, and their past omissions become very visible. Of a more fundamental nature is the fact that also the general attitudes towards robots may change. While the widespread perception of many workers had been that robots are a threat for their jobs, the current crisis shows rather clearly that they can actually help preserving labor by allowing firms to continue or even expand their production also in turbulent times. Nonetheless, an increased speed of structural change could be too quick for some workers, and an accelerated pace of job destruction may make it very difficult for dismissed workers to find new employment.

In addition, the current crisis may also accelerate the pre-crisis trend of shifting a share of the usual work schedule to working from home. Hence, remote work may become more frequently at least a realistic option for a substantial share of the workforce. Also the attitudes towards working from home could change permanently – but it appears open in which direction: On the one hand, many workers and firms have now experienced first-hand that working from home is actually feasible in their business environment. On the

other hand, quite a few workers and firms have also now experienced how difficult it is to cope with the various challenges posed by working from home. Hence, it is not yet clear if the currently observed shift towards working from home will continue after the crisis. Among other things, this will also depend on its impact on workers' productivity. While the currently available evidence on this issue is still scarce, it appears that productivity effects are rather heterogeneous across workers and sectors.

Other pre-crisis trends – often sector-specific – may be amplified by the crisis. For example, it appears likely that the crisis will accelerate the long-term decline of local retail, often delivered through smaller shops, while all forms of online retail will experience an extra boost. A similar experience was made in Asia after the 2002-04 SARS outbreak. In addition, the ongoing transformation of manufacturing, in particular of car manufacturers and their suppliers, may proceed even more rapidly than expected before the crisis. More generally, labor demand shifts may be further amplified by adjustments on the supply side. For example, the scope and direction of job search may change (e.g., directed towards more resilient jobs; Hensvik et al. 2020).

The crisis may therefore act as a catalyst for a number of pre-crisis trends. But some pre-crisis trends may in fact be reversed. One candidate in this context is the re-organization and reallocation of global value chain downstream production. It is argued that in some countries, a reshoring of certain activities is likely to occur. In this scenario, the current economic shock will push firms to decrease especially their dependency on single geographic-centric suppliers. However, in an alternative scenario, significantly shorter or less complex global value chains in industrial production are unlikely to occur. One argument supporting this view is that firms in the post-crisis situation may even rely to a larger extent on cost-saving initiatives, which typically include outsourcing and offshoring. A re-organization and reallocation of global value chain downstream production is then unlikely to occur – especially in countries where the level of automation is already very high (e.g., Germany; Krzywdzinski 2020). This view is also shared by countries with a lower level of automation (e.g., Slovakia) that are rather concerned about a potentially widening gap between countries relying on cheap and labor-intensive production, and countries relying on innovative and capital-intensive production.

From the current perspective, it appears rather unclear how the crisis may ultimately affect the design of alternative work arrangements (including self-employment and freelance work). Similarly, it appears too early to draw general lessons from the current crisis for the future design of the welfare state. But it could be the case that in some countries (e.g., United Kingdom) the already existing willingness-to-pay for more job security and social safety among self-employed workers (Blundell and Machin, 2020; Boeri et al. 2020) may be intensified when a significant proportion of workers in alternative work arrangements are currently suffering significant economic hardship. Moreover, in the current situation of economic turmoil, some pre-crisis reforms in this area could be postponed, adjusted, or even not implemented all (e.g., the heavily debated reforms of the French pension and unemployment insurance system).

In the long run, the overall functioning of the labor market may be affected by the trade-off between health concerns and economic growth, which has taken on a much greater significance. However, there are also more optimistic views given the nature of this crisis as a prototypical external shock. In addition, the increasing use of online tools could have a greater impact on the search and matching process in the labor market as broader population groups have gained deeper online experiences, sometimes involuntarily. Online processes and platform solutions may become more widespread. Finally, the sudden changes as a result of the outbreak of the pandemic may hold the ground for a multitude of innovations that are not yet foreseeable in detail.

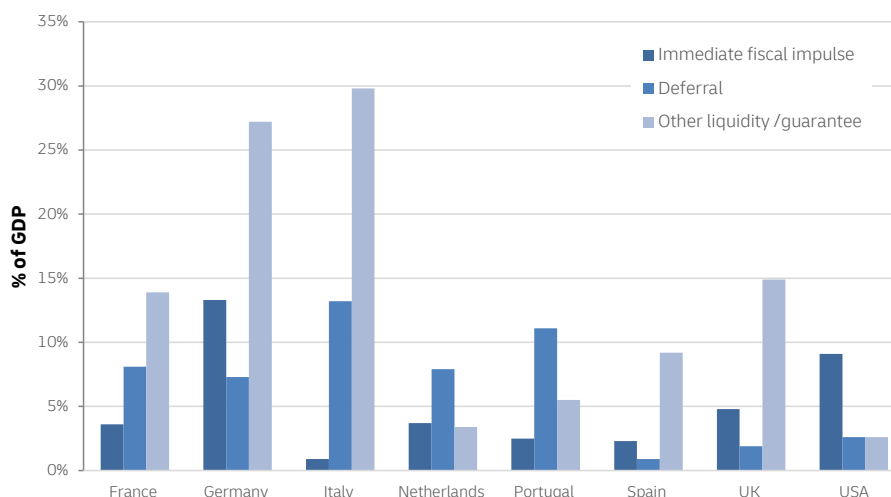
## Next steps and fiscal viability

This report has shown that all covered countries are eager to show a bold reaction to the Corona crisis. One of the big questions is how sustainable the responses will be if the crisis will last longer than initially expected. Increasingly, forecasts assume a U-shaped recession rather than the initially expected (and hoped for) V-shaped recession. Moreover, it is very unclear whether a second wave of infections will require additional periods of lockdowns and restrictions. The question of financial capacity is a particularly pressing one against the background of the Euro crisis, which was triggered by a financial markets' loss of trust in the sustainability of public debt.

Indeed, we can expect a division between those countries whose debt is considered as sustainable (e.g., Austria, Germany, the Netherlands, and Sweden) on the one hand, and those countries who are more vulnerable to punishment by financial markets in the form of rising bond spreads (e.g., Italy, Portugal, and Spain). Even in the former group, domestic politics could make it more difficult to have an equally ambitious response in potential second wave. This might make governments more reluctant to place health concerns above economic interests.

The Brussels European and Global Economic Laboratory keeps track of the discretionary fiscal responses of several EU countries covered in this report, as well as of the United Kingdom and the United States (Anderson et al. 2020). Fiscal responses are broken down into several categories: the immediate fiscal impulse (discretionary public spending and tax breaks), deferrals of taxes and social contributions, and liquidity assistance or guarantees (see also Section 3). While fiscal impulses, deferrals, and liquidity assistance affect public debt immediately, guaranteed loans create potential costs in the future.

The distribution of the fiscal responses across these categories (measured in percent of GDP) is depicted in Figure 1 for those countries in our report with available data. The first observation is that (based on these estimates) pre-crisis fiscal position does not determine the size of the reaction. Overall, Italy, Portugal and Spain each have more ambitious packages than the Netherlands. Second, what is remarkable is that these three countries mobilize relatively few resources for an immediate fiscal impulse. Portugal and Italy have relatively large deferrals that (hopefully) will lead to a rebound in tax revenue in 2021. A potentially worrying observation is that Italy in particular heavily relies on measures that might produce large and uncertain costs in the future. Third, Germany and to a smaller extent also the United States stand out with the size of its immediate fiscal impulse. This obviously benefits from the fact that both countries do not have to worry too much about punishment through financial markets. If this strong reaction helps to kick-start the economy after the lockdown and to prevent bankruptcies, it could make it less likely that guaranteed loan default and turn to delayed costs of the crisis.

**Figure 1:** Size of fiscal stimulus for selected countries

Source: Anderson et al. (2020).

Note: Timing of last update varies. See original publication for details.

In addition to national labor market and fiscal support measures, the European Commission has proposed a complex rescue package at the European level. In particular, the Commission announced a new recovery instrument (“Next Generation EU”) to be embedded in a “reinforced” long-term EU budget, referring to the multiannual financial framework for the period from 2021 to 2027. These ambitious measures are seen as complementary to national efforts to stabilize and revitalize the economy in EU Member States. A further impetus is to counter the divergence process that accelerated after the 2008–09 recession and to foster the transformation to a sustainable economy. While Next Generation EU is designed to provide 750 billion Euro, the budgetary measures correspond to about 1,100 billion Euro, adding up to about 1,800 billion Euro. Next Generation EU will be temporarily lifting the own-resources ceiling of the EU to 2 percent of the EU’s Gross National Income, allowing the Commission to use its positive credit rating to borrow 750 billion Euro on the financial markets. This joint lending via the Commission constitutes an important change on the EU policy stance. The additional funding will be administered through EU programs and repaid over a long period of time through future EU budgets, starting only in 2028. To help do this in a “fair and shared” way, the Commission has suggested a number of new own resources such as an emission trading system, a carbon border adjustment mechanism or a tax on digital transactions. In addition, in order to make funds available as soon as possible to respond to the most pressing needs, the Commission proposes to amend the current multiannual financial framework 2014–2020 to make additional 11.5 billion Euro available already in 2020.

The money raised for Next Generation EU are planned to be invested across three pillars. The first is to support Member States with investments and reforms through a new Recovery and Resilience Facility of 560 billion Euro. It will offer financial support for investments and reforms, including activities in relation to the green and digital transition and the resilience of national economies. These resources will therefore be linked to the EU priorities by embedding them in the European Semester. The measure will be equipped with a grant facility of up to 310 billion Euro and will be able to make up to 250 billion Euro available in loans. Support will be available to all Member States but concentrated on the most heavily affected ones. In addition, a 55 billion Euro top-up of the current cohesion policy programs between now and 2022 is to be allocated based on the severity of the socio-economic impacts of the crisis, including the level of youth unemployment and the relative prosperity of Member States. Furthermore, the smaller Just Transition Fund and the European Agricultural Fund for Rural Development are supported. The second

pillar aims at “kick-starting” the EU economy by stimulating private investment using a new Solvency Support Instrument, mobilizing private funds to support viable European companies in sectors, regions and countries most affected by the recession. It can rely on a budget of 31 billion Euro, aiming at 300 billion Euro in solvency support for companies from all economic sectors. In addition to this, the EU investment initiative is enlarged to 15.3 billion Euro to mobilize private investment in projects across the EU and a new Strategic Investment Facility to generate investments of up to 150 billion Euro in boosting the resilience of strategic sectors, thanks to a contribution of 15 billion Euro from Next Generation EU. The third pillar addresses relates to health program EU4Health. Its goal is to strengthen health security and prepare for future health crises with a budget of 9.4 billion Euro and a 2 billion Euro boost to the EU Civil Protection Mechanism. Further, 94.4 billion Euro are allocated to Horizon Europe which will be used to fund vital research in health, resilience and the green and digital transitions. All this is planned to be adopted in July 2020.

To mitigate the labor market impact of the COVID-19 recession, already in April 2020, the European Commission had initially proposed to the Council a temporary European financial instrument (Support to mitigate Unemployment Risks in an Emergency, SURE), which is now part of the larger EU rescue plan. Its goal is to support short-time work and related emergency schemes in EU Member states most affected by the crisis. This instrument has been adopted as EU Regulation 2020/672 by the Council on May 19, 2020, and national parliaments have to ratify it so that the scheme is likely to be operative in July 2020. This instrument, based on art. 122 TFEU, is to be funded through bonds issued by the EU up to 100 billion Euro backed by guarantees worth 25 billion Euro from all Member States corresponding to their shares in EU GDP (e.g., 6.4 billion Euro in Germany, as granted in mid-June). The supporting funds will be handed over as loans under favorable conditions to those Member States suffering heavily from the crisis and using short-time work (or similar measures, particularly for the self-employed) to secure employment and income. The distribution of the SURE funds depends upon decisions by the Council, based on proposals by the Commission. To this end, the Commission will have to assess requests from EU Member States and evaluate their situation, in particular the increase of spending on short-time work and similar measures. SURE is conceived as a temporary assistance to Member States available, under current rules, until the end of 2022, with the possibility of extending it if the crisis persists. SURE can be seen as an ad hoc European reinsurance of national short-time work schemes. To understand the proposal, two levels have to be distinguished: 1) the general role of short-time work and 2) the genuine European contribution.

As we have shown above, most countries covered by the IZA Crisis Response Monitoring have adopted a short-time scheme, with notable differences in scope and intensity. Short-time work only makes sense if one can expect a return to “normal” economic activity and increased labor demand in the near future. Ideally, short-time work schemes provide assistance to firms and workers for as long as the emergency situation lasts. SURE is arguably inspired by the remarkable success of the German short-time work scheme during the 2008-09 crisis, where it helped avoid job losses in the heavily exposed export sector. Now, the COVID-19 crisis not only affects manufacturing, but also many small and medium-sized firms in the service sector as well as the self-employed. In these cases, short-time work and assistance to self-employed outside unemployment insurance can only work if it is administered in a way that facilitates access by target groups that have no experience with this scheme. As the country reports show, this creates strong demands on the responsible administrative bodies.

Hence, while we know that some countries have created or expanded short-time work in response to the 2008-09 crisis and are going even further in the current situation, it



will be crucial to what extent the newly affected firms and freelancers can effectively be supported and how the additional funds available through SURE can be used effectively to expand short-time work or implement additional measures (e.g., to strengthen the retraining and placement for those workers in short-time schemes for whom a return to their pre-crisis jobs is in doubt due to structural change that might be accelerated by the crisis).

In this context, it is important to appreciate that short-time work is ideal to complement dismissal protection and can therefore be seen as an additional layer of a job insurance scheme (Vandenbroucke et al. 2020). It allows employers to retain workers at low cost instead of having to shoulder separation costs in the form of severance pay, long notice periods, or law suits. However, temporary workers tend to be excluded from this beneficial complementarity. Short-time work therefore risks leaving behind workers that are already vulnerable.

But it seems that the possibility to use short-time work allows working hours of permanent workers to absorb a large part of the shock, hence not increasing the risk for temporary workers (who are of course in general more likely to lose their job, but apparently not because of the use of short-time work). An explicit approach to protecting these groups would make the initiative more socially balanced. While the SURE program allows for adjustments and in particular for assistance to the self-employed, it remains to be seen if and to what extent non-standard workers are included by national decisions and facilitated by the EU backing. This is important in particular for the segmented labor markets that exist in some of the heavily exposed countries.

Beyond design and implementation issues of short-time work that are also highlighted in the individual country reports, SURE can be seen as a timely, necessary (but limited) expression of European solidarity (Vandenbroucke et al. 2020) with the Member States, firms and workers that are affected by the crisis in an unprecedented way. There is a short- and medium-term dimension to this. In the short run, the European contribution relieves immediate pressure on national budgets and unemployment funds. Of course, it is too early to tell if the funds are sufficient to make a difference and if the national administration can deliver short-time work quickly enough to those in need. At the same time, the European initiative does not directly interfere with the diversity of national schemes. While this is justified by the time pressure involved, it would be important to ensure that European funds do not simply crowd out national spending, but lead to a genuine expansion. This applies in particular to the question of how generous and inclusive national systems are towards low-wage earners, workers on non-standard contracts or vulnerable, economically dependent self-employed. Hence, the increase in expenditure for short-time work and similar programs that is required to be supported by European loans should also be linked with a sufficient generosity and scope of these programs. The overall effectiveness of SURE (and national short-time work programs) depends ultimately on the recovery of the European and global economy, and the overall EU recovery plan plays a major role much beyond the contribution of SURE (Claeys 2020).

Second, in a mid- to long-term perspective, the proposed scheme could not only help stabilize member states' labor markets now, but also provide a pilot for the introduction of a permanent European unemployment (re)insurance system without preempting any further decision on this at the moment (Tesche 2020). SURE relies on bonds issued by the Commission which is a non-negligible policy innovation at the EU level (Claeys 2020). SURE is only a temporary and limited intervention and does not entail any interference with national unemployment benefit and short-time work schemes while a permanent European unemployment (re)insurance model would require at least some minimum harmonization regarding core functions and parameters (Andor 2020). The current crisis

illustrates how valuable an effective system of automatic stabilizers without the need for cumbersome ad-hoc decision making would be. Based on our experience with previous crises, the European initiative to expand short-time work is a sensible policy that can help alleviate the COVID-19 shock. Beyond the current crisis, it could be an opportunity to address the pressing questions of how to organize European solidarity – and how to include workers at the margins of Europe’s current employment models.

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## IZA COVID-19 Crisis Response Monitoring **Austria (June 2020)**

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### ABSTRACT

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In Austria, the number of persons who registered as unemployed with the Public Employment Services (PES) rose to record levels in March and April. After May, the labour market situation improved slightly, but unemployment was still 50% greater than in the previous year. An adapted short-time work scheme (“COVID-19 short-time work”) is the main labor market stabilization program with a projected budget of up to €12 billion. At its peak, more than 1.1 million workers, about one third of the dependent workforce, had applied for the scheme.

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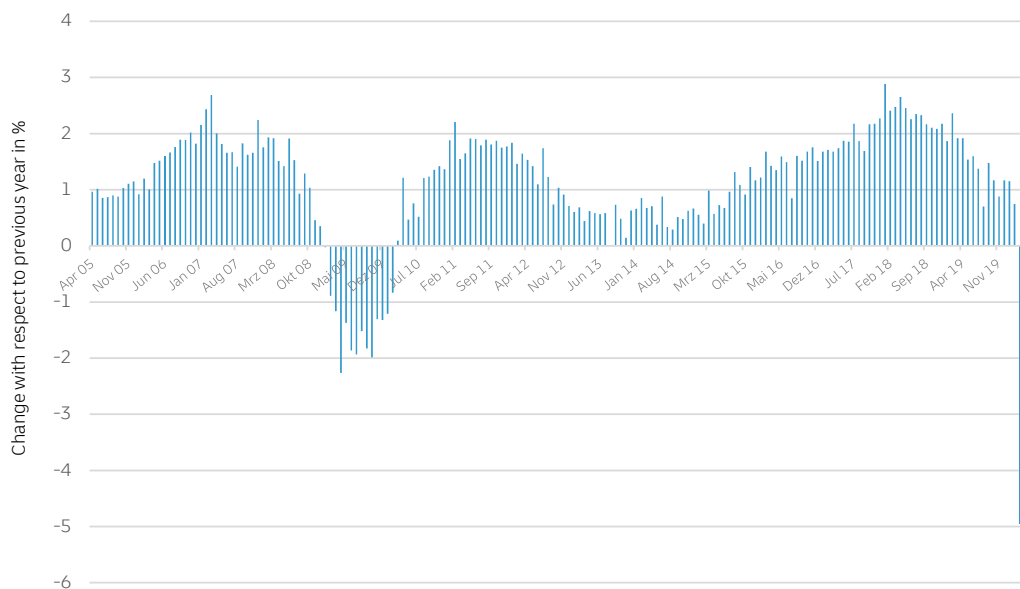
Böheim, Leoni (2020): IZA COVID-19 Crisis Response Monitoring: Austria (June 2020).

## Labor market impact of COVID-19

First measures to lower the spread of the virus were announced by the Austrian government on March 11, 2020 and introduced in the following week. The Austrian economy went into lockdown on March 16. The measures included a ban the opening of shops, with the exemption of shops selling food, drugs or medical supplies; restaurants could sell take-out meals. After mid-April (Easter holidays), several types of shops were allowed to re-open conditional on increased safety measures, such as the wearing of facial masks. Further restrictions were lifted at the beginning of May and in mid-May restaurants, personal service providers (such as hairdressers) and, partially, even schools re-opened, subject to specific safety measures.

The strict measures had a dramatic impact on the labor market. The number of unemployed increased, the number of employed decreased, and there was a massive inflow into short-time work. The number of persons who registered as unemployed with the Public Employment Services (PES) rose to a record level by the end of March and continued to rise until mid-April. Since then, the rise has been halted. At the end of April 2020, a total of 571,500 persons were registered with the PES (including persons in training), which is an increase of 210,000 persons or 58% compared to April of the previous year. While the number of persons in training fell by about a quarter due to the discontinuation of training courses, the number of persons registered as unemployed increased by two thirds. The unemployment rate (based on persons registered with the PES, excluding persons in training) reached 12.7%. This is the largest figure for April since the early 1950s and was only exceeded by the winter unemployment of 1953 and 1954. The rise in unemployment is mirrored by a strong decline in employment (Figure 1).

**Figure 1:** Dependent employment in Austria, change on previous year.



Source: Dachverband der Sozialversicherungsträger; Hauptverband der österreichischen Sozialversicherungsträger, WIFO.

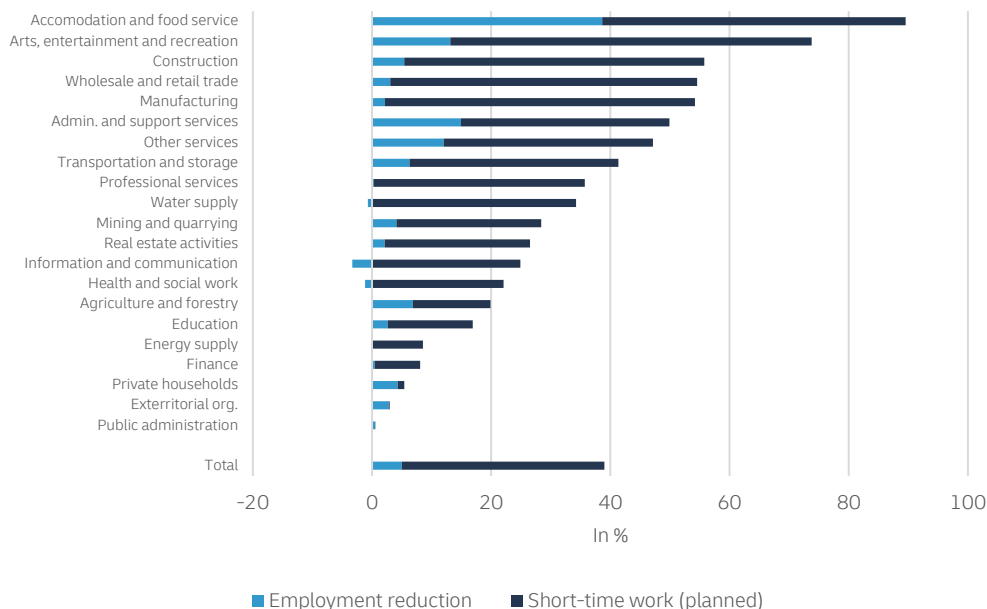
In comparison to 2019, total employment in the economy was about 5% lower in March and April, which corresponds to a loss of 185,000 jobs. In May, however, the labour market situation improved slightly. The number of unemployed fell by almost 10% compared to April and employment rose by 1.6%. Compared to the same month in the previous year, unemployment was still up by 50% and employment down by 4%, but the downward spiral could be stopped. At the same time, however, there are up to 1.3 million workers with approved short-time schemes and there is uncertainty about the evolution of their situation in the coming months.

Bock-Schappelwein, Huemer, and Hyll (2020) and Bock-Schappelwein, Eppel, Huemer, Hyll, and Mahringer (2020) provide a more detailed overview of the developments until the end of April, which we summarize here below. The labor market effects of the crisis are asymmetric across industries and worker groups. Most jobs losses occurred in the accommodation and food service industry, as employment in hotels and restaurants fell by almost 40%. Because of its size, this industry also recorded the largest drop in employment in absolute terms, with a decrease by almost 75,000 jobs. Other industries that were hit particularly hard by the crisis include the arts, entertainment, and recreation culture; personal services; and the provision of other business services (which also includes temporary work agencies). In these industries, employment fell by 12% to 15%.

Although certain businesses in the retail industry were allowed to open from mid-April and the initial drop in employment was comparatively mild (-3%), the large size of the retail industry resulted in a sizable loss of about 17,000 jobs. The decline in the transportation and storage industry was about 13,000 jobs (-6%). In the construction industry, the decline in employment was strong in March (-10%), but this was partially offset by the development in April when many construction sites were able to resume work. In contrast, both the health and social work sector and the information and communication technology industry recorded a rise in employment of about 3,000 jobs compared to April 2019, corresponding to an increase of 1.1% and 3.3%.

While in March men were slightly more affected by the decline in employment than women (men -5.6%, women -4.1%; Bock-Schappelwein, Famira-Mühlberger, and Mayrhuber, 2020), by the end of April the losses were almost balanced across the genders. Compared to the previous year, employment was 5.1% (about 103,000 jobs) lower for men and 4.9% (about 83,000 jobs) lower for women.

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

Gaps between other worker groups are much more pronounced. The number of workers with Austrian citizenship fell by 4% (114,000 workers), but for workers with foreign citizenship the job loss was more than twice as large (-9.2%, corresponding to 72,000 workers). This difference reflects the different distribution of workers across industries,

the segmentation in terms of occupations and employment forms, and the fact that many cross-border commuters (particularly in the East of the country) were unable to reach their jobs due to mobility restrictions.

Blue-collar workers are disproportionately more affected by job cuts than white-collar workers. In April, the decline in employment among blue-collar workers amounted to -12.0% (compared to April 2019), while there were hardly any job losses among white-collar workers or civil servants (-0.8%). In other words, 9 out of 10 lost jobs lost were from manual workers. The strong concentration of jobs losses on blue-collar workers is partially due to the weaker employment protection compared to white-collar workers. The period of notice for salaried employees varies from six weeks (for less than two years of service) to five months (for 25 years or more), depending on the number of years of service, while for manual workers it is only 14 days, although this period might vary by collective agreement). Young workers (under the age of 25) are also affected more than proportionally in terms of the employment decline, although in terms of rising unemployment the effect has been strongest among prime-age workers. (See also point 6 below.)

It is important to stress that the most important labor market measure implemented by the government in reaction to the crisis, the COVID-19 short-time work scheme, prevented an even steeper fall in employment. (See also point 4 below.) By early May 2020, the PES approved almost 100,000 applications from firms applying for the scheme, covering more than 1.1 million workers. Figure 2 shows the impact that this measure had on employment across industries. Although at present we do not know to what extent the approved short-time periods will be used as firms do not need to use their approved applications, the scheme prevented much greater job losses.

Depending on the industry, we see a large variation in the level of short-time utilization as well as in the combination of short-time work and labor shedding. In total, 90% of the workforce in the tourism industry were affected by the COVID-19 pandemic. In arts, entertainment, and recreation, about three quarters of workers were affected, and in manufacturing, construction, and the retail industry the share was above 50%.

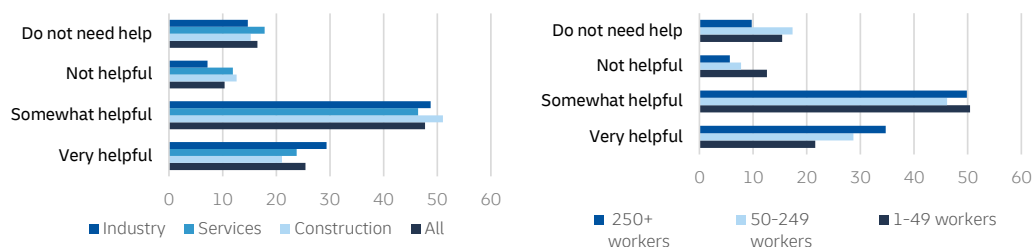
These labor market data are broadly in line with the latest economic forecasts. In its latest medium-term economic forecast from mid-April, the Austrian Institute of Economic Research (WIFO) expects the Austrian economy to contract by at least 5.2% in the current year (Baumgartner, Kaniovski, Bierbaumer-Polly, Glocker, Huemer, Loretz, Mahringer, and Pitlik, 2020). A more pessimistic scenario forecasts a drop in GDP by 7.5% (Baumgartner et al., 2020). According to these forecasts, the unemployment rate for 2020 will reach close to 9%. These forecasts are based on the (crucial) assumption that the pandemic will be contained by the second half of the year, without a second lockdown, so that the economy will gradually recover.

## Orientation and targeting of adopted measures

To soften the impact on the labor market, the government introduced several initiatives targeted at businesses. The main components can be summarized as follows: (i) a “Corona support fund” of €15 billion, targeted at all firms, (ii) a “hardship fund” of €2 billion, targeted at self-employed, freelancers, and small enterprises, (iii) guarantees and the postponement of tax liabilities for businesses, and (iv) the “COVID-19 short-time work scheme” with a current budget of about €12 billion.<sup>1</sup> Measures (i)–(iii) are targeted at businesses which have little or no revenues due to the crisis. All measures were announced as methods for keeping business operational and able to provide employment. Several smaller measures were also introduced to soften financial difficulties at the household level, such as a “family hardship fund” (€30 million) and a moratorium for rent payments and evictions.

COVID-19 short-time work is an adaptation (effective from March 1st) of the existing short-time work arrangement and intended to keep employees employed even if there is little or no work. It is limited to a maximum of 6 months (divided in two periods of three months each); employees’ wages are paid by the PES with a replacement rate that varies between 80% and 95% (depending on the wage level); and firms’ social security contributions for their employees are refunded in full. The average working time over the period must be between 10% and 90% of the regular working time, which allows for shorter periods of 0% working time. It is more generous than the existing short-time work program. Firms have, however, to pay their workers in advance and are refunded later, which could lead to liquidity problems for some firms.

**Figure 3:** Do firms consider state support measures to be helpful for surviving the period of economic restrictions caused by the pandemic measures (in %)?



Source: Hölzl (2020); business survey data collected between April 1 and April 23, 2020. N=1,354. Firms were asked which measures they had already implemented or where about to implement with respect to their operative business.

A survey of businesses carried out in April indicates that these measures were seen as “helpful” (48%) or “very helpful” (25%) (Hölzl, 2020). Only about 10% of businesses said that the measures did not help. About 16% of businesses stated that they do not need government support during the crisis. We observe significant variation across firm size, however, and small firms were twice as likely as large firms to report that support measures are not helpful (Figure 3).

<sup>1</sup> Self-employed persons in Austria are not automatically insured against unemployment. Self-employed who started their self-employment after 2008 keep an entitlement to unemployment benefits for a maximum of five years if they worked less than five years before their self-employment spell. They keep their entitlement for an unlimited period if they worked for five years or more as a dependent worker before their self-employment spell. Self-employed who started before 2009 also keep their entitlement indefinitely. The self-employed may voluntarily insure themselves with the social security within 6 months of their self-employment start. The opt-in is binding for 8 years. However, to be able to claim benefits, the business has to be (temporarily) closed. Only a minority of self-employed choose to opt-in, between January 2009 and August 2018 there were a total of 2,342 applications (Hartinger-Klein, 2018). In 2019, there were on average 529,600 self-employed persons in Austria (Statistik Austria, 2020).

Measures were targeted at “standard” businesses and were initially not available for NGOs, artists, and certain groups of self-employed. The government extended and adapted the program in several steps, with the aim to close gaps and to increase their coverage of vulnerable categories. By mid-May, steps have been taken to improve the situation of artists and persons working in the cultural and entertainment sector, who are in a particularly difficult situation because cultural activities and mass events are still largely banned or subject to very restrictive rules.

Although labor market indicators such as employment and unemployment currently show similar developments, in several respects the crisis affected women harder than men, as more women than men work in the health sector, in education, or in retail. In addition, both men and women have been working more in the home, but evidence indicates that the additional burden due to care and household work has not been shared equally. Berghammer (2020) states that 16% of women and 9% of men report that they spend much more time on housework (47% of women and 43% of men spend more or slightly more time on housework). The increase is most marked among families with children, but couples without children and people living alone also report increased time spent on domestic work. Gender-specific responsibilities for childcare increased and it is mainly mothers who look after their children and learn with them: 47% of women and 29% of men spend much more time on school-related activities. Survey data collected by the University of Vienna (Austrian Corona Panel Data, 2020) indicate a marked drop in life satisfaction during the pandemic crisis for the Austrian population as a whole. The decline was however steeper for women than for men (Haindorfer, 2020).

## **Immediate liquidity support to businesses**

A dedicated hardship fund of €2 billion was established for freelancers, one-person companies, professionals, and other small entrepreneurs, meant to cover personal living costs. A larger Corona-support fund also provides partial support for fixed costs such as rent or interest payments. The application for grants to cover fixed costs started on May 20 and entrepreneurs must have had a loss in revenue of at least 40% due to the pandemic to be eligible for support.

In a first phase (from March 27), the hardship fund provided rapid financial support of up to €1,000, where eligibility was based on previous income and other criteria. In this first phase there were 144,000 applications and €121 million were distributed (i.e., an average payment of €840 which indicates that virtually all applications were approved). The measure was criticized for excluding specific categories of persons and entrepreneurs and the government subsequently adjusted the eligibility criteria.

A second phase with less strict eligibility criteria (particularly the income ceiling) started on April 16. The fund now provides up to €2,000 per month for up to three months. Further adjustments to the hardship fund were announced in early May, aimed at increasing its flexibility and the accessibility for specific groups. For instance, applicants can now claim support for three months within a six-month window.

In addition, on April 3, the termination of rental agreements due to outstanding rent in April, May or June 2020 was temporarily suspended. For micro-enterprises with credit debts (as well as for private households), repayment and interest payments were automatically suspended for three months and the credit period extended by three months free of charge (Parliamentary Correspondence No 306 of 3 April 2020). The federal government agreed with the energy utilities and the regulator to secure the supply



of electricity, gas, and district heating for private households, one-person companies, and small enterprises even in the event of late payment. These deferrals aim to relieve temporarily the liquidity situation.

## Support of dependent workers

The adapted short-time work scheme (“COVID-19 short-time work”) is the main measure aimed at labor market stabilization and it eclipses all other measures in terms of financial resources. The scheme was originally estimated to cost €400 million in mid-March, but the budget has been increased in several steps to €12 billion by mid-May. By early May, the unemployment office had received about 104,000 applications for short-time work for about 1.25 million workers. Currently, about 100,000 applications for more than 1.1 million workers (roughly one third of the dependent workforce) have been approved. The first three-month period of the scheme will end in June and firms are allowed to re-apply for a second three-month period. To date, it is still unclear to what extent the short-time work refunds that have been approved will actually be claimed by firms.

In the early phases of the lockdown, the PES was overwhelmed by applications which led to a large backlog in the processing of applications. This increased the uncertainty for firms, although almost 100% of applications were approved. The backlog of applications played arguably only a secondary role for liquidity concerns, because firms have to pay their workers in advance and will be refunded later. The large number of applications and the favorable conditions for short-time work led to concerns that firms could abuse the subsidy by allowing employees on short-time to work for more hours than stipulated under the short-time agreement. To allay these fears, the government announced controls to ascertain the correct utilization of the scheme.

During the acute lockdown period, ALMP and especially training activities carried out by the PES came to a halt. Training measures for unemployed persons started again on May 15 and attendance of further education will start from May 29.

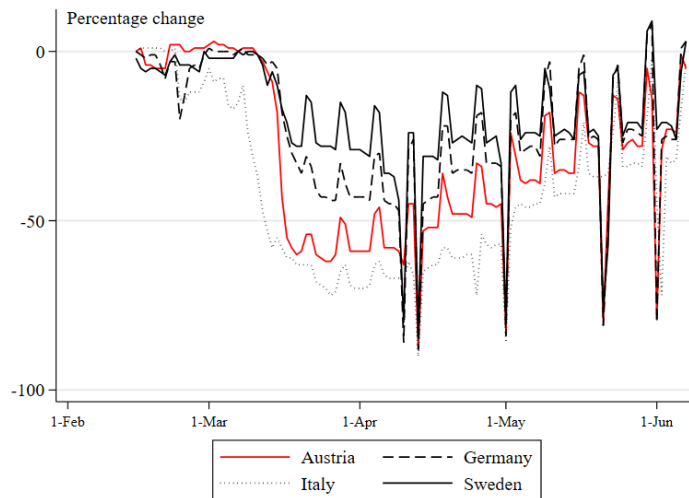
With respect to passive labor market policies, the most important change concerns the unemployment assistance. This is a social transfer that can be claimed by unemployed persons upon exhaustion of the entitlement to unemployment benefits, with a lower replacement rate. At the end of April, the unemployment assistance benefit was increased to the level of unemployment benefit, with retroactive effect from mid-March. This measure is currently scheduled to expire at the end of September, but the Minister for Labor, Family and Youth may extend the period until the end of the year.

## Working conditions and work organization

The lockdown resulted in momentous changes in work organization, and its effects are still reverberating. As can be seen in Figure 4, the lockdown, which began on March 16, immediately reduced workplace visits. Italy’s earlier lockdown, by comparison, lowered workplace visits only moderately during the first week. In Germany and – much more so – in Sweden, the reduction was less pronounced than in Austria. With the gradually lifting of restrictions from mid-April, workplace activity increased. The most recent data suggest that workplace visits gradually increased and almost reached pre-crisis levels by June.



**Figure 4:** Mobility trends during the Covid-19 pandemic. Change in visits to the workplace, daily data compared to the baseline for selected countries.

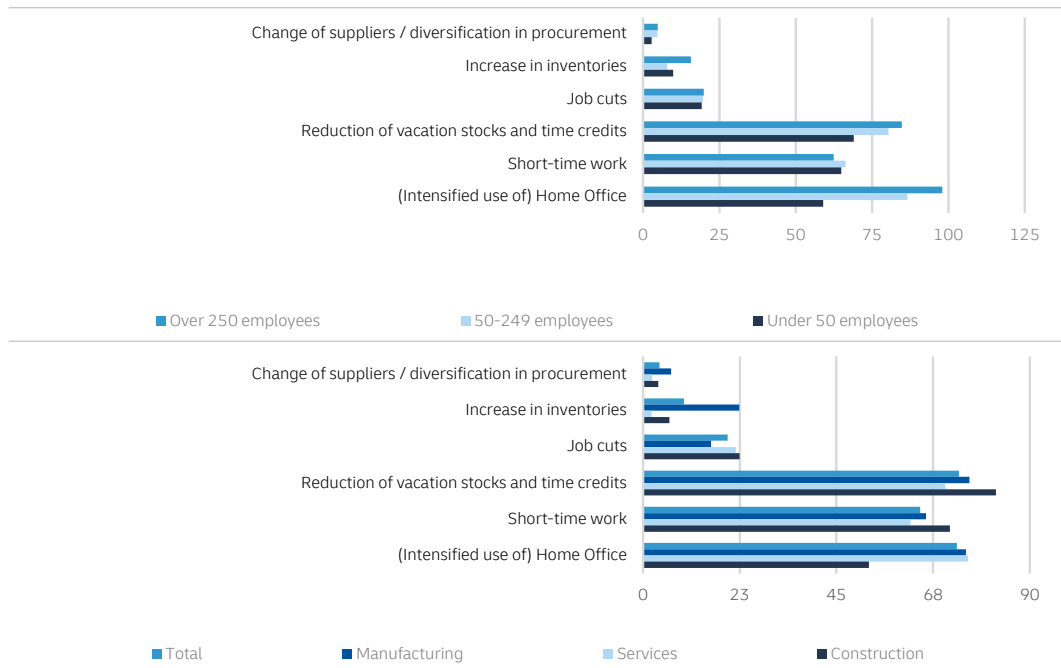


Source: Google LLC "Google COVID-19 Community Mobility Reports"; authors' calculations. The data are available under [www.google.com/covid19/mobility](http://www.google.com/covid19/mobility) and were accessed on June 16, 2020. The data show how visits and length of stay change compared to a baseline the median value for the corresponding day of the week, during the five-week period 3 Jan – 6 Feb 2020.

Many firms still allow workers, in particular workers who have care responsibilities or who belong to at-risk-groups because of their age or pre-existing health conditions, to work from home. Schools have reopened, but pupils are attending classes on alternate days. Although child care arrangements are provided for children who cannot be cared for at home, only a small fraction of children spend the "regular" number of hours at school. In addition, special working arrangements are still in place in many firms because the workplace organization makes it difficult to apply the hygiene rules prescribed by the government. This is the case, for instance, in many larger firms, where workplaces are organized in open-plan offices. In many firms, workers rotate between working from home or in the office or groups of workers attend the workplace while other groups work from home.

This pattern is confirmed by company survey data that indicate that working from home was widely adopted. (See Figure 5.) Virtually all larger firms implemented (additional) forms of mobile working. About 80% of medium-sized firms and close to 60% smaller firms used some form of working from home. A sectoral disaggregation shows that home-office was less common in the construction industry (with about 50% of firms reporting an (increased) use of this instrument) than in other industries. In both the service industries and in manufacturing, however, about three quarters of firms implemented mobile working in response to the crisis (Hölzl, 2020). Another wide-spread measure concerned the reduction of vacation stocks and time credits accumulated by employees in previous periods.

**Figure 5: Measures implemented by firms as consequence of the pandemic (in %).**



Source: Hölzl (2020); business survey data collected between April 1 and April 23, 2020. N=1,354. Firms were asked which measures they had already implemented or where about to implement with respect to their operative business.

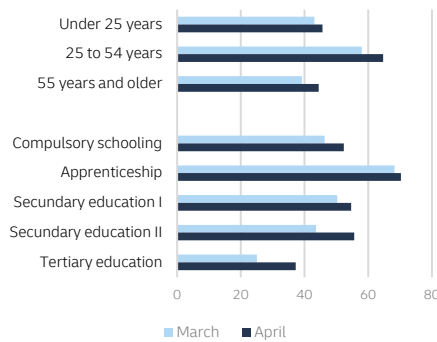
The impact of the crisis on working conditions and working arrangements hit different segments of the workforce asymmetrically. Panel survey data collected by the University of Vienna (Austrian Corona Panel Data, 2020) show that in early April about one third of male workers and close to 40% of female workers were working from home. However, the share varied greatly across skill-levels and occupations. Only 14% of workers with compulsory education and 26% of those with a dual education were working remotely, whereas half of the workers with upper secondary education and almost two thirds of those with tertiary education did so (Pichler et al., 2020). A similar picture emerged in a disaggregation by income level, highlighting the social gradient of the pandemic’s labor market impact.

## New labor market entrants

There were about 21% fewer training jobs for apprentices in May 2020 than in May 2019. By the end of May 2020, about 8,835 persons were looking for an apprenticeship (about 71% more than in May 2019) and there were about 4,585 open apprenticeship posts (AMS, 2020). Applicants who cannot find a training post or whose firm folded will have access to an apprenticeship training through the PES.

The government ruled that the training period for apprentices can be reduced during short-time work, this is currently possible until August 2020. Accordingly, the duration of an apprenticeship can be shortened by up to four months if the apprentice was subject to short-time work. The training durations cannot be extended if the apprentice missed training time due to short-time work.

Journeyman’s exams were suspended until May and were re-instated after May 4th. The government provides financial support for apprentices who could not take their final exams due to the crisis and suffer income losses (some 3,700 apprentices of about 7,300 who could not take their exams).

**Figure 5:** Change in unemployment, by age and education, change on previous year.

Source: Arbeitsmarktservice Österreich, WIFO.

The government announced in early June 2020 that it plans to subsidize firms for each apprenticeship that started between March and October 2020 with €2,000.<sup>2</sup> Firms will also receive the subsidy if they train an apprentice who is currently in the first year of training with the PES, for starts up to March 2021.

The increase in persons claiming unemployment benefits, including ALMP training, for people under 25 years of age was less (+26,264 or +45.7%) than for workers between 25 and 64 years of age (+156,619 or +64.7%). The increase for people aged 55 and over is about as large as for young people (+27,392 or +44.4%) (Bock-Schappelwein et al., 2020).

The reduction in employment did however affect the youngest cohorts more strongly than the other age groups. The decline in employment recorded in April amounted to close to 9% for young workers (under-25s: -36,997 or -8.8%) and it was less pronounced for the 25-54 age group (-153,287 or -5.6%). In contrast, the number of persons employed in the 55+ age group rose slightly (+4,360 or +0.8%) (Bock-Schappelwein et al., 2020).

## Policy innovations and labor market trends

The extensive use of short-time work prevented many redundancies and an even greater rise in unemployment. As in the 2009 financial crisis, the negative effects of an economic crisis can be significantly mitigated by reducing working hours.

In the medium-term, however, employment will depend strongly on how the international demand for goods and services will develop. The Austrian Institute for Economic Research (WIFO) estimates that, conditional on keeping the pandemic under control, from the second half of this year the economy should gradually recover, leading to economic growth of 3.5 percent and a fall in the unemployment rate to 7.9 percent next year. Unemployment is estimated to remain high (7.5% for the period 2022 to 2024). In a more pessimistic scenario, if the global economy is expected to recover only moderately, the unemployment rate is estimated at 9.1%.

Nevertheless, even in a favorable scenario there is a risk that unemployed people who have slim chances of re-employment will remain unemployed for a long period. For example, persons who have health problems or the long-term unemployed had already lower chances of re-employment and their situation may worsen over the coming months. There is a risk that even during an upswing phase, they will feel the effects of increased

<sup>2</sup> An apprentice's gross wage depends on the industry's collective bargaining agreement and ranges between €550 and €900 gross per month (WKO, 2020).

competition in the labor market. The same can be said of the youngest cohorts, and of labor market entrants in general, who based on the evidence from previous crises are expected to experience long-lasting scarring effects.

## **Next steps and fiscal viability**

Policy measures in Austria during March, April, and May aimed to help businesses survive and to cushion employment losses. As the number of seriously ill persons declined, the rules for disease control were relaxed. This led to the re-opening of schools, the re-opening of most businesses, and a gradual return to pre-crisis levels of business activities.

However, uncertainty about the future development of the infections lowers demand, global supply chains are disrupted, and it is possible that a substantial number of businesses will have to fold. This will undoubtedly have implications for employment levels. Further adaptations of the short-time work scheme seem likely, possibly accompanied with more generous unemployment benefits.

Policies so far have focused primarily on minimizing job destruction, with little or no measures to foster job creation. With the lifting of restrictions, future policies will focus also more strongly on job creation through government spending on infrastructure such as public transport or the renovation of schools.

The fiscal impact of the crisis and of the costs resulting from the crisis response measures is still difficult to gauge, but is certainly going to lead to a record budget deficit. In addition to the initial €38 bn. rescue package, the government is currently discussing further measures to fight the recession and stimulate aggregate demand, including cuts in income taxation and temporary reductions of VAT for certain goods and services.

The yields on government bonds rose slightly during the first weeks of the pandemic lockdown, but they declined again more recently and are currently negative. Against this backdrop, sustainability of the Austrian public debt is currently not a primary concern.

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## IZA COVID-19 Crisis Response Monitoring France (June 2020)

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### ABSTRACT

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France has implemented a very stringent lockdown which slowed down economic activity sharply, by about 30% in April and 20% in May 2020. However, the lockdown was accompanied by a large spectrum of measures sustaining households, firms and independent workers. The expected total cost of these measures is about 110 billion euros (4% of GDP) accompanied by the creation of a 300 billion euros budget to guarantee bank cash lines to firms. These measures have been quite effective at dampening the impact of the lockdown on employment, income of households and firms.

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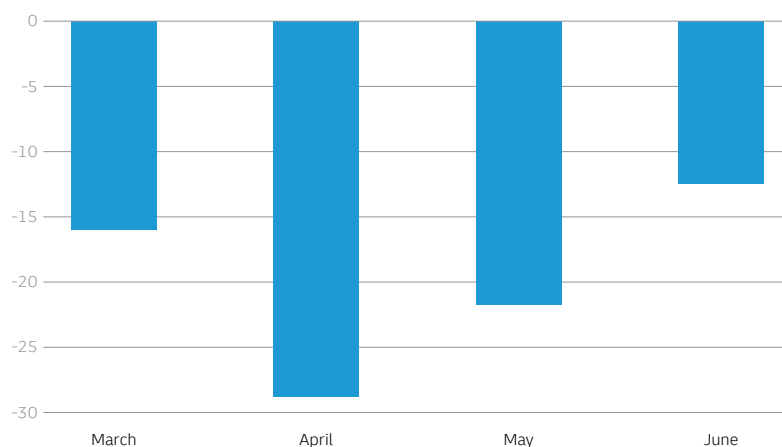
## Labor market impact of COVID-19

France started a rigorous lockdown on March 17, 2020. Schools, restaurants and all shops except pharmacies and groceries were closed. Mobility was authorized for a limited list of motives explicitly listed by a decree released on 24 March.<sup>1</sup> Those who moved were required to have an authorization from their employer or a sworn statement indicating the reason for the trip. Violation of these rules is liable to a fine from 135 euros to 3750 euros and 6 months imprisonment. The rules were stringent: The government announced 15 days after the start of containment that there had been 5.8 million checks and 350,000 fines.

The lockdown started to be released from May 11, but very gradually, with a limited reopening of schools and shops depending on sectors and regions. Restaurants and cafés remain closed.

As a consequence of this very stringent lockdown, economic activity has slowed sharply. According to information available as of June 17, the estimate of the loss of economic activity linked to the health crisis is around 28% in April, 22% in May, and 12% in June, as shown by Figure 1. More than a month after the start of the gradual release from containment, the loss of economic activity would be almost three times less than that estimated at the start of containment. In the second quarter of 2020 and taking into account the estimates of previous months, this scenario would lead to a reduction in GDP of around 17%, after  $-5.3\%$  in the first quarter. It would be the deepest recession since the creation of the French national accounts in 1948.

**Figure 1:** Estimated / predicted monthly economic activity loss (% of GDP) in France.



Source: INSEE (2020c)

Household consumption is estimated overall to be 31% lower than its normal level in April (INSEE, 2020a). The post-May 11 rebound had been particularly strong (with a loss limited to 7% from the pre-crisis level, compared to  $-31\%$  in April). Available data suggest that this rebound is sustainable, with a loss of consumption from normal which would be limited to 5% in June.

**1** Travel between the home and the place of exercise of the professional activity, when they are essential for the exercise of activities which cannot be organized in the form of telework or professional displacements which cannot be deferred; Travel to make purchases of supplies necessary for professional activity and purchases of basic necessities in establishments whose activities remain authorized; Consultations and care that cannot be provided remotely and that cannot be deferred; Care of patients with long-term conditions; Travel for compelling family reasons, for assistance to vulnerable people or childcare; Brief trips, within the limit of one hour daily and within a maximum radius of one kilometer around the home, linked either to the individual physical activity of the people, to the exclusion of any collective sporting activity and any proximity to other people, either walking with the only people in the same home, or the needs of pets; Judicial or administrative summons; Participation in missions of general interest at the request of the administrative authority.

Thanks to a very intensive use of short-time work, which covered about half of employees at the end of April 2020, the employment drop has been limited. It has mainly been due to the freeze of hiring. At the end of the first quarter of 2020, salaried employment in the private sector fell by 2.3%. Compared with the level at the end of the first quarter of 2019, employment fell by 1.4%. The number of temporary workers fell in an unprecedented way over the quarter, by 37.0%. Excluding temporary employment, private salaried employment fell by 0.9%. Figures about unemployment (according to the ILO definition) which are available until the end of March show no increase in unemployment 2 weeks after the start of the lockdown, but an increase in the number of people declaring willing to work without looking for jobs because of the lack of job offers (INSEE, 2020b).

The effects of the crisis are very different depending on the sector of activity (INSEE, 2020a). The sectors most affected by downturns in excess of 50% are accommodation and catering (96%, of which 75% are off), followed by the manufacture of transport equipment (92%, of which 29 % stopped), construction (87%, of which 53% stopped), other service activities (68%, of which 41% stopped), mainly due to the arts and recreational activities (90%, of which 66% stopped), the manufacture of other industrial products (59%, of which 25% stopped), driven by the textile industry, and finally trade (51%, of which 22 % stopped).

## Orientation and targeting of adopted measures

France has combined a strict containment policy with a large spectrum of measures to sustain households, firms and independent workers. The expected total cost of these measures is about 110 billion euros (4% of GDP) accompanied by the creation of a 300 billion euros budget to guarantee bank cash lines to firms. These measures have been quite effective at dampening the impact of the lockdown on employment, income of households and firms. They also might have contributed to reduce economic activity.

For workers, these measures include income support to sick workers and their families, to quarantined who cannot work from home, to persons losing their jobs or self-employment income and help for insecure workers to stay in their home. Unemployed people continue receiving their benefits during the lockdown and the confinement period postpones the exhaustion date of unemployment benefits. Temporary agency workers are paid for the entire duration of their assignment as initially foreseen even if they cannot work because of the confinement measures. People who quit a job for another one but could not be hired are granted exceptional access to unemployment benefits. The seasonal suspension of evictions from dwellings (evictions are forbidden from November 1 to March 31 in normal time) has been extended. The government has requisitioned hotel rooms for homeless people to be used for confinement. The emergency housing spaces that are made available during the winter period are made available all year long.

For firms, measures include deferral of payment deadlines for social and tax payments; possibility of tax rebates for firms facing very important difficulties in the framework of an individual examination of requests; deferral of the payment of rents, water, gas and electricity bills for the smallest businesses in difficulty; aid of up to 1,500 euros for very small businesses (turnover < €1M), self-employed workers and micro entrepreneurs experiencing a very sharp drop in turnover (70% loss between March 2020 and March 2019) or subject to administrative closure; creation of a 300 billion euros budget to guarantee the bank cash lines that companies may need because of the epidemic; support from the state and the Banque de France (credit mediation) to negotiate rescheduling of bank credits; simplified and reinforced short-time work programs; support for the treatment of a



conflict with customers or suppliers by the Business Mediator; recognition by the public authorities of the Coronavirus as a case of force majeure for their public contracts which implies that for all state and local public contracts, the delay penalties are not applied.

## **Immediate liquidity support to businesses**

The set of new measures implemented to support small firms and self-employed described above has been quite effective at mitigating the impact of the epidemic on firms. Data on firm bankruptcies are not available yet, but there is no sign of significant increase in bankruptcies in the beginning of May 2020. On the corporate side, there was a surge in both bank loans (+ € 34.2 billion) and deposits (+ € 40.6 billion) in March. This surge probably reflects the precautionary behavior of firms in view of the fall in their sales: the increase in their deposits largely represents the time lag between the receipt of borrowed funds and future disbursements. As a result, the next months could reveal a tighter cash position.

## **Support of dependent workers**

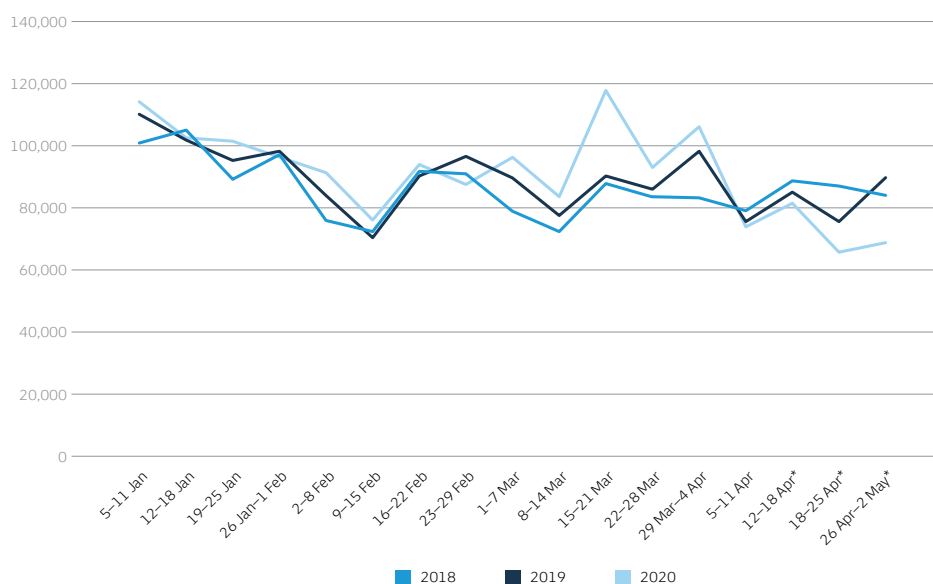
Unemployment insurance was effective at providing income to unemployed workers insofar as unemployed people continue receiving their benefits during the lockdown, and the confinement period postpones the exhaustion date of unemployment benefits. However, short-time work was the main scheme used to counteract the impact of the strict containment policy. In France, employment protection regulations require dismissal notices of several months and complex and costly procedures for most workers. Many firms whose activity has been very significantly slowed down by the lockdown would not have had enough liquidity to face these constraints and should have been liquidated in the absence of help. In this context, short-time work was the main program chosen by the government to sustain firms and to allow workers to keep their jobs. Since March 1, 2020, short-time work schemes have been extended until December 31, 2020, to certain categories of employees who were previously excluded, under specific conditions (employees whose working hours are atypical, childminders and home workers, employees of public employers carrying out an industrial and commercial activity mainly, vulnerable people and parents of children under the age of 16 unable to work, etc.). The authorization to use partial activity has been granted for a maximum duration of 12 months (compared to 6 months previously) and cannot exceed 1,607 hours per year per employee until December 31, 2020 (against 1000 hours ago). The net replacement ratio has been increased to 100% at the minimum wage and 84% for higher wages up to a maximum of 4.5 times the minimum wage, which covers more than 95% of wage earners. The cost of short-time work is borne by the administration. The short-time work allowances are paid by employers who are reimbursed within an average delay of 12 days according to the agency in charge of reimbursements of short-time work allowances. There is no residual cost to the company unless it is covered by collective agreements which impose higher replacement income than those provided by law, which is scarce. Administrative procedures have been simplified. In particular, the authorization to use short-time work is considered granted within 48 hours after the filing of the request in the absence of a response from the administration (this period was 15 days previously).

The government also announced that collective dismissals are subject to increased scrutiny before getting the authorization from the administration during the containment period. Accordingly, the number of collective layoffs dropped dramatically: it is about three times lower in March–April 2020 than in March–April 2019.

Hence, since the start of the coronavirus crisis, the use of short-time work has experienced exceptional growth. In the beginning of May 2020, about 50% of employees have required short-time work, with on average 420 hours of unoccupied hours requested per employee (12 weeks of 35 hours per week). In normal time, about 2/3 of short-time work requests are consumed. However, there is much uncertainty about the share of these requests which will be consumed during the epidemic. The expected public expenditure is around 1 percent of GDP. However, the exact figures will not be known for several months to the extent that employers can request reimbursement of the short-time work allowance within 1 year following the end of the period covered by the authorization.

The very high short-time work take-up translates into a small increase in the entries into unemployment, which rose by 31% in the week of the start of the lockdown (17 March) compared to 2018 and 2019, but decreased in the following weeks and became lower by 12% than in previous years at the end of April as shown by Figure 2.

**Figure 2:** Number of weekly entries into unemployment.



Source: DARES. Ministry of Labor

## Working conditions and work organization

During April 2020, about a quarter of employees was teleworking, and another quarter worked on site (DARES, 2020a). Telework is particularly frequent in the information and communication sectors (63% of employees), and financial and insurance activities (55%), in which it was already much more widespread before the crisis. It is less common in accommodation and catering (6% of employees), construction (12%), the food industry (12%) and transport (13%).

A large share of firms had to implement protective measures for their employees, which likely reduce labor productivity. Companies that have set up protective distances for most of their employees working on site represent 69% of employment. Distance measures for on-site workers are more often implemented in industry and transport and less often in accommodation and food services (28%), other service activities (45%) and construction (46 %).

When asked why they did not put in place certain preventive measures, companies most often replied that this was not necessary, given the organization of work (43% of

employees ), or that they did not have the necessary equipment (43%) (DARES, 2020a). 22% replied that this was not possible given the organization of work.

On 25 March, the government passed an ordinance which modified the regulation of holidays and working time until 31 December 2020.

Concerning holidays, this ordinance stipulates that during the health emergency period and subject to a company or industry agreement, the employer may exceptionally impose the taking of paid holidays, within the limit of 6 working days, respecting a notice of at least one day (instead of 1 month or the period provided for by a collective agreement). Without a company or industry agreement, the employer can require the employee, with a minimum notice of one day, to take or modify working time reduction days (RTT) and the days available on the time savings account within the limit of 10 days.

Concerning working time, companies belonging to sectors “particularly necessary for the security of the Nation or for the continuity of economic life” (the list of which is determined by a decree), may derogate from the regulation of hours of work (in particular, shift from 10h to 12h for the maximum duration of day work; shift from 8h to 12h for the maximum duration of night work; shift from 44h to 46h for the authorized weekly working time over a period of twelve consecutive weeks; shift from 48h to 60h for the authorized working time in the same week; work authorization on Sundays).

## **New labor market entrants**

The conjunction of the economic activity slowdown and of the large short-time work program which dramatically dampens the reallocation of jobs makes the situation of new labor market entrants particularly difficult. The government is anticipating drops in the demand for apprentices and in recruitment of youths. Hiring subsidies targeted at young workers and subsidies for apprentices have been announced for the next coming months but details have not yet been set up.

## **Policy innovations and labor market trends**

It is likely that the hike in telework will have effects after the end of the epidemic. The government has also decided to report important reforms about the pension system and about unemployment insurance. It is not clear that these reforms, which were very controversial, will be implemented in the future, contrary to what was scheduled before the epidemic.

## **Next steps and fiscal viability**

The current policy stance evolves. To exit the rigorous lockdown implemented on 17 March 2020 and revive economic activity, the government started to reduce the lockdown on 11 May 2020 and further on 22 June, the date on which all schools reopened. To boost the restart of economic activity, the government reduced short-time work subsidies provided to firms, while keeping the replacement ratio for workers unchanged, from June 1st. The extension of unemployment benefits will also be limited. Hiring subsidies for youth and plans for sectors most strongly impacted by the epidemic have been announced without further details today (21 May).

## IZA COVID-19 Crisis Response Monitoring Germany (June 2020)

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### ABSTRACT

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The main labor market impact of COVID-19 on Germany's labor market has so far been a massive increase in short-time workers (currently more than 20 percent of all workers subject to social insurance). While this instrument has been successfully applied in previous recessions, various factors could make the use of short-time work in the current crisis more difficult and potentially also less effective. Besides, Germany's fiscal measures – including the latest stimulus package and together with liquidity aid and loan guarantees – equal more than 30 percent of the country's annual GDP.

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## Labor market impact of COVID-19

Data on the labor market impact of COVID-19 in Germany are still scarce; they become available only with a substantial time lag. While earlier forecasts released in March had been rather optimistic, especially concerning the labor market impact (e.g., Michelsen et al. 2020, Sachverständigenrat 2020a), more recent assessments are significantly more negative. For example, Weber et al. (2020) estimate GDP to decrease by 8.4 percent in 2020, and unemployment to increase to more than 3 million persons at peak. The federal government and the German Council of Economic Experts share rather similar expectations: They expect GDP to fall by 6.3 or 6.5 percent in 2020, respectively, and unemployment to rise to an average number of more than 2.6 million or 2.7 million persons during 2020, respectively (Bundesregierung 2020; Sachverständigenrat 2020b).

Table 1 displays selected statistics for the actual labor market impact of COVID-19 in May 2020 (currently the most recent available data). In that month, the number of registered unemployed stood at 2,813,000 persons, an increase by about 26 percent compared to May 2019 (BA 2020a). Taking into account the increase in April 2020, and also the previous year's development, the overall COVID-19 impact on unemployment corresponds to an increase of 578,000 persons so far. A decomposition exercise shows that about one third of this increase is due to relatively fewer underemployed persons (e.g., as active labor market policy measures have been substantially reduced, individuals who would have otherwise been excluded from official statistics are now counted as registered unemployed), and that in each case about one additional quarter of this increase can be attributed to reduced hiring activities and increased layoffs, respectively (BA 2020a). Employment, however, has not declined significantly yet.

**Table 1:** Labor Market Impact of COVID-19 in Germany (as of May 2020).

	April 2020	YoY*	May 2020	YoY*
Unemployment (Stock)	2,643,700	+ 18.6%	2,813,000	+ 25.8%
Unemployment (Inflow)	667,500	+ 13.8%	484,300	- 18.3%
Unemployment (Outflow)	359,200	- 45.5%	315,100	- 46.2%
Underemployment (Stock; excl. STW)	3,466,300	+ 8.5%	3,572,900	+ 12.0%
Employment (Stock)	45,040,000	+ 0.2%	44,900,000	- 0.5%
Posted Vacancies (Stock)	626,400	- 21.3%	583,600	- 26.3%
Posted Vacancies (Inflow)	76,200	- 58.9%	101,900	- 39.6%
Active Labor Market Policy Measures (Stock)	818,700	- 8.2%	742,400	- 17.4%

Source: Federal Employment Agency.

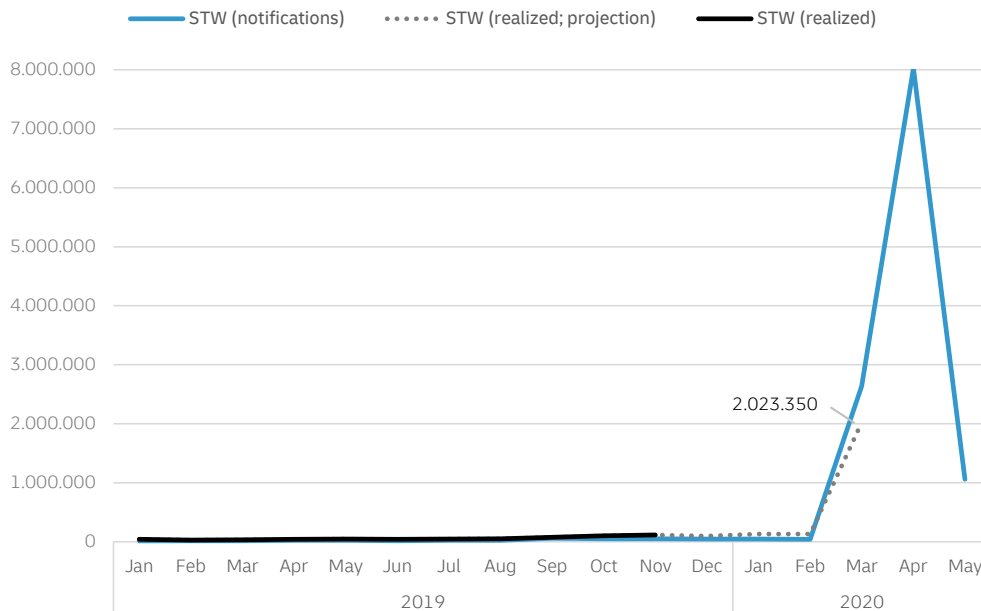
Notes: STW: Short-time work. YoY: Percentage change compared to one year before.

The current rise in official unemployment statistics may only provide a first snapshot of the imminent COVID-19 impacts on the German labor market. For example, about 38 percent of all firms in Germany submitted notifications for short-time work (STW) to the Federal Employment Agency, potentially resulting in a maximum number of 11.7 million short-time workers (BA 2020a).<sup>1</sup> While it is clear that not all of these workers included in notifications will actually be in STW later on (and not all short-time workers will experience a full reduction in working hours), STW in the current crisis has already reached a significantly higher level than during the Great Recession (where the peak was at about 1.5 million short-time workers; Brenke et al. 2013). Despite a significant time lag in reporting, Figure 1 shows that the latest projection for March 2020 by the Federal

<sup>1</sup> This number is the sum of persons included in submitted notifications for STW by firms in March, April and May 2020 (BA 2020a).

Employment Agency assumes more than 2 million short-time workers in that month. At its potential peak in May 2020, available estimates suggest that this number could have reached 7.3 million short-time workers, corresponding to more than 20 percent of all workers subject to social insurance (ifo 2020a). The Council of Economic Experts, in its latest forecast, expects about 1.5 million short-time workers in full-time equivalents in 2020 (Sachverständigenrat 2020b).

**Figure 1: Short-time work (STW) in Germany (2019-2020).**



Source: Federal Employment Agency.

Notes: Number of persons included in notifications submitted by firms or realized number of short-time workers, respectively. All numbers refer to the instrument of cyclical STW.

Business confidence stood at a historical low in April 2020, but slightly increased in May 2020 (ifo 2020b), and further increased in June 2020 (ifo 2020c). Nonetheless, quite a few firms, besides submitting notifications for STW, are eating up working time account surpluses and are also starting to dismiss workers. Yet, at least in this early phase of the recession, unemployment figures not only increase because of increased layoffs, but to a similar extent also because of firms' reduced hiring activities, resulting in fewer exits from unemployment (Bauer and Weber 2020). The demand for new workers has literally collapsed as the number of vacancies declined sharply (BA 2020a; Bossler et al. 2020). Compared to one year before, the inflow of posted vacancies was almost 60 percent lower in April 2020, and almost 40 percent lower in May 2020 (Table 1).

Unemployment risks are currently particular high in some sectors, including temporary agency work, the metal industry and automotive industry, hotels and restaurants, retail, various other service sectors, and to some extent even logistics (BA 2020a). These sectors have been either directly affected by restrictions on economic activities and social contacts, or indirectly via disrupted value chains, or simply by a sharp drop in demand. However, quite a few sectors in the German economy remain relatively unaffected (e.g., the public sector, the finance sector, education, health, and agriculture; BA 2020a). In terms of most vulnerable groups, employment losses can be expected to be particularly concentrated among workers with fixed-term contracts, temporary agency workers, marginal part-time workers, self-employed and freelancers. For example, one in four solo self-employed workers considers it very likely they will have to give up their own solo self-employment within the next twelve months (Bertschek and Erdsiek 2020). The crisis also poses an

additional challenge for the labor market integration of the recent cohort of humanitarian migrants that arrived in Germany after 2015.

Firms with liquidity problems already before the current crisis are at a high risk of bankruptcy. This risk may be particularly concentrated among SMEs with severely restricted economic activities, such as restaurants, small retail shops, and travel agencies. But it appears too early for an assessment: Due to changes in insolvency law, the precise extent to which these firms will ultimately go out of business will probably only become apparent in autumn 2020.<sup>2</sup>

## Orientation and targeting of adopted measures

Germany was relatively quick to adopt and, at a later stage, to adjust larger policy packages to mitigate the employment and social impact of the crisis (see KPMG Global 2020 for an overview about government and institution measures in response to COVID-19). While the extension of the long-standing short-time work (STW) scheme can be viewed as a standard response to economic recessions in Germany, STW is in the current situation also being used by firms that were not using it during the Great Recession in 2008-09 or in previous recessions. Preliminary data indicate that, for example, STW is again widely used in export-oriented sectors such as the metal industry, but they also point to an intensive use in service sectors (especially by hotels and restaurants where more than 90 percent of all workers had been included in notifications for STW; BA 2020a).

Next to the increased generosity of STW, there has also been a remarkable (temporary) extension of the contribution-based unemployment insurance benefit duration as part of a social protection package (Deutscher Bundestag 2020a). At the same time, job search requirements have been reduced and activation principles have come to a halt, both for the contribution-based unemployment insurance benefits and the tax-based basic income support.

Including the latest stimulus package, which has been agreed upon in June 2020, Germany's measures – together with liquidity aid and loan guarantees – equal more than 30 percent of the country's annual GDP (BMF 2020a; BMF 2020b). The latest stimulus package (worth EUR 130 billion) has moreover shifted the focus towards boosting consumption. Important elements are a temporary VAT reduction (from 19 percent to 16 percent and from 7 percent to 5 percent, respectively, from July 1, 2020 to December 31, 2020) and a one-time EUR 300 lump-sum payment per child.

Nonetheless, the particular emphasis on direct ad hoc support measures for small businesses and self-employed – especially in earlier measures – by way of lump sum payment, credits and guarantees appears remarkable (DB Research 2020). This novel feature of the current crisis response (when compared to previous recessions) could be due to the increased visibility of freelance work in Germany, but it could also relate to the larger extent to which SMEs and self-employed workers are affected by the contact ban and the shutdown (e.g., creative jobs, restaurants).

Women could be one of the “blind spots” receiving less attention in policy responses so far (OECD 2020). For instance, they are overrepresented in the workforce of crisis-related or essential sectors (most notably in the health sector, but also in the food retail sector), and they typically take a major part of the burden resulting from school and

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<sup>2</sup> The obligation to file for insolvency has been suspended until September 30, 2020 for firms which are suffering economic difficulties or have become illiquid because of COVID-19 (under specific conditions, see KPMG Global 2020 for details).



child care facility closures. A related issue is that also less attention has been paid to the flexible workforce of marginal part-time workers who are, for example, not included in unemployment insurance and will probably not register as unemployed.

## **Immediate liquidity support to businesses**

To stabilize businesses, the federal and some regional governments in Germany promptly established different emergency measures (see KPMG Global 2020 for details). On the one hand, these programs provide support to larger firms that are directly affected by the shutdown by way of loans and credit guarantees: The state-owned development bank KfW is supporting firms by taking over credit risks from commercial banks as to make cheaper loans feasible; in addition, the federal government has set up an economic stabilization fund for the direct recapitalization of firms under certain conditions. On the other hand, these programs provide liquidity and income support to freelance workers and SMEs with up to 10 employees through timely lump-sum payments (PwC 2020).

Federal programs grant an operating subsidy for three months (provided as a lump-sum payment), ranging from EUR 9,000 for firms with up to 5 full-time equivalent workers to EUR 15,000 for firms with up to 10 full-time equivalent workers. State-level programs come on top, implying regional variation in these emergency measures within Germany. These payments are supposed to allow for the continuation of the business at least for three months and can be combined with short-time work for dependent employees. At the same time, access to basic income support without strict means testing was opened up for the target group of freelance workers as they often do not have access to contribution-based unemployment insurance benefits.

However, observers point to the fact that some funds were exhausted relatively quickly and that some target groups were not reached at all. Despite the quick and significant policy response, it is also not yet clear to what extent these measures can effectively stabilize the economic situation of those affected. In addition, there are some concerns that no appropriate screening of applications took place in the early days of implementing the support programs and that information was lacking on the proper use of funds provided. Finally, also cases of fraud behavior were reported (Tagesschau 2020).

## **Support of dependent workers**

Although still only preliminary data are available, it is already clear that there has been a massive inflow into short-time work (STW) schemes during the initial phase of the COVID-19 crisis in Germany. The well-established instrument of STW was one of the main factors contributing to Germany's resilience to the 2008-09 crisis (Rinne and Zimmermann 2012; Balleer et al. 2016). During the Great Recession, STW helped preserve permanent employment to a particularly large extent in Germany, while it had essentially no impact on temporary employment (Hijzen and Venn 2011; Cahuc 2019).

However, since the 2008-09 crisis was characterized by a temporary external demand shock that almost exclusively affected predominantly larger, export-oriented manufacturing firms, and economic activity picked up again relatively soon, the situation appears entirely different this time. In the current crisis, a broad range of sectors is affected by the demand slump, also many SMEs are at risk, and uncertainty about the speed of economic recovery is large and widespread. In addition, the current recession

is accompanied by a structural transformation due to ongoing technological change and digitalization – not limited to, but also in manufacturing and in the automotive industry.

These factors could make the use of STW in the current crisis more difficult and potentially also less effective. For example, the management and implementation of STW is probably easier within larger firms and with works councils that have already acquired experience in using this instrument. In the current situation, firms in the service sector and many smaller firms that are affected may be confronted with unfamiliar bureaucratic obstacles and practical challenges when implementing STW. Furthermore, the temporal scope of using STW appears limited if the crisis interacts with structural change, e.g., in retail (online vs. offline) or in the automotive industry, as a return from STW to “regular” work may not be taken for granted. Skepticism also seems to be justified to what extent the existing subsidies for training and qualification measures during STW are actually used, to what extent they can accommodate workplace mobility, and to what extent they are ultimately effective (Eichhorst and Rinne 2019).

Easing the conditions governing the use of STW was among the first policy responses to the COVID-19 crisis in Germany (Deutscher Bundestag 2020b). The new rules, which came into force retroactively as of March 1, 2020, made the instrument more accessible for firms as only 10 percent (previously: one-third) of workers need to be affected by a minimum reduction in working hours of 10 percent. In response to trade union complaints about insufficient STW allowances, especially during longer periods of STW, the generosity of these allowances has been temporarily increased (until December 31, 2020; BA 2020c): While the compensation still amounts to 60 percent of the missing net remuneration (67 percent for parents) in the first 3 months, it increases to 70 percent (77 percent for parents) from month 4 onwards and to 80 percent (87 percent for parents) from month 7 onwards. Next to that, some firms decided to voluntarily top up STW allowances for their workers. Although the maximum duration of short-time working allowances is still 12 months,<sup>3</sup> an intensive debate on a discretionary expansion of this benefit duration can be expected if economic recovery will not yet be in sight in autumn 2020.

Unemployment insurance benefits are most accessible for workers with longer employment spells. Despite some relaxation of benefit requirements over the last years, coverage by unemployment insurance benefits will likely be lower for workers with interrupted careers and fixed-term contracts. Unemployment benefit levels are low in absolute terms for those with low hourly wage rates or part-time workers. As a response to the crisis, the duration of unemployment insurance benefits has been extended temporarily for those unemployed whose benefits would expire soon.<sup>4</sup>

At the same time, participation in active labor market policy measures and the activation of jobseekers has been substantially reduced. The reduction of active labor market policy measures, in combination with substantially lower hiring rates by employers, will most likely lead to prolonged unemployment spells. This issue might become more severe if some providers of active labor market policy would ultimately have to terminate their business and if the capacity of active labor market policy measures cannot accommodate potentially large and more heterogeneous target groups after the initial crisis phase.

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<sup>3</sup> Only under specific circumstances the maximum duration of STW allowances is 21 months – namely, that STW had been already in place before December 31, 2020 and it must end before December 31, 2020 (BA 2020c).

<sup>4</sup> Unemployment insurance benefit duration has been temporarily extended by 3 months for those workers whose benefits would otherwise expire between May 1, 2020 and December 31, 2020 (BA, 2020d).

## Working conditions and work organization

The shutdown period led to an expansion of work from home in Germany. This concerns both the share of workers who started practicing work from home, at least partially, and the intensity of work from home of those who already had experiences before. During March and April 2020, about one in four German employees worked from home, with substantially larger shares among workers with higher education and higher earnings (Möhring et al. 2020).

Germany used to be a relative laggard in terms of remote and mobile work. This has quite suddenly changed during this crisis as immediate health concerns as well as contact bans put pressure on both employers and employees to encourage and accommodate working from home. Quite often, it has also been the only option to ensure continued business activity in occupations and jobs where (regular) physical presence was not needed. Besides the positive aspects of reduced risks of infection and the ability to continue operations, work from home tends to create stressful situations and entirely new challenges regarding the reconciliation of work, care obligations (especially during school and child care facility closures) and private life in general.

In the current situation, the latent policy debate about which rules should apply to work from home has re-emerged. In particular, the discussion circles around the question if there is need for a binding legal framework, or if this can be left to negotiations between employers and employees (or within teams at the workplace). Moreover, a new divide in the labor market could emerge between those workers that are able to work from home (with differences between workers with or without care obligations) and those working in the service sector, i.e., frontline workers (with higher risk of infection) and those at a high risk of losing their jobs (e.g., in restaurants). In this regard, low-skilled workers could suffer the most in the current crisis as they spend less time working from home and are simultaneously more likely to work reduced hours or lose their jobs (von Gaudecker et al. 2020).

Some observers also fear that working from home might reactivate more traditional gender roles regarding care responsibilities, thereby creating obstacles for women and especially mothers to focus on paid work (OECD 2020). However, there is no consistent evidence on a return to more traditional gender roles in Germany (FAZ 2020). In some cases, bonus payments in (female-dominated) occupations such as retail trade and nursing have been announced as a compensation for extraordinary workload during the crisis. But regular wages in these occupations continue to be rather low. At the same time, working time regulation in sectors that are regarded as essential, such as logistics, the health sector, energy supply and administration, has been relaxed from April 2020 to June 2020 to ensure business continuity in critical situations (BMAS 2020).

## New labor market entrants

It can be expected that new labor market entrants in Germany will face particular difficulties, at least during this summer. Firms' hiring activities will be reduced, either because of direct demand effects or general economic uncertainty (Klös and Schäfer 2020). However, given persistent skill shortages and continued demographic change with an ageing population, reduced hiring could only be temporary – at least in the German context. This is particularly the case if product demand recovers relatively quickly or expectations become more optimistic soon. But a scenario of a deep and long-lasting recession could result in persistently weak labor demand and hiring, with long-term disadvantages for current graduates (Kahn 2010; Oreopoulos et al. 2012).

Beyond these average effects, the crisis impacts are likely to be quite heterogeneous across sectors and firms. First, it is possible that some sectors will be more substantially

affected and will thus shrink in the medium or long run (e.g., hotels and restaurants, tourism, local retail). This would also result in very limited hiring in these sectors. Second, other sectors could experience a structural and thus permanent increase in labor demand (e.g., health care). Third, firms that entered the crisis in relatively good shape or that follow a longer-term strategic approach might take advantage of the reduced competition for talents. These companies could even increase their hiring activities, especially focusing on younger workers with sought-after skills. To avoid time-consuming and costly staffing in the near future, it could be a rational approach, at least for some firms, to hire employees even when product demand is weak (Sachverständigenrat 2020a). Finally, implementing actual hiring does not appear to be a bottleneck in the current situation. Many firms relatively quickly adapt to new standards, for example, by using digital hiring tools more intensively.

The potential problems of current graduates might be amplified in the German labor market because of the crucial role of the dual apprenticeship system. This core mechanism and structural strength of the German employment model not only effectively provides the labor market with skills and qualifications in demand, but it also acts as an important counterbalance to hiring barriers in school-to-work transitions (Schneider and Rinne 2019). According to recent data, a slowdown of the matching process between applicants and apprenticeship positions can already be observed (BA 2020a). Displaying selected statistics for May 2020 (currently the latest available data), Table 2 shows that both supply and demand decreased by about 9 percent compared to May 2019.

**Table 1:** The Apprenticeship Market in Germany (as of May 2020).

	May 2020	YoY*
Supply of Apprenticeships (Positions, total)	465,678	- 9.1%
Demand for Apprenticeships (Applicants, total)	399,821	- 8.9%
Open Apprenticeship Positions	250,292	- 5.8%
Applicants Not Yet Placed	195,789	- 2.2%

Source: Federal Employment Agency.

Notes: YoY: Percentage change compared to one year before.

In addition, there is a substantial risk that a low willingness or capacity of firms to hire apprentices (and new workers in general) – given economic uncertainty, lack of business activity and high pressure to cut costs could result in a further decline of apprenticeship training, especially in some sectors and occupations. As the majority of apprenticeship training only commences in August in September, figures for the next months should be closely monitored and will provide the basis for a more detailed assessment.

But stakeholders such as trade unions and employer associations asked for governmental support to firms providing training during the crisis via the highly institutionalized German dual apprenticeship system (e.g., DIHK 2020). In cooperation with some Federal Ministries, a larger number of stakeholders published a joint declaration in which they support needs-based and targeted support measures (Allianz für Aus- und Weiterbildung 2020). This has led to the adoption of a joint federal support initiative to make apprenticeship capacities more resilient in times of crisis. Small- and medium sized firms that provide apprenticeships, despite being currently in economic difficulties, can receive EUR 2,000 per new apprenticeship contract as a subsidy if they keep the number of their apprentices constant, or EUR 3,000 per new apprenticeship contract if the firm raises the overall number of apprentices. The same applies if a current apprentice is taken over from a firm that has gone bankrupt during the crisis. The program also provides for support to avoid short-time work among apprentices, and for training in facilities outside individual firms.

## Policy innovations and labor market trends

In Germany, the COVID-19 recession may not only result in a departure from the long and rather stable path of employment growth (Schneider and Rinne 2020), but the crisis may also accelerate structural change and digitalization. At the worker level, remote work may become more frequently at least a realistic option. In Germany, about one in six jobs may be permanently suitable for working from home (Pestel 2020). At the firm level, digital tools may be increasingly viewed as a hedge and reinsurance against external shocks. In this respect, the crisis is also an endurance test of firms' past digital achievements, and their past omissions become very visible (Engels 2020).

In terms of disruptions or structural breaks at the sector level, it is very likely that the crisis will accelerate the long-term decline of local retail, often delivered through smaller shops, while all forms of online retail will experience an extra boost. As digitalization also continues in the health sector and in education, the skill needs of workers in these sectors will change accordingly. The ongoing transformation of manufacturing, in particular of car manufacturers and their suppliers, may proceed more rapidly than expected before the crisis.

At the same time, however, and contrary to widespread beliefs, significantly shorter or less complex global value chains in industrial production are unlikely to occur. Firms in the post-crisis situation may even rely to a larger extent on cost-saving initiatives, which typically include outsourcing and offshoring. The crisis will by no means reverse this development and it will not trigger a trend to bring production back to Germany – for a simple reason: the level of automation in German manufacturing is already very high (Krzywdzinski 2020). This assessment may, however, differ from “essential” sectors: Here, too, there are discussions about reshoring production back to Germany, but mainly because of security concerns and to guarantee the supply of the German population even in emergency situations (e.g., in the areas of infrastructure, energy supply, and in the medical sector).

Last, but not least, restrictions to migration and to EU mobility may have lasting effect on the functioning of the German labor market. Beyond its often controversially discussed labor market impacts, immigration from EU member states has certainly increased labor supply in Germany and, in comparison to many years ago, has led to more employees, but also to more unemployed and benefit recipients from these countries (BA 2020b). Nonetheless, it helped cushion the imminent problem of labor shortages in the German labor market. The country's demographic challenge could thus intensify in the future.

## Next steps and fiscal viability

The longer the COVID-19 crisis lasts, the more obvious the trade-off between COVID-19 containment and reviving economic activities becomes. This concerns, for example, the re-opening of shops, restaurants and hotels, the re-opening of schools and child care facilities, and allowing for cross-border mobility. For example, the economic costs of a 3-month shutdown in Germany had been estimated to be as large as 20 percent of the country's annual GDP (ifo 2020d). Such a scenario would create a heavy fiscal burden for Germany, despite its relatively favorable initial position allowing for a larger fiscal stimulus.

Currently, many restrictions have been removed (after slightly less than two months of a rather strict lockdown). This approach follows the general strategy of a careful and, depending on the local COVID-19 situation, potentially regionally differentiated revival of economic activities, in combination with close monitoring efforts, continued social distancing and widespread testing. The open question in this context is whether Germany will – sooner or later – be confronted with a “second wave” of infections, potentially

resulting in an even larger number of COVID-19 cases than in spring 2020. Also the nature of economic recovery could crucially depend on this, as well as on the situation in important German export markets (e.g., automotive industry). At the time of writing, local lockdowns in two German districts have been re-introduced due to a larger COVID-19 outbreak involving one meat processing plant.

More generally, a controversial debate about the costs of forgone economic activities and governmental spending to mitigate the immediate effects of containment has emerged. In this context, it also seems advisable to avoid too broadly targeted and too generous governmental subsidies. These financial resources might be more effectively and efficiently spend in the future when an additional fiscal stimulus would be needed and when target groups could be more precisely identified and reached. Similar arguments have been put forward in the context of the latest stimulus package, which has been agreed upon in June 2020 (Handelsblatt 2020). However, in the current situation most economic observers view the fiscal stimulus package as largely appropriate both in size and timing; they rather warn against a too early return to austerity.

Finally, the German situation also depends on the ability to stabilize the European and global economy. The German economy relies to a large extent on foreign demand for goods and services, on reliable and efficient global value chains as well as on free labor mobility. However, with regard to the European stabilization efforts, the German position looks more accommodating or solidaristic than perceived at first glance.



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## IZA COVID-19 Crisis Response Monitoring **Italy (June 2020)**

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### ABSTRACT

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Italy was the first European country to enter lockdown in order to contain the spread of COVID-19. While managing the health crisis, the Italian government introduced several measures to limit the economic consequences of the pandemic. The cushion provided by short-time work programs and the suspension of the layoffs have limited the short-term effects of COVID-19 on the labor market. However, there are signals that as soon as these safety nets will be over employment levels will be severely hit: between April 2019 and April 2020, the share of inactive workers increased and the labor demand shrunk.

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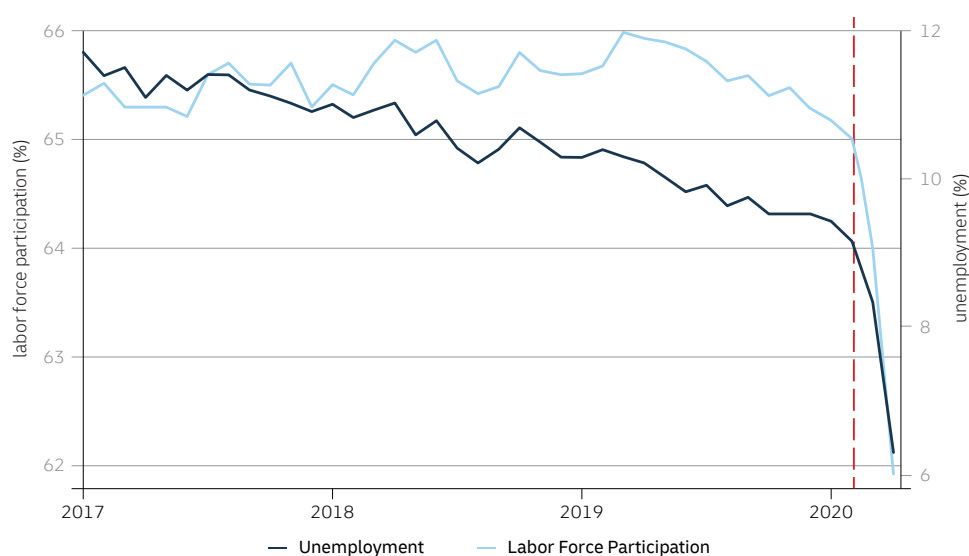
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## Labor market impact of COVID-19

In March 2020, Italy's industrial production fell almost 30% and GDP contracted 4.7% as a consequence of the lockdown measures. In April 2020, Italy hit a new record low for industrial production, which contracted by 19.1% relative to March.<sup>1</sup> However, the effects of the lockdown on employment levels have not yet manifested; the cushion provided by social safety nets and the suspension of the layoffs have limited the short-term effects of COVID-19 on the labor market. At the end of March 2020, the National Institute of Statistics (ISTAT) registered a decrease in the unemployment rate relative to March 2019, i.e. -11.1%, while the employment rate only decreased by 0.1%.<sup>2</sup> The decline in unemployment continued in April, reaching the lowest figure since 2007; this however reflected a considerable increase in the number of economically inactive people, as shown by the figure below. At the same time, the employment rate in April only decreased by 1.2% with respect to March 2020.

**Figure 1:** Labor force participation and unemployment rate in Italy



Source: Istat – Occupati e Disoccupati (June 2020)

Italy has adopted sectoral lockdown measures to contain the spread of COVID-19: the government decided to shut down non-essential businesses, involving almost 8 million employed people. Workers employed in financial, banking and insurance sectors, as well as in public administration and professional services could continue their activity from home. On the contrary, workers employed in manufacturing, construction, tourism and retail suffered the most (Barbieri et al. 2020)<sup>3</sup>. In April 2020, the Italian Social Security Administration (INPS) registered an increase in the requests for subsidies for temporary reductions of hours worked (i.e. Cassa Integrazione Guadagni) of about 2,953% with respect to April 2019.

It is still uncertain if these workers and firms will be able to resume their activities in the coming weeks. According to the estimates of the Ministry of the Economy (MEF), the employment is expected to fall by 2 percentage points and the unemployment to increase by 1.6 percentage points, from 10 to 11.6%, by the end of 2020 (DEF, 2020)<sup>4</sup>.

<sup>1</sup> <https://www.istat.it/it/archivio/244211>

<sup>2</sup> <https://www.istat.it/it/files//2020/04/Occupati-e-disoccupati-marzo-2020.pdf>

<sup>3</sup> <https://voxeu.org/article/covid-19-workers-exposure-risk-and-lockdown>

<sup>4</sup> <http://www.mef.gov.it/en/inevidenza/2020-Economic-and-Financial-Documents-DEF-approved-recovering-after-the-emergency-00001/>

## Orientation and targeting of adopted measures

On May 14th, the Italian government approved the third and most ambitious intervention, the *Decreto Rilancio* (Relaunch Decree), to revive the Italian economy. This 55-billion-euro plan aims at helping businesses with non-repayable grants and tax breaks; a sizable amount, about 16 billion euros, has been allocated to strengthen and broaden tools for income support, such as *Cassa Integrazione Guadagni* (short-time work programs), and allowances for self-employed.

This decree followed two previous interventions, the *Cura Italia* (Save Italy) and the *Decreto Liquidità* (Liquidity Decree). The first one was an immediate response to the COVID-19 outbreak, which aimed at (i) strengthen the health care service, (ii) support businesses and families by pumping liquidity and suspending tax payments, (iii) and preserve employment levels by extending temporary unemployment benefits to all firms and by suspending layoffs for the coming 2 months. The *Decreto Liquidità* instead mainly focuses on firms; the measures involved state guarantees for 200 billion euros in favor of banks, ultimately enabling them to grant loans to firms of all sizes. The guarantees cover between 70% and 90% of the loan amounts, depending on firms' characteristics.

The first two interventions suffered from delays and difficulties in their implementation, mainly because of the excessive bureaucracy in the application procedures for accessing benefits and loans. The Relaunch Decree should simplify administrative procedures by cutting down bureaucracy.

## Immediate liquidity support to businesses

The *Cura Italia* intervention introduced social safety nets for self-employed and seasonal workers, two categories that generally do not have access to such benefits. These workers were expected to receive a 600-euro allowance for the month of March. The allowance was then extended for the months of April and May and raised to 1,000 euros for seasonal workers employed in tourism. The implementation of this measure was quite successful, although some delays in the payments were registered. The Social Security Administration (INPS) received 4.8 million requests for the allowance, 83% of them were accepted and processed.<sup>5</sup> The payments for the month of March were issued between April 14 and April 23 while the payment for the month of April will be delivered by the end of May.

Additionally, the government compensated shop owners by granting them tax credits to cover 60 percent of their March rent payment. The self-employed with mortgages can further ask to have their payments suspended for up to 18 months, conditional on their revenues falling by more than third.

Following the *Liquidity* decrees, small and medium firms (PMI) have access the Central Guarantee Fund. This Fund allows PMIs to take new loans with a maximum duration of six years (lately extended to 10 year); these loans will be 100% guaranteed by the Italian government for a maximum amount of 25,000 euros; further, the capital will not have to be repaid until 18 months after the loan has been disbursed. There are not yet official numbers on the take-up rate by Italian firms; according to a recent study (Boitani et al, 2020)<sup>6</sup>, the number of firms granted a loan was about 300,000 out of a potential pool of 2 million firms. An excessive bureaucracy in the loan application is one of the reasons for this low figure.

5 [https://www.inps.it/docallegatiNP/Mig/Allegati/Audizione\\_19\\_maggio\\_2020\\_Senato\\_PT.pdf](https://www.inps.it/docallegatiNP/Mig/Allegati/Audizione_19_maggio_2020_Senato_PT.pdf)

6 <https://www.lavoce.info/archives/66692/garanzie-bancarie-lemergenza-deve-cambiare-le-regole/>

## Support of dependent workers

The Cura Italia decree limited the negative effects of the COVID-19 outbreak on employment mainly by suspending the layoffs for two months. At the end of March 2020, the National Institute of Statistics (ISTAT) registered a decrease in the employment rate by about 0.1% with respect to March 2019.<sup>7</sup> However, this suspension, which has been further extended in the Relaunch plan, will not prevent firms from dismissing workers in the future. Further, the measures promoted by the Italian government did not stop the effects of the pandemic on the demand for labor: a recent study shows that in March 2020 the net job creation was about 60% lower than the one registered in the previous year (Anastasia et al. 2020)<sup>8</sup>. At the same time, the share of inactive in the labor market increased by 2.3% and the unemployment rate decreased by 11.1% thus suggesting an increase in the number of unemployed individuals who stopped looking for a job during the lockdown.

To sustain income, the Italian government extended Cassa Integrazione Guadagni (CIG), i.e. short-time work, to all firms independently of the sector of activity and size. The CIG is a tool that allows workers to temporarily receive unemployment benefits, which generally accounts for 80% of the monthly salary, while still keeping their job.<sup>9</sup> Once firms restart their activities, employees can go back to work as usual. In April and May 2020, the total number of requests for unemployment benefits almost exceeded the whole number of requests received in 2009, one of the worst years in terms of employment outcomes. As of May 21st, the Social Security Administration (INPS) received more than 1.1 million requests for Cassa Integrazione Guadagni (CIG), 869,000 were authorized but only 510,000 were actually processed and paid. These delays are due to the long and complex procedure to grant workers the unemployment benefit and to the increase in the number of applications following the lockdown.<sup>10</sup> The Relaunch Decree should ease and shorten the procedure for unemployment benefits.

## Working conditions and work organization

As of mid-April 2020, six weeks after the beginning of the Italian lockdown, the share of workers who (temporarily or permanently) stopped working was estimated to be around 34% (Galasso, 2020).<sup>11</sup> Among different occupations, blue collar workers were the most affected by the lockdown: 50% of them had to stop working. As expected, the lockdown affected occupations and jobs that could not be done remotely; when considering white collars, only 18% could not work as a result of the lockdown, this is because a high share of these workers (about 66%) could continue doing their job from home. Similarly, about 50% of service sector employees could continue working from home and only 28% of them had to stop working.

Italy has one of the most advanced legal frameworks for smart working (Ichino 2020), however this practice is not widespread especially among small and medium firms.<sup>12</sup>

<sup>7</sup> <https://www.istat.it/it/files//2020/04/Occupati-e-disoccupati-marzo-2020.pdf>

<sup>8</sup> <https://www.lavoce.info/archives/65325/mercato-del-lavoro-gia-contagiato-dal-covid-19/>

<sup>9</sup> See Giupponi and Landais "Subsidizing Labor Hoarding in Recessions: The Employment & Welfare Effects of Short Time Work" for an extensive review of the functioning of the CIG

<sup>10</sup> <https://www.inps.it/nuovoportaleinps/default.aspx?itemdir=53641>

<sup>11</sup> The data come from a survey (REPEAT) interviewing about 1,000 individuals representative of the Italian population. More information on REPEAT – REpresentations, PErceptions and ATtitudes on the Covid-19 – can be found here: <https://www.lavoce.info/archives/66253/primo-maggio-il-lavoro-in-tempi-di-lockdown/>

<sup>12</sup> <https://www.lavoce.info/archives/63816/se-lepidemia-mette-le-ali-allo-smart-working/>

According to a study by Corso (2020)<sup>13</sup>, only 12% of small and medium firms in Italy have smart working initiatives, however this number is on the rise. Although the restrictions imposed by the lockdown cannot be seen as “real” smart working, but rather forced “teleworking”, the Covid-19 emergency highlighted the potential of smart working and companies that had already introduced models of smart working found themselves at an advantage. This pushed companies, universities and public administration into considering the adoption of new technologies that allow employees to work from home.

Universities were the first institutions to react by setting lectures, seminars, exam and graduation sessions online. By the end of February most of Italian universities already adapted to the COVID shock and were able to restart their activities. A good response and adaptation also came from schools all over Italy. The public administration workers were able to perform their task from home, such as employees of the Social Security Administration who have managed and processed the huge amount of applications for unemployment benefits (Garibaldi, 2020).<sup>14</sup>

According to a recent survey (Boeri and Caiumi, 2020), 70% of managers interviewed adopted technologies to allow employees to work remotely. However, only 51% of the firms think that this type of smart working would be beneficial in the future once the COVID-emergency will be over.<sup>15</sup>

Finally, the closure of schools and kindergartens have placed a particular burden on families. This may have lasting effects on labor force participation and household work arrangements. Del Boca et al. (2020) find that during the pandemic in Italy, women spent significantly more time on housework than men, as the additional care responsibilities caused by school and childcare closures fell to women.<sup>16</sup> The impact of the lockdown on labor market outcomes may be larger for women as a consequence of unequal intrahousehold distribution of additional work.

## New labor market entrants

Graduating in a recession has negative and long-run effects on the wages and employment prospects of workers (Oreopolus et al 2012)<sup>17</sup>.

The share of inactive in April 2020 increased by 11.1% relative to April 2019. This is because individuals stopped looking for a job, including new labor market entrants. Further, the demand for labor has shrunk since the beginning of the lockdown as shown by Anastasia et al. (2020). In June 2020, the Italian Social Security Administration presented new figures about labor turnover in the first quarter of 2020. Relative to 2019, the number of new jobs activated in 2020 decreased by more than 9%,<sup>18</sup> while the number of job separations stayed more or less constant, as shown by Figure 2:

<sup>13</sup> <https://www.som.polimi.it/en/smart-working-during-the-time-of-the-coronavirus/>

<sup>14</sup> <https://www.lavoce.info/archives/64787/il-mercato-del-lavoro-si-scopre-smart/>

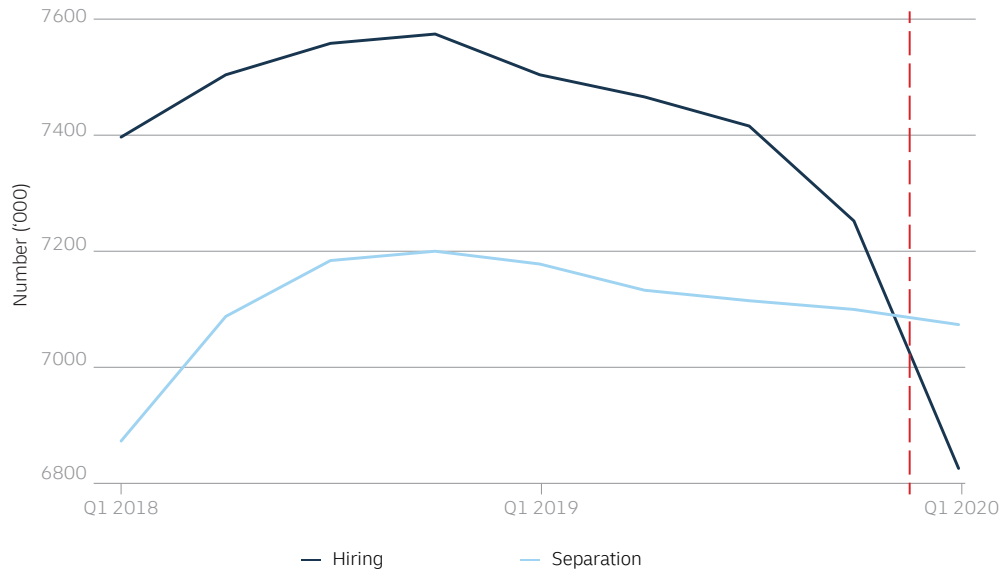
<sup>15</sup> Although this response varies by type of activity, i.e. 61% among firms in banking and finance, while 32% among firms in tourism. Source: <https://www.lavoce.info/archives/64486/lavori-che-possiamo-continuare-a-svolgere/>

<sup>16</sup> <https://voxeu.org/article/women-s-work-housework-and-childcare-and-during-covid-19/>

<sup>17</sup> <https://www.nber.org/digest/nov06/w12159.html>

<sup>18</sup> <https://www.lavoro.gov.it/notizie/Pagine/Online-la-Nota-trimestrale-sulle-tendenze-dell-occupazione-per-IV-trimestre-2019.aspx>



**Figure 2: Labor turnover**

Source: INPS - Uniemens (June 2020)

Some Italian regions provide daily and more detailed information on labor turnover. For instance, in the region of Veneto, the number of new jobs activated in the private sector between February 23 and June 14 2019 was about 204,000; in 2020 the same figure decreased to 100,000 (-51%), while job separations decreased of about 21% (from 145,000 to 107,000).<sup>19</sup>

As young workers have the lowest fatality rate and the lowest risk of needing healthcare, they should be employed to revive the economy (Anelli et al. 2020).<sup>20</sup> However, the employment prospects of new labor market entrants are particularly bleak; so far, no measures to facilitate the job search have been introduced by the Italian Government. Moreover, the National Agency for Active Labour Market Policies (ANPAL) has not been particularly responsive.

## Policy innovations and labor market trends

During the lockdown, firms, universities, and the public administration adopted smart-working practices for their employees to carry on their activities. These practices are likely to continue if their impact on workers' productivity is not negative; this clearly depends on whether workers adapt to the new technologies and on the type of jobs performed, e.g. the frequency of interactions with other people. According to Boeri et al. (2020), jobs that can be carried out remotely are only a small fraction of all jobs, i.e. 24%.<sup>21</sup> This share however could be lower if some essential sectors, such as schools and childcare, do not resume their activities.

A key challenge for policy makers then becomes to get people back to work without putting their health at risk. The question is then to mitigate the work-security tradeoff by identifying sectors of the economy that have the lowest levels of exposure to the virus, physical proximity and demographic characteristics of their workforce (Barbieri et al. 2020).<sup>22</sup> Still, the proportion of safe jobs in Italy remains below 50%.

<sup>19</sup> [https://www.venetolavoro.it/documents/10180/1693590/Misure%2095\\_Covid-19](https://www.venetolavoro.it/documents/10180/1693590/Misure%2095_Covid-19)

<sup>20</sup> <https://voxeu.org/article/transition-steps-stop-covid-19-without-killing-world-economy>

<sup>21</sup> <https://voxeu.org/article/mitigating-work-security-trade>

<sup>22</sup> <https://voxeu.org/article/covid-19-workers-exposure-risk-and-lockdown>

If a large share of the workforce could not go back to work, firms may increase investments in automation or reorganize production lines in order to continue their activities. While robots are generally perceived by workers as a threat for their jobs, they may help preserving labor by allowing firm to expand their production (Boeri et al. 2020).

## **Next steps and fiscal viability**

The Italian Government extended social safety nets to support workers and their families. These measures only postponed the effects of COVID-19 on the Italian labor market but as soon as these will be over employment levels will be severely hit; it is essential that the Italian government will be ready and prepared when it happens. As suggested by Lucifora (2020), the Italian government should invest in ALMP that should trace and treat newly unemployed workers.<sup>23</sup> In particular these intervention should sustain the workers who is going to lose a job and facilitate his/her job search process by (i) identifying and (ii) developing skills and qualifications needed by the firms in the labor market.

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<sup>23</sup> <https://www.lavoce.info/archives/66863/disoccupazione-un-contagio-annunciato/>

## IZA COVID-19 Crisis Response Monitoring **Netherlands (June 2020)**

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### ABSTRACT

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The Netherlands witnessed an unprecedented drop in hours worked of -11% in March, which dropped further to -15% in May. The drop in employment in persons was more modest, a total of -2.2% by May. The massive expansion of short-time work in the Netherlands is likely to play an important role in this, where now one quarter of all employees works in a firm that is using short-time work. Initially, speed was of the essence, and the targeting of the policies was limited. The current policy debate is about improving targeting and improving incentives for output and reallocation.

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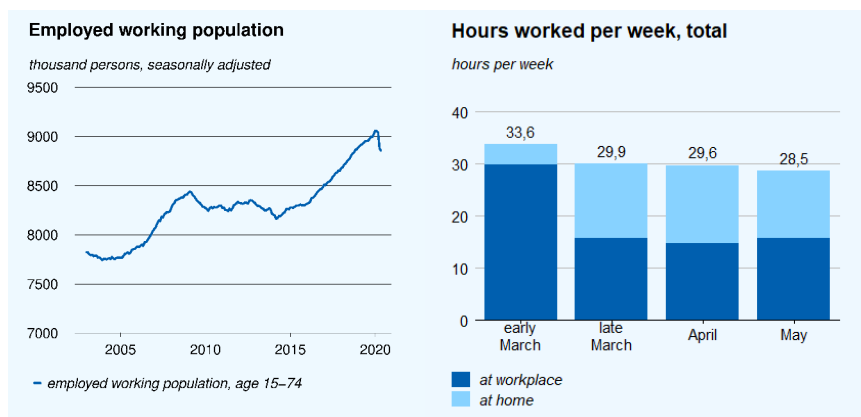
Jongen, Verstraten (2020): IZA COVID-19 Crisis Response Monitoring: Netherlands (June 2020).

## Labor market impact of COVID-19

The latest data from Statistics Netherlands shows a substantial drop in employed persons (Figure 1 left). This reduction was limited to -17 thousand persons in March, then increased to -160 thousand persons in April, and dropped back to -24 thousand persons in May, leading to a cumulative reduction of -201 thousand persons since the start of COVID-19 pandemic (-2,2%). However, so far, the increase in the number of unemployed persons was moderate, up 56 thousand persons between February and May<sup>1</sup>, indicating that the labor force participation rate has fallen, from 71.4 in February to 70.2 in May.<sup>2,3</sup> The special policies that were enacted or expanded, like short-time work, are likely to have limited the drop in employment (CPB, 2020b).

The large drop in employed persons during April and May was preceded by an unprecedented drop in hours worked per week, which we already observed in March. After the lockdown mid-March, hours worked per week dropped by 11% (-4 hours), and have remained at that lower level in April (Figure 1 right). In May the number of hours worked continued to fall by another 4% (-1 hour).<sup>4,5</sup> We still have to see if the drop in hours worked will rebound to some extent in June, which marked the beginning of some substantial alleviations of the lockdown. The upcoming recession, however, is likely to be quite severe, with a forecasted drop of GDP of -6% in 2020 (CPB, 2020c).

**Figure 1:** Employment in persons and hours worked per week



Source: Statistics Netherlands (employed, up to and including May 2020) and LISS-panel (hours worked).

- 1 The number of unemployment insurance recipients increased by 61.000 since February (+25%).
- 2 The unemployment rate increased from 2.9% in February to 3.6% in May.
- 3 For other recent labor market developments in the Netherlands, see CPB (2020a) and CPB (2020b).
- 4 In April, this drop in hours worked was particularly large in the catering industry (-48%), the cultural sector (-35%), retail (-18%) and transport and communication (-12%). The drop in hours was more pronounced for self-employed (-24%) than for employees (-12%), for women (-16%) than for men (-11%) and for low educated (-21%) than for high educated (-11%).
- 5 The figures in the right panel of Figure 1 are slightly different from the May country report. This is because the sample of persons who completed the survey for the months March-May is somewhat different from the sample of persons who completed the survey for the months March-April.

## Orientation and targeting of adopted measures

Around a quarter of all workers in the Netherlands are now in one way or another dependent on the special support policies that were enacted or expanded (Ministry of Social Affairs and Employment, 2020).<sup>6</sup> In early June, 144 thousand firms with in total 2.1 million employees (24% of all employees in the Netherlands) have claimed short-time work subsidies (NOW, Tijdelijke Noodmaatregel Overbrugging voor Werkgelegenheid). Firms that have a drop in sales of more than 20% can get a subsidy of 90% of the wage bill that corresponds with the drop in sales. As a result, the Dutch government has supported firms in advance with an amount of 4.5 billion euro at the beginning of June, which corresponds to a three-month total of 8.7 billion euro. Furthermore, it is estimated that around 374 thousand self-employed (25% of all self-employed in the Netherlands) have claimed a special form of welfare from municipalities (Tozo, Tijdelijke overbruggingsregeling zelfstandig ondernemers). This special form of welfare does not depend on partner income or wealth. Firms and self-employed could initially claim the NOW and Tozo for 3 months, respectively, from March onwards. Additionally, the government has granted firms tax deferrals (for a total of 10 billion euro by mid June).

The focus of the Dutch government with the NOW and Tozo was on getting support to firms and workers quickly. This has kept individuals out of unemployment, at least for the time being. This is generally considered to have been a timely and successful initial policy response.<sup>7</sup> At the start of June both schemes (NOW and Tozo) have been renewed for another 4 months until October 1st, although the terms have somewhat changed: the penalty for people leaving the firm within the NOW is reduced and the Tozo becomes subject to a partner income test. These adjustments to the original schemes are aimed to make the support more targeted, and to mitigate adverse incentives for reallocation and working hours.<sup>8</sup> Furthermore, concerns have been expressed that the special support policies may fail to protect persons with flexible hours contracts, agency workers and seasonal workers. The government is currently setting up a scheme of lump sum transfers for ‘flexible’ workers that lose a substantial part of their income but do not have access to unemployment insurance or welfare (TOFA, *Tijdelijke overbruggingsregeling voor flexibele arbeidskrachten*).<sup>9</sup>

## Immediate liquidity support to businesses

As noted above, some 25% of self-employed have claimed the special welfare benefits (Tozo), which runs through the municipalities. Self-employed can claim the special welfare benefits from March, actual transfers have started in April. The government chose for quick delivery in the first installment of the Tozo, which was independent of wealth and partner income. There is no information on the extent to which these measures have mitigated the economic impact of COVID-19 on self-employed yet. The Tozo-scheme has been recently extended until October 1st, though this renewed scheme is now subject to a partner income test.

<sup>6</sup> For an overview of all financial policy measures in the Netherlands related to COVID-19, see: <https://www.rijksoverheid.nl/onderwerpen/coronavirus-financiele-regelingen/overzicht-financiele-regelingen>.

<sup>7</sup> According to survey results from the end of March reported in Von Gaudecker et al. (2020), only about 10% of employees was worried about their job in the next 4 weeks, in part due to the special policies to maintain employment, whereas about 30% of self-employed was worried about losing their work.

<sup>8</sup> Indeed, e.g. Cahuc (2019) and Krugman (2020) note that short-time work arrangements like the NOW work best for a short-lived V-shape recession, but inefficiencies due to reduced reallocation will increase as the recession is more likely be U-, L- or ‘Nike-swoosh’-shaped.

<sup>9</sup> See: <https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/werknemers/tijdelijke-overbruggingsregeling-voor-flexibele-arbeidskrachten-tofa>

Small firms can also use the NOW for their employees, see also above. In addition, in selected sectors that are hit particularly hard, firms can get a one-time subsidy of 4 thousand euro (TOGS). In early June, about 200 thousand firms received the TOGS. This amounts to a total financial support of 790 million euro (Ministry of Economic Affairs and Climate Policy, 2020). Again, speed was considered to be of the essence. Furthermore, all firms can delay paying their taxes and many firms can also delay payments on their loans. There is no information on the extent to which these measures have mitigated the economic impact of COVID-19 on small firms yet.

## Support of dependent workers

So far we have witnessed a substantial decline in employment in persons, though the decline up to and including April (and May) appears to be quite limited compared to other western countries (CPB, 2020b). This is generally considered to be related to the special policy measures taken, including financial support for short-time work<sup>10</sup>, which also contains a penalty on dismissals, and financial support for the self-employed. To the best of our knowledge, this is typically not being complemented by sectoral or firm-level agreements. However, note that there are already strong incentives for firms to maintain their employees, as they receive less subsidy and an additional penalty when people leave the firm during the subsidy period. It remains to be seen how the renewed support scheme, with a reduced dismissal penalty, will affect employment. Regarding ALMPs, training and schooling programs for job seekers have been put on hold.<sup>11</sup>

## Working conditions and work organization

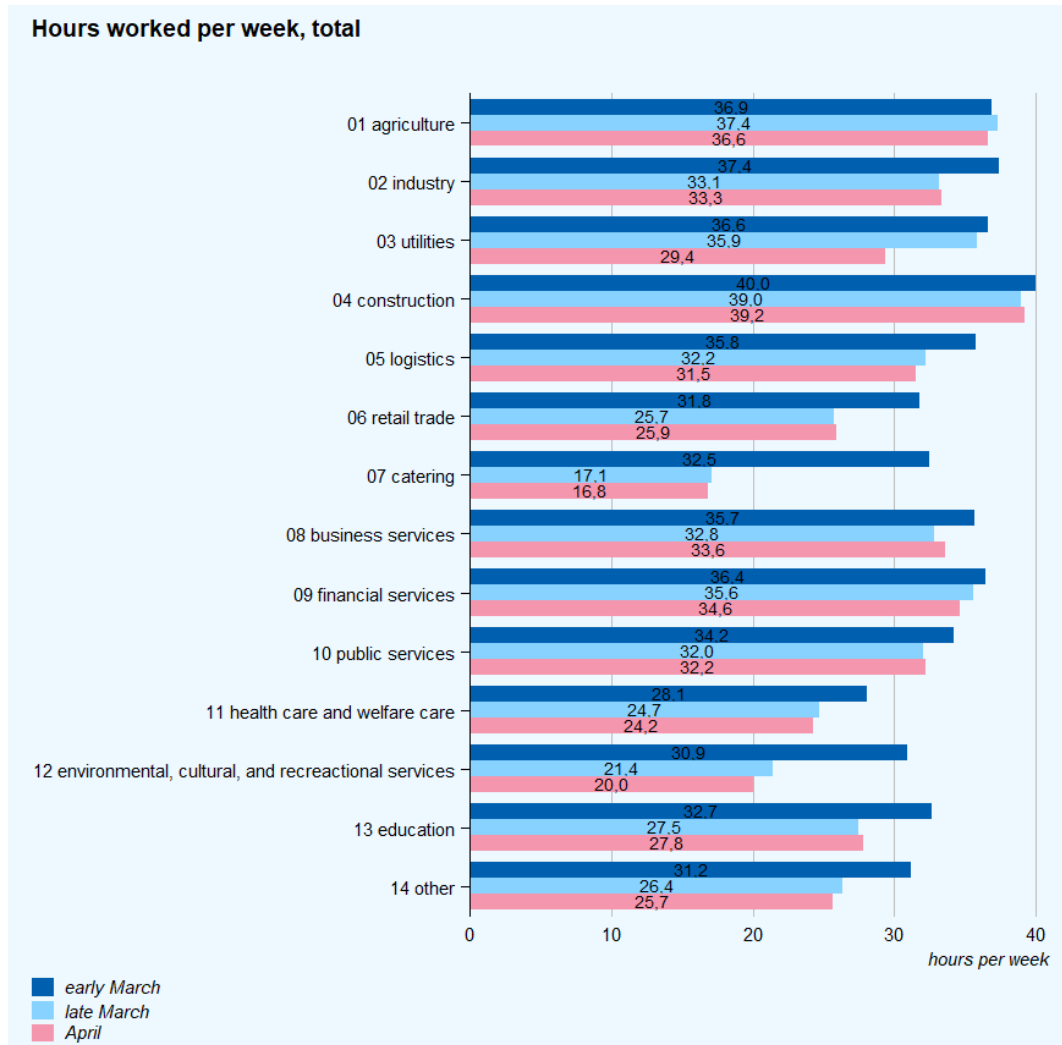
In general, there has been a large shift in hours worked at the workplace and hours worked from home. The drop in hours worked is most pronounced in sectors where there is limited opportunity to work from home, like the catering sector, the culture and entertainment sector and the retail sector (see Figure 2). In the business, financial and public services sectors and the education sector there has been a limited drop in hours worked, due to a large shift to working from home.<sup>12</sup> As expected, the drop in hours is much less pronounced for 'essential workers' like doctors, nurses, teachers, policemen and -women, military personnel, people that work in transportation, media or supermarkets (see Figure 3). Several sectors have witnessed a large increase in demand, like supermarkets, online shops and delivery services.

<sup>10</sup> This is consistent with the evidence presented in Cahuc et al. (2018) and Giupponi and Landais (2020) for the short-run effects of short-time work policies in France and Italy, respectively, during the Great Recession.

<sup>11</sup> Source: <https://www.fnv.nl/corona/veelgestelde-vragen-per-sector/veelgestelde-vragen-voor-uitkeringsgerechtigden#werkloosheid>.

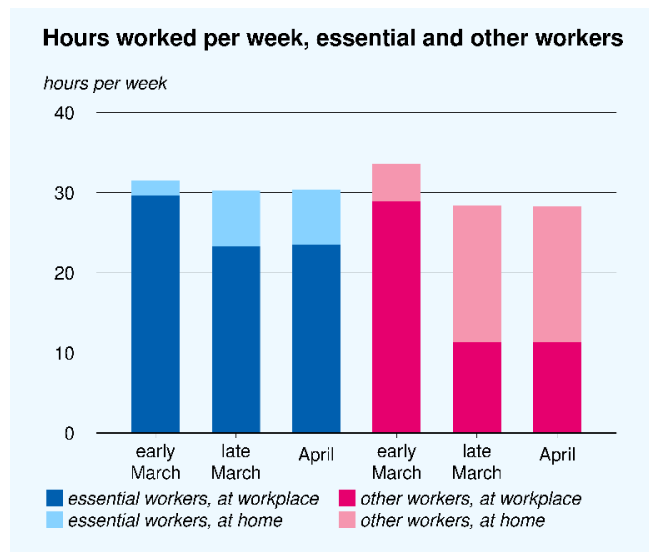
<sup>12</sup> See the May country report for the Netherlands for worked hours at the workplace and at home by sector.

**Figure 2:** Hours worked by sector



Source: LISS-panel.

**Figure 3:** Hours worked at the workplace and at home, essential and other workers



Source: LISS-panel.



Research provides a mixed picture of the effects of the corona crisis on gender inequality in the Netherlands (Yerkes et al., 2020). On the one hand, more fathers than mothers take on additional care responsibilities (22% versus 12%), which seems to be related to the fact that women are overrepresented in crucial professions. On the other, more mothers than fathers have less free time (57% versus 36%) and experience more work pressure (39% versus 31%).

Some firms had to shut down business temporarily because of outbreaks of COVID-19, in particular the meatpacking industry, which employs many migrant workers which live in close quarters and travelled to work packed in small buses.<sup>13</sup>

## New labor market entrants

Previous research has shown that vocational and academic graduates in the Netherlands did suffer in terms of wages for 6 to 8 years after graduating, and to a lesser extent in the employment probability, when graduating during a recession.<sup>14</sup> Given the social distancing measures and overall decline in labor demand (vacancies have plummeted after the lockdown<sup>15</sup>), things look pretty dim for new labor market entrants. We are not aware of (sizeable) policy innovations and initiatives related to hiring of new labor market entrants or the provision of apprenticeships (these have been postponed for vocational education where the sectors had to close or significantly reduce their activities due to the COVID-19 pandemic and the resulting social distancing rules).<sup>16</sup>

## Policy innovations and labor market trends

The response of the government during this unprecedented crisis has also been unprecedented in terms of the speed and breadth of the interventions. Perhaps as a result, the consequences for employment in persons in the affected sectors and other sectors so far appear relatively mild from an international perspective. This could be considered remarkable. These are still relatively early days in the pandemic, let alone the aftermath. Hence, it is hard to identify changes in medium- and or long-term trends, which will also depend on the length of the crisis. However, it is not unreasonable to assume that we will see an acceleration in working from home and a more rapid adoption of technologies to collaborate and work online. Furthermore, online shops are likely to get a boost, as they did in Asia after the 2003 outbreak of SARS.<sup>17</sup> Furthermore, at least for the medium run, we may expect reshoring of certain activities and a drop in international labor mobility. Even more difficult to gauge are the long-term effects. An optimistic view is that this was a prototypical external shock, not due to an imbalance in the system, which suggests that we may return to the growth path from before the COVID-19 pandemic eventually.<sup>18</sup>

<sup>13</sup> See: <https://nos.nl/artikel/2334580-vleesindustrie-blijkt-coronahaard-bonden-en-werkgevers-willen-testen-en-controles.html>.

<sup>14</sup> See: Van den Berge (2018).

<sup>15</sup> By the end of March, vacancies had dropped by 21% (CBS Netherlands, <https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/ouders-scholieren-en-studenten-kinderopvang-en-onderwijs>).

<sup>16</sup> Information for students is available here (<https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/ouders-scholieren-en-studenten-kinderopvang-en-onderwijs>).

<sup>17</sup> See: <https://www.cnbc.com/2020/03/26/chinas-2002-2003-sars-outbreak-helped-alibaba-become-e-commerce-giant.html>.

<sup>18</sup> See: Krugman (2020).

## Next steps and fiscal viability

The most recent economic outlook of CPB (2020c) revealed that the shock to public finances due to the crisis and the special policies will remain bearable in the Netherlands, even in the most severe scenario. The gross government debt increases very sharply in the base scenario though, from 48.7% of GDP in 2019 to 62% in 2020 and 61% in 2021. Also in the scenario where we have a weaker recovery than in the base scenario and in a scenario with a second contamination wave, gross government debt will remain sustainable, at a debt level of 76% of GDP in 2021.

However, it is now also becoming clear that this will not be a V-shaped recession, but more likely to be a U-shaped or 'Nike-swoosh' shaped recession. This is because at least part of the social distancing policies will remain in effect until a vaccine or cure arrives. Hence, a reallocation of workers from firms and sectors that are shrinking to other firms and sectors is becoming inevitable. Hence, we should protect workers, but at the same time provide sufficient incentives and possibilities for workers to relocate to where they are the most productive. In this process we also have to make sure that there is not an excessive loss of firm- and sector-specific capital in the process of scaling down, and scaling up once the vaccine or cure arrives.<sup>19, 20</sup>

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<sup>19</sup> See also Blanchard et al. (2020).

<sup>20</sup> The projected recession has also fueled the debate about the rather strict employment protection of workers with a permanent contract combined with limited restrictions for the use of 'flexible' contracts, where 'flexible' workers typically have limited insurance but sometimes special tax deductions (self-employed), which may be one of the reasons why the share of flexible work in the Netherlands is relatively high from an international perspective. This was already high on the agenda following the report of the Committee for the Regulation of Work (Commissie Reguleren van Werk) published in January 2020. (<https://www.reguleringvanwerk.nl/>)

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## IZA COVID-19 Crisis Response Monitoring Portugal (June 2020)

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### ABSTRACT

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Portugal declared the State of Emergency over coronavirus on March 18 and strict lockdown measures were imposed. To sustain the effects of the shock the government implemented a set of exceptional measures, which have cost 780 million euros until June. Although the social climate is quiet, the measures do not fully address the income loss suffered by agents and the effects of the economic slowdown. Recent forecasts by the EC suggest that the Portuguese GDP will fall by 6.8% in 2020, but will recover (5.8%) in 2021. If this happens, this cycle may in fact be closer to the “V” shape.

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## Labor market impact of COVID-19

Portugal declared the State of Emergency over coronavirus on March 18. According to data provided by the Portuguese Institute of Employment and Professional Training (IEFP, 2020), in May (March) 2020 the number of registered unemployed in mainland Portugal increased by 4.2% (9.6%) comparing to April (February) and by 36.2% (3.7%) comparing to May (March) 2019. This increase is mainly due to the increase of registered short-term unemployed (less than 12 months). Amongst the registered unemployed in May, 45% were males and 55% females. However, despite the greater share of females in the group of unemployed, the observed increase between May 2020 and May 2019 was larger for males (39.5%) than for females (33.7%).

Workers without a higher education degree were the most affected at this initial stage of the crisis, for whom we observe an average increase in registered unemployment of 38.3% between May 2020 and May 2019 – which contrasts with an increase of 22.8% for workers with a university degree. There are no significant differences by gender across levels of educational attainment.

Considering occupations, the worst hit groups were: Plant and machine operators and assemblers (62% increase comparing to May 2019); Sales and services workers (50% increase); Craft and related trades workers (42% increase); and Clerks (36% increase).

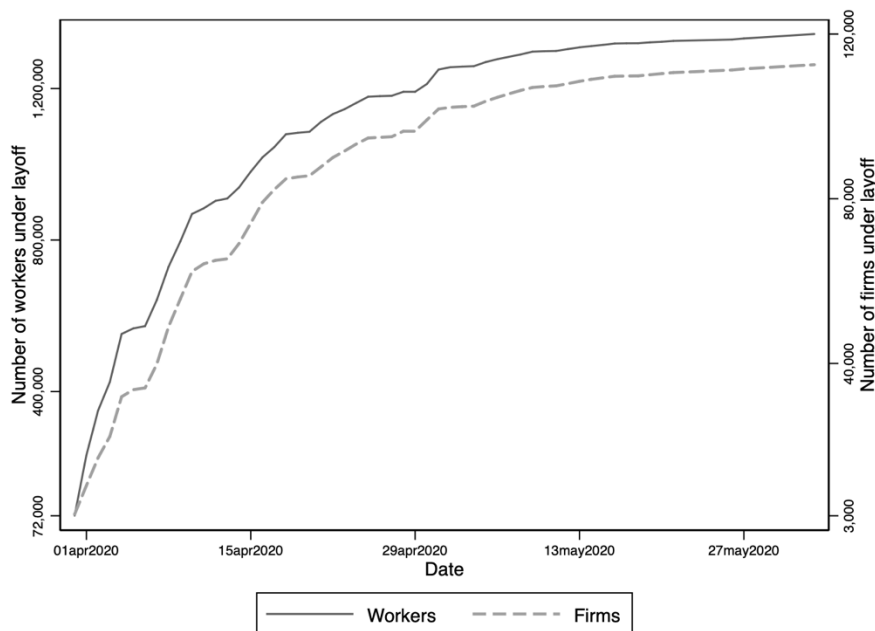
Unemployment increased by 10% between February and March 2020 in the three main sectors of economic activity. This initial situation changed during May 2020 (full month in lockdown). Compared to May 2019 the number of registered unemployed increased by 13.5% in the primary sector, by 27.8% in the secondary sector, and by 44.7% in the tertiary sector. These averages, however, hide great differences across the activities that compose the sectors. For example, within the manufacturing sector the worst hit activities were: Motor vehicles (45.9% increase, comparing to May 2019); Manufacture of basic metals and of fabricated metal products (45.4% increase); Textile, clothing and leather industries (43% increase); and Petroleum, chemical and rubber manufacturing (34.5% increase). Amongst the services sector the worst hit activities were: Lodging, restaurants and hotels (89.3% increase compared to May 2019); Transports and storage (62.8% increase) and Real estate (57.5% increase). Furthermore, the number of job offers fell by 39% when comparing May 2020 to May 2019 (although the number of job offers increased between April and May 2020 by 5%). Which makes finding a new job a difficult task for existing and newly unemployed as well as for labour market entrants. In Table 1 we provide a summary of the labour market impacts of this crisis in Portugal.

**Table 1:** Labour Market Impact of COVID-19 in Portugal (as of April 2020) – Registered Unemployment, Job Offers and Placements

	2020			2019	Change in May			
	May	April	March	May	Previous month		Previous year	
					Abs.	%	Abs.	%
Registered unemployment (stock)	384 504	368 925	321 164	282 292	+15 579	+4,2	+102 212	+36,2
< 12 months	258 368	244 142	200 082	157 146	+14 226	+5,8	+101 222	+64,4
>= 12 months	126 136	124 783	121 082	125 146	+1 353	+1,1	+ 990	+0,8
Registered un-employment (inflow)	44 718	63 643	51 432	36 209	-18 925	-29,7	+8 509	+23,5
Employed job seekers	36 056	37 729	37 390	42 104	-1 673	-4,4	-6 048	-14,4
Job offers (stock)	11 235	10 668	12 000	18 434	+ 567	+5,3	-7 199	-39,1
Job offers (inflow)	6 761	3 040	7 356	12 984	+3 721	+122,4	-6 223	-47,9
Job placements	4 287	2 233	5 773	7 496	+2 054	+92,0	-3 209	-42,8

Source: Institute of Employment and Professional Training [IEFP].

The State of Emergency was replaced by a State of Calamity on May the 3rd. However, despite expectations and incentives for the economy to parsimoniously get back to business, labour market conditions continued to deteriorate, albeit at a slower rate, during May. On May 27th 1,332,114 workers worked in firms that implemented partial or full-time layoff (which contrasts with only 72,507 on March 31st), more than half of these workers worked in Manufacturing, Gross and retail trade, and Restaurants and hotels (MTSS, 2020). Therefore, the effort to make is to prevent these laid-off workers from being made redundant and dismissed permanently. Otherwise, unemployment is likely to increase in the medium term (not immediately because of the ban on dismissals associated with the layoff regulations) because of large-scale redundancies (see Figure 1).

**Figure 1:** Requests by firms to implement temporary layoff

We do not have information on the type of contract of employment of newly unemployed workers, however it is likely that firms will adjust their employment levels by dismissing the least permanent workers first. In fact, most of the extraordinary and temporary measures

aimed at tackling this crisis (e.g. the simplified layoff scheme and the credit lines for firms) require that firms do not dismiss permanent workers and that they do not proceed with collective dismissals for some time (for 60 days after the layoff ends, and until December 2020 for those who take up credit lines). Self-employed workers account for 12% of total employment (14% male and 9% female), and 5% were business owners in 2019. We expect this crisis to have a significant impact on the activity and earnings of these workers. The SURE program by the EC may be an essential tool to help this group of workers.

## Orientation and targeting of adopted measures

The OECD listing of measures is an appropriate summary of the government actions to tackle the impact of the health crisis over the National State of Emergency period (March 18th – May 2nd). However, since May 3rd Portugal started to ease the lockdown restrictions (and entered a National State of Calamity). New guidelines were issued, which include measures to reduce workers' exposure to COVID-19 in the workplace, such as a recommendation for telework when and as much as possible during May, and partial telework with lagged schedules or shadow teams from June.<sup>1</sup>

According to a report by the Portuguese Minister of Labour and Social Solidarity (Godinho, 2020), as of 16 June 2020 the set of exceptional support measures to families, workers and firms had already benefited 1,222,000 people, 144,464 firms, and 778 million euros had been paid to recipients. Employment protection measures were by far the most expensive component of the measures adopted. The simplified layoff involved, thus far, an investment of 580 million euros (this measure was extended until July 2020). Income support for self-employed and members of statutory bodies cost 104 million euros. Exceptional support measures to families, such as subsidies for prophylactic isolation, for sick leaves, and to care for children aged under 12 (schools were closed at the start of the State of Emergency) cost 43 million euros. The automatic extension of unemployment benefits and of social inclusion income (for those who were receiving these subsidies in March 2020) cost 18 million euros. Furthermore, credit lines for financial support to firms involved an investment of 6,2 billion euros. To access these credit lines, however, firms have to declare that they assume the responsibility of not dismissing permanent workers and of not initiating any collective dismissal process before the end of December 2020.<sup>2</sup>

All political parties approved the tools adopted to sustain the effects of the nationwide lockdown. It is difficult to sort the measures according to their relevance in social terms – all are important and each tackles a different issue. However, albeit costly, the temporary layoff scheme is arguably one of the most important measures adopted. This tool not only sustains the transition from employment to unemployment (at least for permanent workers), but can also be taken as a signalling device from the government to ensure that this is a temporary exogenous shock. In fact, the government appears to be in an active effort to avoid a shift in expectations amongst the economic agents, which could have severe consequences for the recovery phase. Therefore, the feeling is that it is “worth it” to help the labour market keep its structure and allow it to come back to business as the shock subsides. Since schools were closed during the lockdown (and will not open before the next academic year), income support for parents to stay home and look after their children is also a tool of utmost importance.

<sup>1</sup> See plan for lifting lockdown measures: <https://covid19estamoson.gov.pt/plano-desconfinamento-medidas-gerais/>

<sup>2</sup> [https://www.spgm.pt/fotos/produtos\\_documentos/declaracao\\_compromisso\\_manutencao\\_postos\\_de\\_trabalho\\_5669791165ea16f8c56821.docx](https://www.spgm.pt/fotos/produtos_documentos/declaracao_compromisso_manutencao_postos_de_trabalho_5669791165ea16f8c56821.docx)



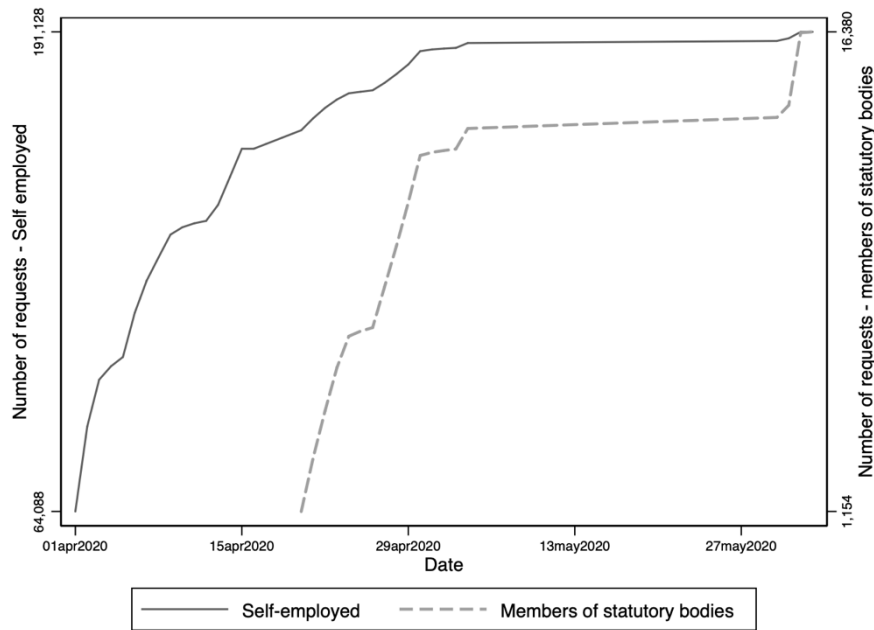
Although the social climate is quiet, the measures do not fully address the income loss suffered by all economic agents. Furthermore, temporary workers, the self-employed, small business owners and labour market entrants are particularly vulnerable groups (both in terms of income loss and of labour market status). Media also reported that the number of requests to the national network of food banks tripled in April when compared to the previous month.<sup>3</sup>

## Immediate liquidity support to businesses

There have been plenty of initiatives aimed at supporting the labour market (supply and demand sides). Exceptional support measures for include: (i) extraordinary support to maintain employment contracts (credit lines and simplified layoff rules); (ii) creation of an extraordinary training plan; (iii) a temporary exemption from payment of the social security contributions payable by the employer; (iv) an extraordinary financial incentive to support the normalisation of the company's activity; and (v) a ban on dismissals. According to a report by the Bank of Portugal there is a non-linear relationship between the percentage of firms without liquidity to face the fixed costs and the number of days of reduced activity. This percentage is larger amongst large firms and firms within the restaurants and hotels industry. The simplified layoff rules help alleviate this problem. Under layoff the share of firms with liquidity issues from reduced activity is similar to the share that we would observe in normal circumstances. Therefore, it is expected that the implemented measures will help preserve firms' solvency in the long term and avoid firm closures. As mentioned previously (Figure 1), as of May 27, 111,536 firms had applied for layoff (involving 1,332,114 workers, about 1/4 of the active population in February 2020). Given the scale of the task, however, some concerns arise as financial support takes time to reach its recipients (Bank of Portugal, 2020).

The self-employed and the members of statutory bodies were also targeted by ALMP by being allowed to request support for reduced economic activity (from April 1). On May 8th, the income support eligibility conditions for self-employed and small business owners were enlarged in order to cover individuals not eligible for unemployment benefits. In Figure 2 we present the cumulative number of requests for financial support by the self-employed (from April 1) and by members of statutory bodies (from April 20). During April 186,000 self-employed and nearly 12,500 members of statutory bodies (of firms without registered employees) requested support.

<sup>3</sup> <https://rr.sapo.pt/2020/04/30/pais/pedidos-ao-banco-alimentar-triplicam-sem-emprego-muitos-dependem-de-apoios-para-comer/noticia/191287/>

**Figure 2:** Requests for support measures by self-employed and members of statutory bodies

During April the Office for National Statistics and the Bank of Portugal implemented a weekly short survey (Inquérito Rápido e Excepcional às Empresas) aimed at assessing the impact of the Covid-19 outbreak on firm activity. The report from the last week of April shows that the group of microenterprises, with less than 10 employees, was the one with the largest share of firms that considered the simplified layoff the most relevant factor to explain the decrease in working hours.

## Support of dependent workers

Official data reports an increase of 91,488 registered unemployed workers between February and May 2020, which corresponds to 36% compared to May 2019 (see Table 1). We also know that 111,536 firms joined the simplified layoff scheme (thus 1,332,114 workers are at risk of being at least partially out of work, whilst still keeping their jobs). The magnitude and the conditions of access to the simplified layoff suggests that should there not be any ALMP such as those implemented to tackle the crisis, labour market outcomes could be very different.

The suspension of employment contracts (layoff) is predicted in the General Labour Law. On March 15 the government defined new conditions of access to this tool (in particular, it clarified/ adjusted the meaning of “entrepreneurial crisis” which is a necessary condition to implement layoff) and simplified the procedures for requesting layoff, e.g. firms are exempted from presenting some documental proofs, but may be subject to inspection in the future and penalties can be applied. Under layoff, workers receive  $\frac{2}{3}$  of their gross pay, up to a maximum of €1,905. 70% of the workers’ pay is paid by Social Security and 30% is paid by the employer. Usually, layoff lasts for a month and can be extended monthly up to a maximum of 6 months (Order 71-A/2020, March 15). During the layoff period, and for 60 days after it has ended, employment contracts cannot be terminated under collective dismissal or by reasons of extinction of the job for workers who were under layoff (Article 13, Decree-Law 10-G/2020, March 26).<sup>4</sup>

<sup>4</sup> Exceptions include the end of temporary employment contracts and fair cause for dismissal.

Another measure aimed at supporting the income of dependent workers relates to the extraordinary extension of unemployment benefits and all benefits of the Social Security system. For example, a person for whom the period of entitlement to unemployment benefits ended from March onwards, had that period automatically extended until June 30 (Decree-law 10-F/2020, March 26).

We do not have much information on support for job-seekers, which is understandable because the economy came to a halt during the State of Emergency and did not improve much during May. What we do know, however, is that the duty to actively search for a job while unemployed was suspended on March 19 (Dispatch 3485-C/2020, March 19). Once the lockdown measures are progressively lifted, and firms restart their activity, it is likely that a discussion about measures aimed at creating jobs will surface. At this moment, the government and social partners are more focussed on trying to stop the bleeding rather than on healing the wound.

## Working conditions and work organization

The major novelty over this period is the shift into tele(home)work, where possible. There are some potential positive effects of such work practices on (i) workers (improving the work, family and private life balance), (ii) employers (increasing productivity and efficiency) and (iii) society at large (higher labour force participation for women and reduction in traffic congestion). 58% of the firms have workers in telework arrangements, mainly in large (93%) and medium size (73%) firms. Only 30% of micro firms have at least one worker in telework (INEa, 2020).

However, flexible working time arrangements and new working practices are not gender, age and household type neutral. The main shortcomings associated to flexible working times relate to: (i) the blurring boundaries between working and family time, which may worsen working and living conditions for workers, especially in the case of tele(home)working, with the risks of longer working hours, as well as the personal costs due to isolation, loss of visibility and lower career perspectives; and to (ii) the reduced predictability of working time, which is particularly negative for workers with care responsibilities. Workers with school-age children, who were themselves experiencing the novelty of tele(home) schooling, have reported feeling overwhelmed with the whole situation. There has been a specific subsidy aimed at financially support workers with children under age 12 who have to stay at home because of school closures. Not all eligible workers applied to this subsidy. One can guess two reasons for that: (i) it implies a loss of income (loss of 1/3 of the base pay) and (ii) people are afraid of losing their jobs. It is hard to tell if Portugal is experiencing a reactivation of traditional gender roles. Official sources do not, as yet, report how care responsibilities were organized by gender. However, a survey conducted by Catholic University Lisbon (CESOP, 2020) concluded that “*Women, more than men, are caring for the family, in lay-off and without activity. Men, more than women, have kept their jobs in the same venue.*”<sup>5</sup> Apart from this subsidy, to the best of our knowledge, there have been no other tools to respond to this new situation.

Sectors that report an increased or normal workload are health and ICT sectors.

5 “Elas, mais do que eles, na assistência à família, em lay-off e sem atividade. Eles, mais do que elas, a manter as mesmas funções nos mesmos locais” online at: <https://visao.sapo.pt/atualidade/economia/2020-05-14-covid-19-mais-mulheres-que-homens-em-assistencia-a-familia-lay-off-ou-sem-atividade-estudo/>

## New labor market entrants

Nationwide, there has not been much discussion of this topic, which is a bit worrying. After the Recent Great Recession, the EU used structural funds to tackle youth unemployment. But nothing, as yet, has been presented as a policy envisaging the integration of young people in the labour market (both at the EU and the national level).<sup>6</sup> We do sense some concerns in public opinion about young workers in their 30s who are now experiencing the second recession. For labour market entrants, however, discussions are mostly focused on how and/or when they will finish their degrees (national exams, university admissions, university graduations). It seems that uncertainty on the type of recession/recovery (L, U, V, W, Nike Swoosh) helps confusion and fosters the lack of action. For the optimistic, who foresee a V shape recession, the problem is only temporary – therefore the market will pick up quickly. However, we know that for recent graduates it is urgent to enter the market shortly after graduation, otherwise they will be competing with the class of 2021, and compared to these the 2020 graduates will be a rotten apple. Overall, the issue with new labour market entrants is similar to that of job-seekers: the government and social partners are mostly focussed on preventing the economy from collapsing during/after the lockdown. We can also guess that it is difficult to design any policy that fosters employment while the economy is shut-down, time stands still and everyone is asked to be at home waiting for better days.

Applications for a job by employed job-seekers decreased during this period. Applications for a job by employed job seekers represented 7% of the total requests for a job in May 2020, which contrasts with 7.6% (8.2%) in April (March) 2020 and 9.7% in May 2019. Overall, the number of employed job seekers decreased by 14.4% between May 2019 and May 2020 (IEFP, 2020).

## Policy innovations and labor market trends

The simplified layoff rules, although common in other European countries, were the most important and innovative policy measure. The main concern reported by the employers was the administrative and bureaucratic burden, despite the procedures being “simplified”, which implied additional costs and uncertainty regarding the eligibility conditions and the time frame to get the support.

Local authorities have also tried to ameliorate the conditions of their businesses and citizens. For example, some municipalities have exempted business from fees, others have changed regulations to allow business to operate in wider outdoor areas. We are also observing a fast digitalization of the economy. Besides tele-work and tele-school, actions are being taken to support local producers and businesses and platforms are being created to ease the communication between producers and consumers. Since local and family businesses can be an important source of support for the economy, any strategy that helps these firms to survive during the crisis are welcome. Some sectors and firms adjusted quickly, the textile sector and some tech firms are now producing all sorts of gear needed to tackle this disease (protective gear, ventilators, etc). Some firms producing canned food and cereals and its derivatives (pasta, flour) have more than tripled their production. Will these expanding sectors compensate for all other losses? The future will tell.

Most of our economic activity relies on manufacturing and services. It is possible that some change may happen in some services, e.g., employers may be less reluctant to allow

<sup>6</sup> [http://www.bollettinoadapt.it/old/files/document/19711youth\\_action\\_tea.pdf](http://www.bollettinoadapt.it/old/files/document/19711youth_action_tea.pdf)

working from home in some sectors and workers may be more open to new work practices. Over this crisis, it has also become apparent that long supply chains may be a problem in particular when the world shuts its doors. Will this suffice to induce structural change in what we do and how we do it? We will see.

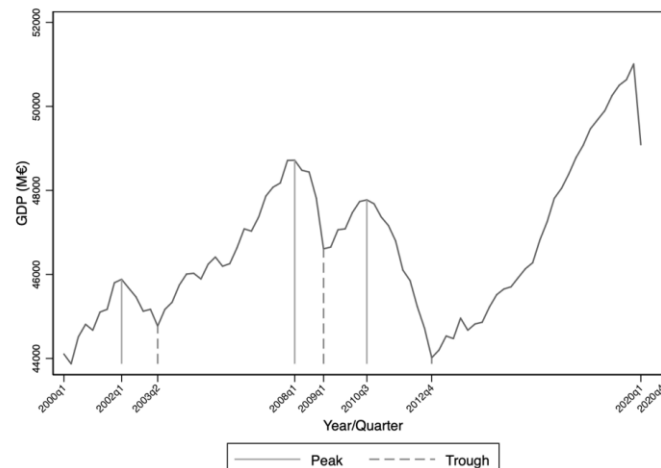
Recent forecasts predict a sharp decrease in Portuguese exports, following the global economic downturn. This shock will mainly affect export manufacturing branches, in particular Metal working, Automotive components industry, and Textiles, clothing, leather and footwear sectors, that showed an impressive recent export performance, not only due to quality improvements but also due to cost competitiveness, with export prices relative to Portugal's competitors depreciating by around 6% since 2009 (OECD, 2019). The reallocation of global value chains can benefit these industries, as they compete closely with eastern Asia producers. On the other hand, since Portugal is a small open economy, any significant increase in barriers to international trade can reverse the export growth to non-European countries.

## Next steps and fiscal viability

The strict lockdown measures and support from the government are not a long run equilibrium and cannot be sustained for a long period of time. This becomes apparent when we consider that most initiatives have an exceptional and temporary nature.

Overall, government actions tried to sustain the impact of the shock and avoid mass job destruction and firm closures. For the near future, it is important not to let the market adjust their expectations to the disrupted lockdown scenario. Instead, it is important that a majority trusts that “all we be well” and uses this positive expectation to rapidly adjust to a new way of living. If this happens, our recovery may in fact be closer to the “V” shape. Recent forecasts by the European Commission seem to lie on this scenario. The unemployment rate in Portugal is expected to rise by 3.2 percentage points in 2020 (6.5% in 2019 to 9.7% in 2020, and 7.4% in 2021). The same projections suggest that the Portuguese GDP will fall by 6.8% in 2020 (below the EU average of -7.7%), but will recover in 2021 (expected growth of 5.8%). Using data from the Office for National Statistics (INE b, 2020), I Figure 3 we plot the Portuguese GDP in million Euros (chained volume series, reference year 2016) and date the phases of the cycle. During the first quarter of 2020 the Portuguese GDP fell by 3.8% compared to the previous quarter and by 2.3% compared to the same quarter in 2019. The future will tell the shape of this cycle.

**Figure 3:** Portuguese GDP



Since Portugal was one of the countries involved in the European Sovereign Debt Crisis it is important to also note the projections made for the Public Budget Balance (as a percentage of GDP): -6.5% in 2020 and -1.8% in 2021.<sup>7</sup> The high public debt (118% of the GDP in 2019, 132% in 2020 and 124% in 2021) prevents a more effective public support, not only to keep interest rates below 1%, but also to prevent the transmission to the banking sector, which remains fragile in spite of recent improvements. This raises questions on what the European response to the economic crisis that followed the outbreak of the COVID-19 disease, and support to member countries, will be. So far, the SURE (Support to mitigate Unemployment Risks in an Emergency) program has been approved by the Council of the EU (which will be running, at least, from June 2020 to December 2022). This program provides loans at favourable rates to the member states to “cover the costs directly related to the creation or extension of national short-time work schemes, and other similar measures they have put in place for the self-employed, as a response to the current crisis” (EC, 2020). It is difficult to foresee the effects of this program in Portugal both in terms of its effectiveness on labour market outcomes (since it is focussed on short-term work and on self-employment) and in terms of the balance of national accounts (since it is a loan).

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<sup>7</sup> [https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/portugal/economic-forecast-portugal\\_en](https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/portugal/economic-forecast-portugal_en)

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## IZA COVID-19 Crisis Response Monitoring Spain (June 2020)

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### ABSTRACT

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Spain is one of the countries that has been hit hardest by COVID-19 during the first half of 2020. For this reason, the lockdown has been stricter and longer than in other European countries in order to flatten the curve. Around 6 million workers are now unemployed or covered by temporary employment adjustment schemes (ERTEs - Expedientes de Regulación Temporal de Empleo). Different measures (“Social Shield”) have been adopted in order to ensure an adequate level of social protection of workers such as the new minimum income scheme (Ingreso Mínimo Vital – IMV). However, the impact on public accounts will be significant, and it will take time to come back to a sustainable path.

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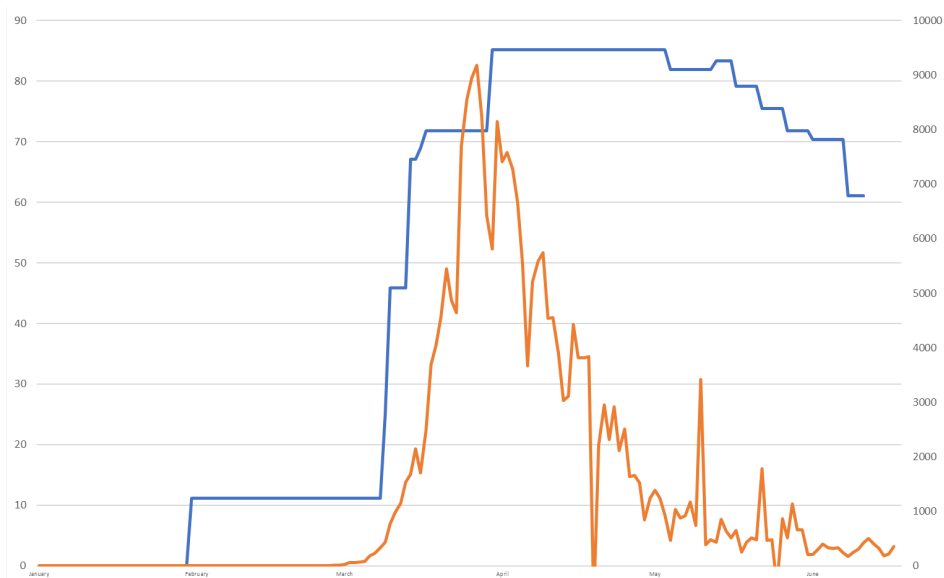
Cite as:

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## Labor market impact of COVID-19

Spain is one of the countries that has been hit hardest by COVID-19 between the first half of 2020. The magnitude of the health crisis also explains why the lockdown has been stricter and longer than in other European countries with notable exceptions such as Italy and France. Figure 1 shows the evolution of the Government Stringency Index for Spain computed by the Oxford Coronavirus Government Response Tracker (OxCGRT). This index is a composite measure of nine of the response metrics: school closures; workplace closures; cancellation of public events; restrictions on public gatherings; closures of public transport; stay-at-home requirements; public information campaigns; restrictions on internal movements; and international travel controls. The index on any given day is calculated as the mean score of the nine metrics, each taking a value between 0 and 100. A higher score indicates a stricter government response (i.e. 100 = strictest response). As we can see from this figure, in mid-March the Spanish government started to adopt measures to fight against the pandemic. These measures became stricter at the end of the month with a full lockdown (except for essential activities) for two weeks, although several restrictions are still in place. Table 1 presents the chronology and a brief summary of the adopted measures in this context, that are now being relaxed although several restrictions are still in force. As also shown in Figure 1, measures have been effective as it has been possible to flatten the curve and to significantly reduce the number of new COVID-19 cases.

**Figure 1:** Spain – COVID Stringency index (100=strictest response) and new COVID-19 cases



Source: Own elaboration using data from <http://ourworldindata.org>

**Table 1:** Chronology of policy responses to COVID19 in Spain

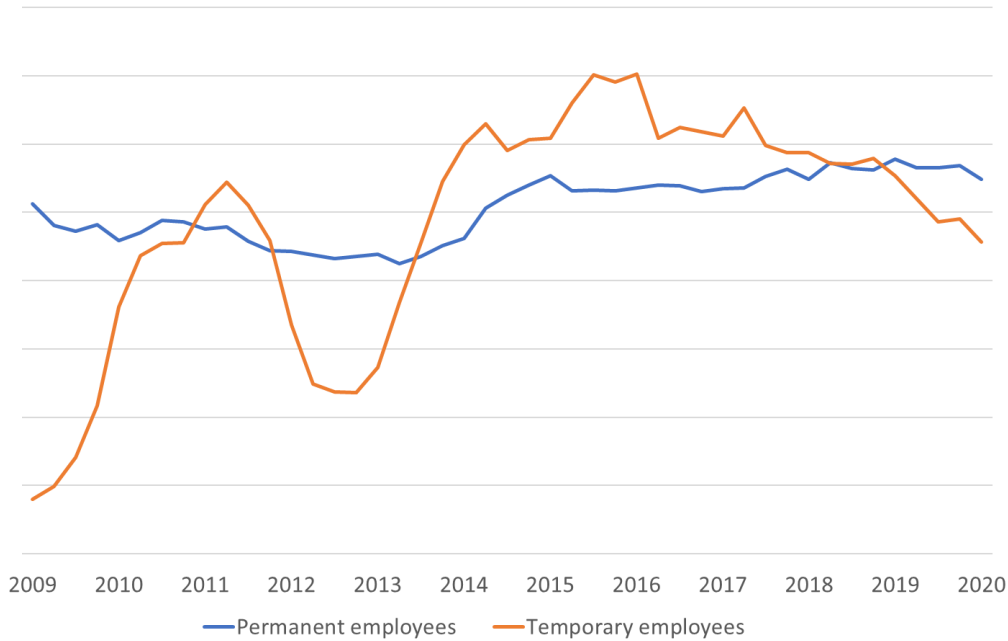
January 31st 2020	First patient diagnosed in La Gomera (Canary Islands)
February 9th 2020	First patient diagnosed in Palma de Mallorca (Balearic Islands)
February 24th 2020	First patient diagnosed in the peninsula (Catalonia, Madrid and Valencia)
March 11th 2020	Educational activities suspended in Madrid and in the rest of Spanish regions similar measures were adopted in the next few days (still in force)
March 14th 2020	Declaration of the state of alarm involving recentralization of regional competences, severe restrictions of mobility and the cease of activity in non-essential sectors.  Extended March 27th, April 10th, April 24th, May 8th, May 22nd, June 5th (following until June 21st)
March 28th 2020	Halting of all non-essential activity
April 13th 2020	Lifting of some restrictions to non-essential sectors
April 26th 2020	Children under 14-year-old allowed to go outside
May 2nd 2020	Beginning of the plan for easing lockdown restrictions  Phase 0 (preparatory): People can go out for short walks and individual sports in their municipality of residence  Border controls and internal restrictions to mobility
May 11th 2020	Phase 1 (initial): Opening of small shops, terraces, etc in some regions according to different indicators related to COVID-19 prevalence and to the capacity of the health system. Phase-1 regions in this date cover around half of the Spanish population. More regions will be added sequentially according to the evolution of the indicators.
May 25th 2020	Expected date for Phase 2 (intermediate) – Opening of new sectors and activities
June 6th 2020	Expected date for Phase 3 (advanced) – 50% capacity – telework recommended
June 19th 2020	Some regions reach the “new normality”. It is expected that the rest follow in the next days (June 22nd in most cases)

Source: Own elaboration using data from [https://administracion.gob.es/pag\\_Home/atencionCiudadana/Estado-de-alarma-crisis-sanitaria.html](https://administracion.gob.es/pag_Home/atencionCiudadana/Estado-de-alarma-crisis-sanitaria.html)

Recent forecasts for the Spanish economy<sup>1</sup> expect GDP to contract by 9–15 percent during 2020 due to the negative impact on activity of COVID19. Employment would decrease in a similar rate to GDP while unemployment rate would go up from the 14% at the end of 2019 to 18%–25% depending on whether an early or gradual recovery is expected compared to a more risky scenario.

Taking into account the chronology of the restrictive measures adopted in Spain, Labour Force Survey data for the first quarter of 2020 is not very helpful to assess the impact of the crisis on the labor market due to the fact that it is only marginally covering the lockdown period starting the last days of March. However, LFS data shows that some firms anticipated the negative shock in activity and decided to decrease employment levels by reducing temporary workers. Figure 2 shows a decrease of –2.2% in temporary employment in the first quarter of 2020 compared to the first quarter of 2019 representing more than 90,000 jobs. As it is well known, the proportion of temporary employees in Spain is above 25% and it is much higher than in other European countries (EU average is around 14%).

<sup>1</sup> <https://www.bde.es/ff/webbde/SES/AnalisisEconomico/AnalisisEconomico/ProyeccionesMacroeconomicas/ficheros/be08062020-proye.pdf>

**Figure 2:** Spain – Year-on-year changes of employment (LFS)

Source: Own elaboration from LFS data.

Table 2 presents an estimate of the direct impact on employment of the full lockdown adopted between March 28th and April 12th. During this period, one third of workers was only allowed to telework. A recent report by the Bank of Spain<sup>2</sup> has estimated that in 2019 only an 8.4% of total workers worked from home regularly or occasionally. Although this proportion could have increased during this period, it seems reasonable to assume that in most cases the activity was stopped due to the lockdown. Assuming 50 weeks per year, a reduction of 50% of production during 2 weeks represents a fall of 2 percentage points compared to a normal year. As far as the activity has not been fully recovered yet and assuming a similar reduction in the activity during April and mid-May (6 weeks), only due to this effect, the accumulated fall in activity would be around 6 percentage points. In fact, as shown in Figure 3, data for GDP for the first quarter of 2020 compared to the same period of the previous year shows a decrease in -4.1% (after adjusting for calendar and seasonal effects). According to Eurostat<sup>3</sup>, seasonally adjusted GDP decreased by 3.2% in the euro area and by 2.6% in the European Union during the first quarter of 2020, compared with the same quarter in the previous year, while in France and Italy, it decreased by -5.4% and -4.8%, respectively.

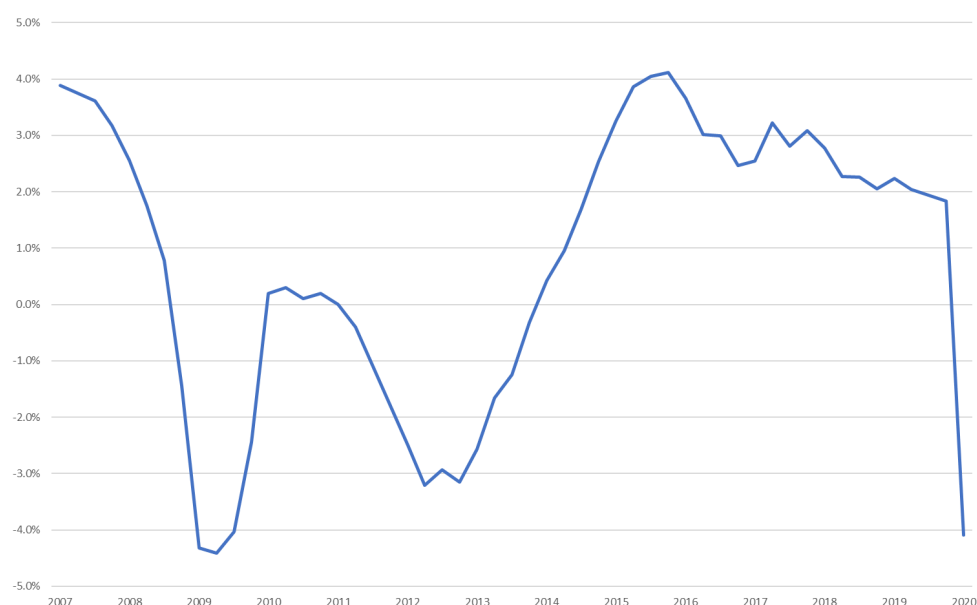
<sup>2</sup> Anghel, B., Cozzolino, M., Lacuesta, A. (2020), El teletrabajo en España, Artículos Analíticos, Boletín Económico 2/2020.

<sup>3</sup> <https://ec.europa.eu/eurostat/documents/2995521/10294864/2-15052020-AP-EN.pdf/5a7ea909-e708-f3d3-8375-e2510298e1b8>

**Table 2:** Impact of the lockdown on employment, in thousand persons

	Allowed to work	Only telework allowed	Total
Essential activities	13,100	1,600	14,700
Non-essential activities	0	5,079	5,079
Total	13,100	6,679	19,779
% on total employment	66.2%	33.8%	100.00%

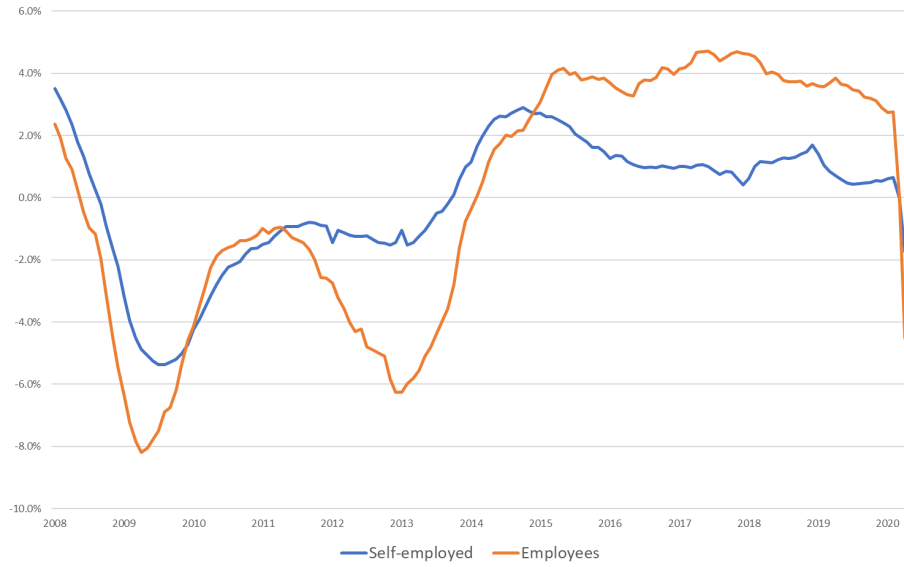
Source: Own estimates using data from the Spanish Labour Force Survey 2019 average values and estimates from the Spanish National Institute of Statistics ([https://www.ine.es/covid/nota\\_tecnica\\_dirce.pdf](https://www.ine.es/covid/nota_tecnica_dirce.pdf))

**Figure 3:** Spain – GDP Year-on-year changes (Eurostat - Seasonal and calendar adjusted)

Source: Own elaboration using data from Eurostat.

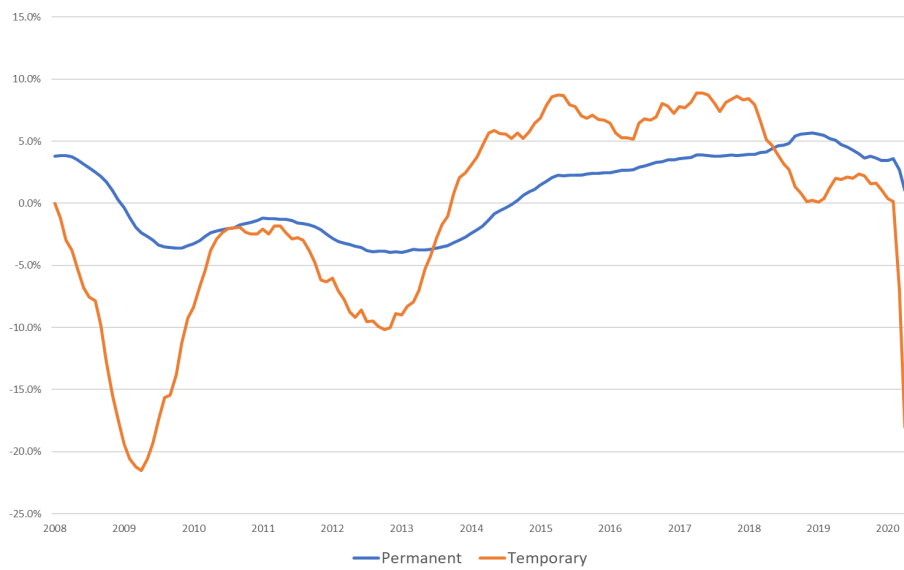
Available information from Social Security records allows to analyze the monthly evolution of registered employment until May 2020. The year-on-year changes in the number of employees and self-employed is shown in Figure 4 while Figure 5 shows the same information distinguishing between permanent and temporary workers. As we can see, all groups experience an unprecedented decrease in April, although in the case of temporary employment, data for March were also significantly lower than in the previous month, probably due to anticipation effects. Looking at the figures, we can clearly see that temporary employment is much more volatile than permanent one along the business cycle and that the values for the latest available observation shows an important stabilisation compared to previous months. As we can also see in Table 3, total employment measured as monthly averages did not fall substantially in March 2020 compared to March 2019 (-0.2%), but it felt a 4.0% in April compared to the same month of the previous year. This variation was mainly explained by the huge drop in temporary employment: -6.9% in March and -18.0% in April compared to the same months of the previous year. However, although data for May is still below the levels of the same month of the previous year (except for permanent employees), in all cases it has slightly recovered when compared to April 2020. Figure 6 shows the regional variation in the year-on-year changes in employment in May 2020 compared to May 2019. As we can see in the map, there are important variations in the size of the shock on employment associated to the regional sectoral specialization, but also due to the fact that some regions were allowed to restart economic activity before the others based on pandemics-related indicators.

**Figure 4:** Spain – Year-on-year changes in registered employment (Social Security records, monthly



Source: Own elaboration from Social Security records.

**Figure 5:** Spain – Year-on-year changes in registered employment (Social Security records, monthly averages)



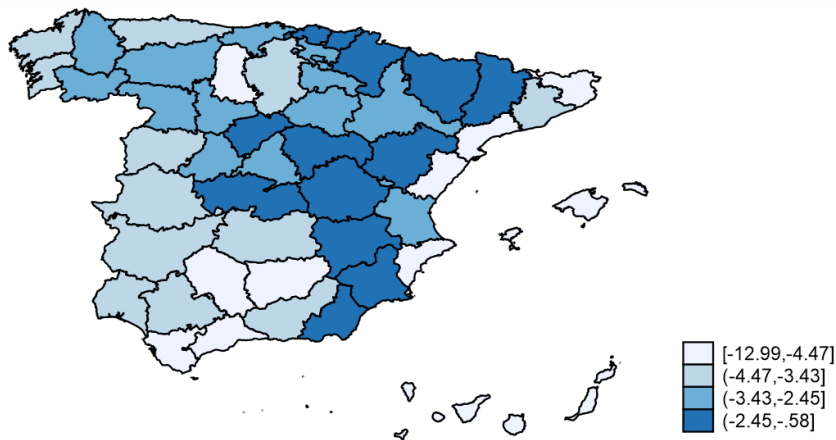
Source: Own elaboration from Social Security records.

**Table 3:** Registered Employment

	Monthly averages					
	% Change from same month previous year			% Change from previous month		
	March 2020	April 2020	May 2020	March 2020	April 2020	May 2020
Total	-0.2%	-4.0%	-4.6%	-1.3%	-2.9%	0.5%
Self-employed	0.0%	-1.7%	-1.8%	-0.2%	-1.3%	0.3%
Employees	0.0%	-4.5%	-5.2%	-1.6%	-3.5%	0.4%
Permanent	2.7%	1.0%	0.8%	-0.2%	-0.9%	0.3%
Temporary	-6.9%	-18.0%	-19.2%	-5.2%	-10.0%	1.3%

Source: Own elaboration from Social Security records.

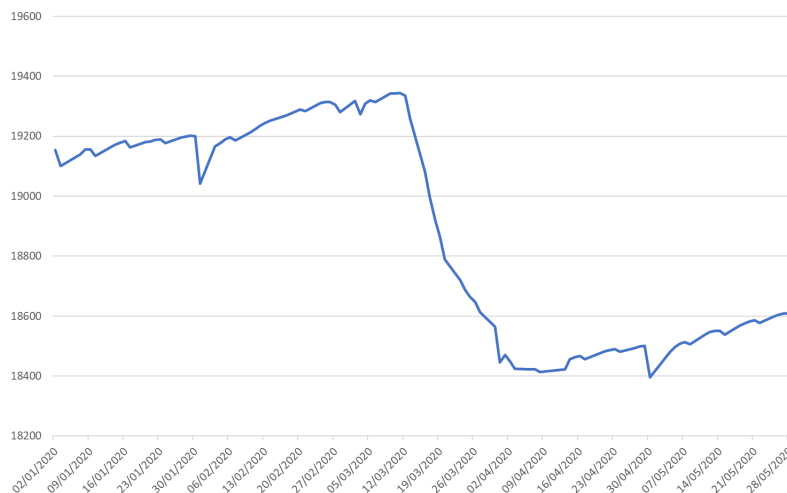
**Figure 6:** Spain – Year-on-year growth rate of employment, Spanish provinces – May 2020



Source: Own elaboration from Social Security records.

Figure 7 shows the evolution of the daily number of total registered employment. We can see how since the beginning of April, the trend in employment destruction has clearly changed, although the speed of recovery has been slow during May. Figure 8 compares the evolution of the Stringency Index with electricity demand showing a clear association between economic activity and the end of the stricter phase of the lockdown.

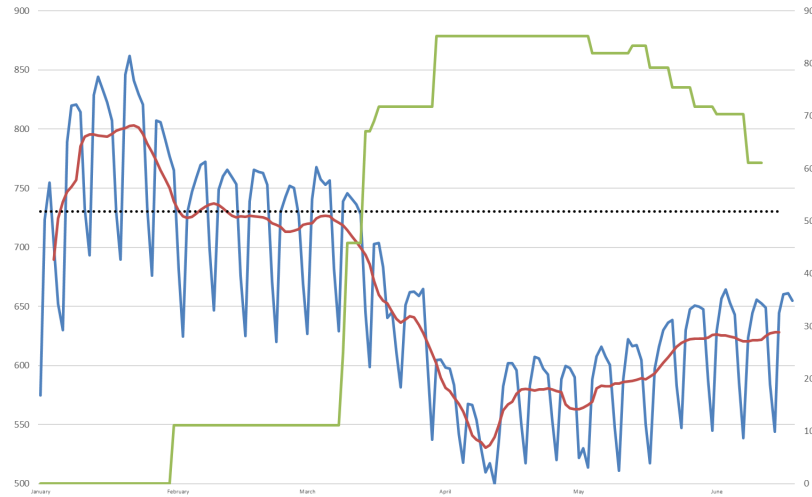
**Figure 7:** Spain – Registered employment (Social Security records – in thousands)



Source: Own elaboration from Social Security records.



**Figure 8:** Daily electricity demand and stringency index for Spain



Source: Own elaboration using data from <http://ourworldindata.org> and from Red Eléctrica de España.

Figure 9 shows the evolution of registered unemployment using administrative data from Public Employment Services records. As shown also in Table 5, registered unemployment increased by 21.1% in April 2020 and by 25.3% in May compared to the same month of the previous year (data for the last day of the month), reaching more than 3.8 million with an increase of 778 thousand individuals compared to May 2019. The increase has affected all sectors with a similar intensity.

However, it is important to mention that unemployment has not increased to a higher extent due to the flexibility introduced in temporary employment adjustment schemes (ERTEs - Expedientes de Regulación Temporal de Empleo). In fact, the government affirmed that all dismissals caused by the coronavirus will be considered unjustified, thus increasing their cost. This measure is new in the context of the Spanish labor market as in previous crisis, external flexibility mechanisms were in place instead of internal ones such as temporary lay-offs.

**Figure 9:** Registered unemployment (Public Employment Services – last day of month – year-on-year changes)



Source: Own elaboration from Public Employment Services records.

As shown in Table 4, the number of workers covered by ERTEs at the beginning of May were 3.3 million representing a 20% of registered employment in all sectors. However, these shares vary substantially across sectors with values above 50% for activities related to tourism and leisure activities. Similar measures were adopted for self-employed workers with more than

1.5 million being covered. If we sum all workers affected by these measures together with unemployed ones, the total number of persons affected by the economic downturn in Spain due to COVID-19 could have reached more than 8 million during April. However, a recent report by the Spanish Ministry of Labour<sup>4</sup> shows that by mid-June, 1.1 million of workers were no longer covered by ERTes, with more than 90% coming back to their jobs.

**Table 4:** Data for April 30th, in thousands.

	Registered employment	Workers covered by ERTes	Proportion
Accommodation	1,430	933	65.2%
Creative, arts and entertainment	306	155	50.5%
Other services	510	136	26.7%
Retail trade and repair of vehicles	3,073	813	26.5%
Real estate	141	26	18.1%
Construction	1,145	135	11.8%
Administrative and business support	1,308	200	15.3%
Education	1,031	152	14.7%
Transportation and support activities	896	135	15.1%
Manufacturing	1,990	369	18.6%
Scientific and technical activities	1,020	114	11.2%
Other sectors	4,338	220	5.1%
Total	17,187	3,387	19.7%

Source: Own elaboration using data from the Spanish Ministry of Labour, Migrations and Social Security<sup>5</sup>

## Orientation and targeting of adopted measures

Spain is one of the few countries that has adopted measures along the 10 dimensions analyzed in the OECD inventory since the beginning of the health crisis. Different measures (“Social Shield”<sup>6</sup>) have been adopted in order to ensure an adequate level of social protection of workers.

Workers under precautionary confinement and/or suffering from COVID-19 benefit from a more generous coverage than the one for regular illnesses (similar to workplace accidents – 75% of social security regulatory base instead of 60%). During the two weeks of full lockdown, a full paid leave was granted for workers of non-essential activities that could not be carried out by teleworking with a compensation of non-worked days before the end of the year. Workers with family responsibilities due to school closures or need to provide care for family members can adapt their time and working conditions during this period (recently extended until three months after the end of the state of alarm). Firms cannot terminate temporary contracts during the crisis.

Minimum contribution periods for unemployment benefits have been suspended during the crisis, including for temporary workers and eligibility has also been extended for some

<sup>4</sup> <http://prensa.mitramiss.gob.es/WebPrensa/downloadFile.do?tipo=documento&id=3.839&idContenido=3.814>

<sup>5</sup> <http://prensa.mitramiss.gob.es/WebPrensa/noticias/ministro/detalle/3800>

<sup>6</sup> [https://www.mscbs.gob.es/ssi/portada/docs/Ampliar\\_el\\_Escudo\\_Social\\_para\\_no\\_dejar\\_a\\_nadie\\_atras.pdf](https://www.mscbs.gob.es/ssi/portada/docs/Ampliar_el_Escudo_Social_para_no_dejar_a_nadie_atras.pdf)

groups of workers (those with permanent discontinuous contracts or domestic employees). Extraordinary allowances and benefits for self-employed workers, affected by the suspension of economic activity, have also been adopted. It is also possible to combine unemployment benefits with temporary employment in agriculture under certain conditions.

There have been significant changes in the temporary employment adjustment schemes (ERTEs - Expedientes de Regulación Temporal de Empleo). Procedures have been simplified and access is now granted to all workers affected by employment suspension or working time reduction, regardless of their contribution period. The objective is to minimize dismissals during this period and facilitate a quick recovery of the activity once the confinement measures are lifted. Unemployment benefits received under the temporary employment adjustment scheme do not count in terms of consumption of unemployment benefit rights during the state of alarm and there is an exemption of social contributions during the period (100% for SMEs, 75% for the rest). Recent legislative changes have also allowed that ERTEs can be applicable in sectors considered essential but having nevertheless suffered a reduction in revenues due to confinement measures. All temporary employment adjustments process related to the Covid-19 crisis are covered under these provisions, even if they were initiated before the approval of the measure. The condition to use ERTE's is that economic dismissals are not allowed in these firms, being this one aspect that has been recently reformed after an agreement with firm associations and trade unions.

Additional measures have been adopted to support vulnerable families and workers. Social services programs have received additional funding and specific measures have been adopted to provide food to children affected by school closures. A three-month credit moratorium on the payment of credits and non-mortgage loans by vulnerable groups has also been introduced. Utility companies cannot cut services (water, gas, energy) in case of non-payment. A social benefit to cover the costs of energy provision has been extended to households affected by COVID-19. Evictions are prohibited due to missed payments for all households during the state of alarm and for vulnerable households (those affected by the ERTEs or whose incomes have fallen by more than 40% due to COVID-19) during the next 6 months. The discussion now at the policy level is whether ERTEs would be ceased immediately after the new normality has been reached or would be extended, at least, until the end of September.

But the most relevant measure in this area is the approval of a new minimum income scheme (Ingreso Mínimo Vital – IMV) entering into force immediately. It guarantees an annual income level to all citizens depending on a vulnerability assessment based on the characteristics of the household and its wealth and income levels. For a household formed by a single adult, the minimum guaranteed amount is 5,538 euros per year but this figure increases up to 12,184 for a household formed by 2 adults and 3 children. The government expects that about 850,000 households and 2.3 million people would benefit from this scheme with a total expense of around 3 billion euros.

## **Immediate liquidity support to businesses**

Different measures have been adopted to guarantee the liquidity and stability of firms and self-employed workers.

The government has introduced the possibility of tax payment deferrals for a period of six months, upon request, without interests. Additionally, firms and self-employed with no social security debts are allowed to defer Social Security debt payments due between April

and June 2020 with 0.5% interest. Additional measures have been taken in order to align tax bases to the current situation. These measures are supposed to provide more than 15 billion euros in liquidity for firms. Firms that have received public loans are also allowed to postpone their repayment. Moreover, guarantees to facilitate access of loans to companies and self-employed have been already granted. A specific financing line of 400 million euros has been approved for firms and self-employed workers in the tourism, transport and hospitality sectors and specific measures for exporting firms have also been adopted.

Firms are exempted of social contributions for workers affected by ERTes during this period (100% for SMEs, 75% for the other firms) and specific bonuses have been introduced in the tourism sector. As previously mentioned, self-employed workers can benefit from the moratorium on mortgage payments to offices/commercial premises from 1 to 3 months.

## Support of dependent workers

The extraordinary measures described above have been effective at the moment. Short-time work measures have reduced inflows into unemployment particularly in those sectors in non-essential activities with a higher direct impact of the lockdown, but that expect a quick recovery in demand during July (after the end of the state of alarm). However, there are other sectors that will face substantial limitations in their capacity due to social distancing measures to prevent a new wave of contagions, but also an important fall in their demand. This is clearly the case of touristic activities that will face very important restrictions for international visits that would not be fully compensated by domestic demand.

Public Employment Services are devoting all their efforts to process the demands related to ERTes, but anyway, there is no real possibility of keeping the rest of services linked to ALMP working as usual due to the restrictions imposed by the state of alarm. The situation will improve during the next months once the new normality is fully reached, although budgetary cuts have been already adopted regarding some programs.

## Working conditions and work organization

Policies aimed to reduce workers' exposure to COVID-19 in the workplace involve, on the one hand, the adoption of individual protection equipment and the adoption of the guidelines and specific orientations established by health and safety at work authorities. Most of these measures would be in place even in the phase of "new normality". As previously mentioned, when possible, teleworking has been encouraged to continue with the activity during the COVID19 crisis. According to estimates by the Bank of Spain, following the methodology by Dingel and Neiman (2020)<sup>7</sup>, remote work could have easily increased to 30.6% of total employment from an 8.4% before the crisis or will do it in the next months. Some specific measures have been already adopted to support a fastest adoption of new technologies by small and medium-sized firms. In fact, although the new normality has been reached, there are still some sectors where the recommendation is still to telework.

In this context, it is important to mention that due to the closure of all childcare facilities and schools, the conditions for remote working have been especially hard for those families with young children, particularly for women as far as there are still important gender inequalities regarding home production duties.

<sup>7</sup> Dingel I. J., Neiman, B. (2020), How many jobs can be done at home?, NBER Working Paper, n.º 36948.

## New labor market entrants

The situation for new labor market entrants this year is going to be very difficult, particularly during the summer time when they are usually offered internships that could be converted into temporary contracts when they end. At the moment, the focus of the policies is not considering the specific situation of this group. It is possible that this implies a higher enrolment in higher studies for the next academic year starting September–October, but teaching is also going to be subjected to important restrictions regarding face-to-face activities. For this reason, flexible and blended learning activities will probably be adopted in post-compulsory educational levels allowing this potential increase in domestic demand (probably compensating the fall in the international demand, particularly at the university level).

## Policy innovations and labor market trends

One innovation in the context of the Spanish labor market is the government's decision to favor the use of ERTES, thereby minimizing dismissals. The promotion of measures for country-wide internal workforce reductions is a new policy that has not been adopted in previous crisis. The policy debate is now focusing on how to design public policies in order to provide an adequate support to citizens. The adoption of an unconditional basic income as an alternative to other social welfare measures were discussed at the beginning of the crisis, and as previously explained, a new minimum income scheme has been adopted covering the needs of those in situation of relative poverty.

## Next steps and fiscal viability

As all countries, Spain is facing a simultaneous supply and demand shock caused by the pandemic and the response to it in terms of the lockdown. Due to the higher incidence of the disease, the supply shock is longer and more intense than in other countries. At the same time, the demand shock is also going to be of higher magnitude due to the productive specialization of the Spanish economy, particularly in some regions. For these reasons, the current level of public intervention must be sustained even after the current health crisis is overcome. This creates a clear tension in public finances, although some of the adopted measures such as tax delays, will have no final impact on the budget. In fact, once the confinement measures are relaxed or no longer in force, in most sectors the activity will rebound and this will alleviate the pressure on public expenses, particularly those related to income support policies for workers in non-essential activities. The government has forecasted public deficit to reach 10% of GDP and a level of public debt of 115% of GDP in 2020. For 2021, GDP is expected to grow by 6.8% from previous year while the unemployment rate will reduce to 17.2% (2 points less than the expected value for 2020). However, a more recent assessment by the Bank of Spain considers that deficit could increase to 11% in 2020 and debt to 119.3% under a gradual recovery scenario. In this case, fiscal consolidation would only take place very slowly with deficit over 6% and debt levels still at 118.7% in 2022, figures that are well in line with the June 2020 OECD Economic Outlook<sup>8</sup>. In sum, the impact of the measures adopted on public accounts have been significant, and it will take time to come back to a sustainable path. Probably, some exceptional measures should have to be adopted during the fall/winter in order to keep a more balanced evolution of public finances.

8 <https://doi.org/10.1787/0d1d1e2e-en>

## IZA COVID-19 Crisis Response Monitoring Slovakia (June 2020)

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### ABSTRACT

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Although Slovakia's quick response to COVID-19 pandemic led to very few cases and only 28 deaths, the overall economic impact has been much severe when Slovak GDP shrank by 3.9% y-o-y in 1Q2020, which was one of the largest drops in Europe. Unemployment has grown by now by 2 pp since the beginning of the year and is expected to grow. If the second wave hit the country, the existing strategies of containing the pandemic may not be sufficient to prevent future lockdowns.

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## Labor market impact of COVID-19

- Slovakia, a country of 5.4 million inhabitants, recorded its first COVID-19 case on March 6, 2020, and its first death attributed to the pandemic on April 1, 2020. As of June 25, 2020, Slovakia had recorded 1,630 cases, 28 deaths, and had 150 active cases. In terms of the number of COVID-19 deaths Slovakia occupies the last place among European states<sup>1</sup>
- This remarkable performance in terms of containing the pandemic has been due to several key factors:
  - Quick response – within less than a week since the first case schools and universities in Bratislava had been closed, border controls and mandatory quarantine for people returning from abroad had been introduced and non-essential shops had been closed; within ten days schools had been closed in the whole country, mandatory face masks had been introduced, and international bus, train, and air passenger services had been banned.
  - The high level of compliance of the general public, supported by the example of politicians, news anchors, and media personalities, all wearing facemasks on the screen.
  - Even though several mistakes have been made, the overall effectiveness of the measures taken was good.
- The overall economic impact of the COVID-19 pandemic in Slovakia has been severe. Primarily due to meager foreign demand, in Q1 2020 Slovak GDP shrank by 3.9% y-o-y, which was one of the largest drops in Europe. Slovakia was still able to borrow record-high 4 billion EUR for 5 and 12 years at very solid rates (reoffer yield 0.35% for 5-yr bonds, 1.056% for 12-yr bonds); Fitch downgraded Slovakia from A+ to A on May 8, 2020, nevertheless.
- Following a slight increase of the unemployment rate from 6.13% in February to 6.21% in March 2020, April 2020 marked a record-high monthly increase of the unemployment rate by 1.22 pp to 6,57% followed by further increase by 0.63 pp to 7.2% in May as reported by the Central Office of Labor, Social Affairs and Family (COLSAF) The unemployment rate however remains relatively low, compared to Slovakia's historical data, when the unemployment rate reached about 15% just seven years ago.

**Table 1:** Unemployment rate in 2020

	January	February	March	April	May
Registered unemployment (in %)	4.98	5.05	5.19	6.57	7.20

Source: COLSAF

- Remarkably and surprisingly, whereas employers announced 2242 mass layoffs in March 2020 and the number increased to 3142 in April, May witnessed just 1116 mass layoff announcements. Another positive signal from the labor market was that in May 9,665 people found jobs, which was by 3,744 (63%) people more than in April.
- While there were 180,756 unemployed in April and 198,256 in May 2020, COLSAF also registered 67 thousand vacancies in May, 5 thousand less than in April. Workers were sought especially for the positions of machine operators and specialized crafts people, and unqualified workers.<sup>2</sup>

<sup>1</sup> <https://www.worldometers.info/coronavirus/>

<sup>2</sup> [https://www.upsvr.gov.sk/media/medialne-spravy/celkovy-pocet-uchadzacov-o-zamestnanie-v-aprili-medzimesacne-vzrastol-o-33-613.html?page\\_id=1003574](https://www.upsvr.gov.sk/media/medialne-spravy/celkovy-pocet-uchadzacov-o-zamestnanie-v-aprili-medzimesacne-vzrastol-o-33-613.html?page_id=1003574)



- Temporary agency workers and workers on fixed term contracts belong to some of the most affected groups in the labor market.<sup>3</sup> Temporary agency workers are covered by the Labour Code provisions similar to regular employees and their employer (the agency) is obliged to offer at least 60% of the wage compensation if the employer cannot provide work to the temporary agency worker.<sup>4</sup> The reference wage is equal to the average wage registered at the agency for the last 12 months. Data about actual layoffs of temporary agency workers is not available, but we expect that they are exposed to lay-offs more often than regular employees.
- Another vulnerable group, which is poorly protected against job loss are **workers working on work agreements** outside of the regular employment contract.<sup>5</sup> There are two types of such agreements: (1) work agreements equivalent of part-time employment contracts and (2) work agreements for the maximum of 300 hours per year. Even if in the majority of cases employees with such work agreements are part of the social insurance system, employers are not obliged to compensate for their wages if they do not have the work for them. To compensate these workers, in mid-April the government announced that those who have a valid work agreement but cannot perform their work are entitled to a monthly subsidy of 210 EUR provided by the state as a compensation for the wage loss.

## Orientation and targeting of adopted measures

- The OECD inventory provides a relevant summary. The only important update is introduction of Kurzarbeit for companies since April 17th, which we assume will be updated in the database in due time.
- The overall policy set can be considered as adequate.
- The actual data about state compensation programs between mid-March and June 2020 published by the analytical unit of the Ministry of Labour show that as of June 10th, 496 thousand workers were supported by the government programs targeted on employers and self-employed. The majority of support requests were approved (87% of the amount as of May 2020 and 99% in June 2020 requested was approved and distributed). The average amount per employee has doubled between March and April. This increase was expected, as the compensations for April covered the whole month while March compensations reflected the period after the declaration of the emergency state in March 12th. In March the support varied between 251 EUR per self-employed to 284 EUR per employee in establishments closed or regulated because of the anti-pandemic governmental measures.<sup>6</sup> In April 2020 the amounts increased to 474 and 493 EUR, respectively.<sup>7</sup>
- Of the total state compensation programs targeting the labor market, the largest

<sup>3</sup> KOZ statement before the tripartite meeting on May 18th, 2020: <https://hsr.rokovania.sk/2020-/>

<sup>4</sup> <https://www.ip.gov.sk/koronavirus-praca-agenturnych-zamestnancov-pocas-mimoriadnej-situacie/>

<sup>5</sup> Slovak Labour Code distinguish between fixed term contract which is regular employment contract but set on specific time period and work agreement contract, which is designated for smaller jobs (up to 20 hours per week, maximum 1 year, or for maximum 300 hours per year). While the first type establish similar employment protection as the regular open-ended employment contract (e.g. severance payment if work contract ends before the set date) in the case of work agreement, employment protection is lower, with no severance payment and only a 15-day dismissal period.

<sup>6</sup> [https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp\\_2020\\_prva\\_pomoc\\_slovensku\\_final5.pdf](https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp_2020_prva_pomoc_slovensku_final5.pdf)

<sup>7</sup> [https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp\\_2020\\_prva\\_pomoc\\_slovensku\\_20200615.pdf](https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp_2020_prva_pomoc_slovensku_20200615.pdf)

support went to the industrial sector (39% in March and 46% in April, 2020) and to the wholesale and retail services (20% in April). The largest amount of the support per employee was in accommodation services (260 EUR in March and 546 EUR in April, per employee). As the support for March was paid only in May, the HORECA sector service providers were complaining that the support was late and insufficient. Indeed, in March 2020 42% of all newly registered unemployed were from this sector. Nevertheless, the share of the HORECA sector in unemployment decreased to 13% in May 2020.<sup>8</sup> We note, however, that in spite of the partial re-opening of restaurants in May 2020, 14% of them were not expecting to re-open at all because of bankruptcy.<sup>9</sup>

- At the beginning of the pandemic, the representatives of employers complained about late and inefficient help from the government to enterprises and were afraid of significant job losses if more robust help was not provided.<sup>10</sup> They mostly criticized complicated administration of the measures adopted to alleviate the economic impact of the pandemic as well as insufficient support to big employers. A comparative study of the Centre for Public Policy, Bratislava, and Inline Policy, London, also concluded that the initial support of the Slovak government was not sufficient; a program of guaranteed loans for entrepreneurs was seen as the one missed the most.<sup>11</sup>
- The more recent figures on the demanded and actual take-up signal that situation has improved by May 2020, and employers could reach the support demanded.
- Although the May unemployment figures suggest some stabilization in the labour market, this might be temporary only, as the numbers of cases have started to increase in the second half of June in Slovakia and several other countries. The existing strategies of containing the pandemic may not be sufficient to prevent future lockdowns.
- Some of the groups that may be less well covered include municipalities (who will lose on income taxes) and socially excluded and marginalized groups (who may be falling through the safety nets and the measures implemented). Some loan programs for municipalities have been announced in late June; however, it remains to be seen whether municipalities will be willing and able to use these programs in a larger scale.
- No impact studies about the effectiveness and efficiency of the adopted measures are available as of June 2020.

## Immediate liquidity support to businesses

- Although initially large employers complained about the ceiling that capped the maximum amount that an employer could receive through the anti-COVID-19 schemes, the ceiling was lifted relatively soon and there seem to be no major impediments in the schemes implemented.
- Although the problem of moral hazard and possible abuse of the schemes is relatively often discussed, the general approach is that help must come quickly. This may be justifiable also on the grounds of the argument that because the shock is exogenous and unexpected, the scope for moral hazard is somewhat limited. It is however too early to evaluate the deadweight losses relative to the respective counterfactuals.

<sup>8</sup> [https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp\\_2020\\_prva\\_pomoc\\_slovensku\\_20200615.pdf](https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp_2020_prva_pomoc_slovensku_20200615.pdf) (Table 7)

<sup>9</sup> <https://slovensko.hnonline.sk/2143320-stovky-restauracii-krizu-neprezili-namiesto-restartu-krach>

<sup>10</sup> AZZZ statement before the tripartite meeting on May 18th, 2020: <https://hsr.rokovania.sk/2020/>

<sup>11</sup> <https://www.cvp.sk/content/suhrnna-sprava-covid.pdf>

- Self-employed are entitled to the support based on the decrease in their revenues (for the decrease from 20% to 39% the support is 180 EUR, for 40% to 59% decrease the support is 300 EUR, for 60% to 79% decrease the support is 420 EUR, and for a decrease of more than 80% the support is 540 EUR). As of June 2020, 40 thousand self-employed have been compensated with the average amount of 250 EUR in March and 474 EUR in April, 2020 (the compensations were paid in April and May respectively). Remarkably, as of May 2020 the year-on-year rate of closed licenses for self-employment did not increase compared to 2019.<sup>12</sup>

## Support of dependent workers

- Except allowing for post or email registration with the Labour Offices, the unemployment insurance scheme remained unchanged. As of April 21st the extension of unemployment benefit by one month was granted to those whose entitlement were running out during the crisis. Trade unions demanded the general duration of the UB be extended beyond this one-off technical extension, however, as of June 28 30 they have not made a specific proposal.
- No new specific support to unemployed nor new ALMPs have been announced as of June 28.
- Kurzarbeit was introduced in Slovakia as a temporary measure, but there is discussion about the possibility to implement it as a systematic measure also for the future.<sup>13</sup> There is a proposal to increase social insurance contributions by 1 percentage point (0.5 pp paid by employers and 0.5 pp paid by employees) to finance such permanent Kurzarbeit scheme, but this has not been approved yet.
- The spread of the support among firms of different size suggests that number of employees and the support per employee was spread evenly across companies (see Table 2)

<sup>12</sup> [https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp\\_2020\\_prva\\_pomoc\\_slovensku\\_20200615.pdf](https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp_2020_prva_pomoc_slovensku_20200615.pdf) (Graph 5)

<sup>13</sup> <https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/kurzarbeit-porovnanie.pdf>

**Table 2:** The actual take-up of various instruments of Kurzarbeit based on the size of the workplace (as of June 10th, take up for March and April 2020)

	total	micro	small	medium	big	unspecified
<b>Number of supported employers</b>						
Support to closed workplaces	8 973	6 883	1 576	186	32	296
Compensation to employer in (partial) lockdown per employee	2 864	1 998	572	143	90	61
Compensation to employer based on revenues drop	11 597	8 010	2 541	583	188	275
<b>Number of supported employees</b>						
Support to closed workplaces	43 974	15 380	12 786	6 692	7 515	1 601
Compensation to employer in (partial) lockdown per employee	88 016	4 767	5 277	7 217	68 751	2 004
Compensation to employer based on revenues drop	229 822	70 823	32 814	39 728	80 537	5 920
<b>Support per employee (in EUR)</b>						
	341	248	386	365	394	399

Source: <https://www.employment.gov.sk/sk/ministerstvo/vyskum-oblasti-prace-socialnych-veci-institut-socialnej-politiky/analyticke-komentare/prva-pomoc-slovensku.html> (own computation)

## Working conditions and work organization

- The automotive sector, which is the backbone of Slovak manufacturing, stopped most of the production in March and April, but has been gradually restarting their production in late May and early June.
- The number of cross-border workers, many of whom in the care sector, constitute 5.2% of Slovakia's labor force. Although border controls made it difficult for them to commute or travel between their workplaces and homes, many of them adapted by staying in their host countries. In addition, special arrangement have been made for them, and those working within 30km, later 50km, from the border could travel back-and-forth without quarantine or tests. Slovakia is further liberalizing the border regime in June 2020.
- Four physical distancing measures studied by Kahanec et al (2020): events ban, school closure, non-essential shopping ban and prohibition of non-essential movement decreased the presence of workers at workplaces by circa 54%. While some of the workers could not continue performing their work, others continued working from home (home office).<sup>14</sup>
- Telework and working from home is regulated in the Slovak Labour Code since 2007 (§ 52 of the Labour Code on working from home and telework). As of working from home

<sup>14</sup> Kahanec, M., L. Laff ers and J.S. Marcus (2020) 'The impact of COVID-19 restrictions on individual mobility', Bruegel Blog, 5 May

and telework related to lock-down, most of the employees who worked on homeoffice should fall under section 5 of this paragraph which explicitly says that homeoffice in exceptional situations is not considered as telework.

- If working from home or telework is considered as the main form of work, some working time regulation does not apply to the respective workers. This may negatively affect the working conditions of such workers.

## **New labor market entrants**

- The number of vacancies declined sharply and the labor market will offer only limited opportunities during the COVID-19 crisis. The Economic Crisis Council is proposing internship schemes for graduates to support their school-to-job transition.
- Besides the proposed internship support Slovakia is running program to support young people in their first employment since 2015 through the program of youth guarantee and support the idea on the right on the first job. Nevertheless, some of the programs to support vulnerable groups on the labour market were stopped in May 2020 and are now reconsidered by the COLSAF.

## **Policy innovations and labor market trends**

- This seems to be too early to evaluate, but there are some discernible developments already
- Whereas the policy innovation is rather incremental than revolutionary, Kurzarbeit has been introduced as a novel instrument. It is hard to say now whether and how it will survive beyond the crisis.
- One of the key questions is how the automotive sector in Slovakia will adapt to the shock and also the overall push on further greening of its production. One scenario may be that Slovak factories will in fact increase their production of cheap combustion-engine cars, satiating the increased demand for such car by the crisis-stricken population, whereas the factories in the home countries of the mother companies (VW, KIA, PSA, Jaguar – Land Rover) will innovate and produce electric cars. This poses risks for the long run, especially if state-aid in home countries is conditional on the production of electric cars and related supplies staying in home countries for a long time.

## **Next steps and fiscal viability**

- Slovakia could sustain the current policy stance for several more months, although its fiscal space is rather limited. The current policies burden its fiscal position and future generations, which is particularly problematic given that Slovakia has one of the most rapidly aging populations in Europe.
- The overall situation is evolving rapidly, as Slovakia has been vigorously reopening its economy in May and June 2020.
- Although Slovakia is upgrading its anti-COVID-19 aid package, the hope is that with the reopening the economy will rebound and the policy measures will not be needed for

too long. Very much depends on foreign demand, and hence on the speed of recovery in Slovakia's main trading partners in Europe and beyond. Coordination at the EU level is therefore essential.

- As the economy is nearly fully reopened as of June 2020, the key measures are: 1) preventing the number of cases from increasing, resulting in the need to step back with the reopening; 2) related, testing and tracing vigorously and smartly, isolating active cases, making the health sector more resilient; 3) providing for the adjustment of the economy to the changed economic conditions and opportunities under the new post-COVID-19 normal (e.g. digitalization, greening), including technological advancement and upgrading its position in value chains; 4) fighting poverty, social exclusion and excessive inequality in the labor market and education, ensuring a decent living standard for all; 5) reforming and upgrading its governance and administration.

## IZA COVID-19 Crisis Response Monitoring **Sweden (June 2020)**

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## ABSTRACT

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Swedish measures to mitigate the spread of the Covid-19 virus have been less restrictive than those used in most other countries. Despite of this, we document a massive contraction of the Swedish labor market with an emphasis on hotels, restaurants and retail sectors. Early policy responses have primarily been in the form of short-term financial aid to firms and policies aiming at preserving permanent employment contracts. A very generous short-time work scheme covers 9 percent of the total labor force. Policy measures are expensive, but sound fiscal finances makes them sustainable in the short to medium run.

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Hensvik, Skans (2020): IZA COVID-19 Crisis Response Monitoring: Sweden (June 2020).



## Labor market impact of COVID-19

The first case of Covid-19 was confirmed by the Swedish Public Health Agency on January 31 in a traveler from China and a few weeks thereafter, during the second week of March, community spread was confirmed. As a response, various restrictions were imposed with the aim of slowing down the spread (or “flattening the curve”). These restrictions have been relatively mild compared to other European countries. The measures primarily rely on voluntary compliance with recommendations from the Public Health Agency regarding social distancing. During the second week of March (week 11), the Public Health Agency made several formal announcements, requiring all residents to keep a distance from each other, that high schools and universities must move their teaching online, and that workers should work remotely to the extent possible. All workers should remain at home if they have any symptoms traditionally associated with the flu or the common cold. Unnecessary travel within the country should be avoided. Gatherings were limited to 500 people; a restriction that was further tightened to 50 two weeks later. Compulsory schools (until age 15-16) have remained open and parents are obliged by law to ensure that children without symptoms attend school. Pre-schools (before age 6) also remain open but these are not covered by school attendance laws. Outdoors movement is unrestricted and encouraged for all groups as long as proper distance can be maintained. All shops and businesses can remain open but they need to ensure proper distance between customers and all employers are required to take measures that help protect their workers.

Some descriptive indicators of the timeline of the spread of the Covid-19 virus in Sweden are collected in figure 1. With the well-known caveats associated with each such indicator, they jointly suggest a rapid spread with many new severe cases around weeks 11 to 14 followed by a levelling out and a gradual fall in new severe cases starting between week 15 and 17 depending on indicator.

The Swedish response has been highlighted as an exception due to its comparative leniency. The response has spurred international criticisms in media and elsewhere. But the response has also been perceived as a possible route forward for other countries. The WHO (on April 20) described the Swedish response as a possible future “model” for other societies when opening up from their current lockdown policies. It may therefore be of particular interest for other countries to assess the labor market effects of the Swedish response.

In this context, it may be important to note that the Swedish response was never motivated by economic concerns per se. The response has been coordinated by the Public Health Agency with very little interference from the political sphere (or economists). The agency motivates its route by a desire to avoid negative side effects on physical and mental health from reduced mobility and isolation, and a desire to impose a regime that can be sustained for a prolonged period of time with a fully functional health-care system. The agency has firmly stated that “herd immunity” is not a policy target and that the overall aims of the policies are similar to those of other countries. At the same time, the agency considers it impossible to prevent the disease from spreading in the long term without herd immunity or vaccination.

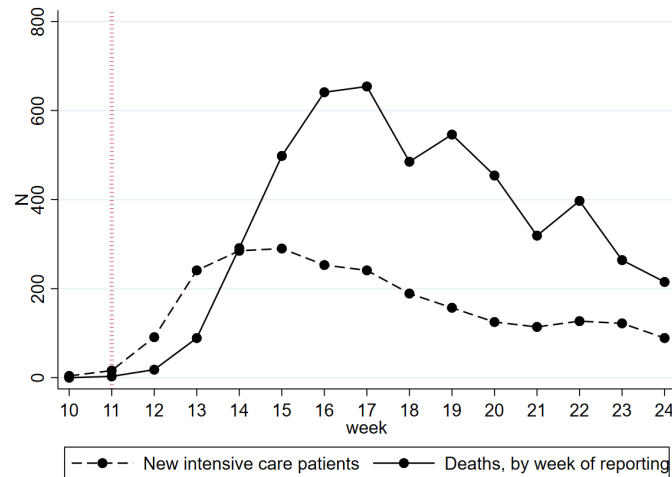
Overall, the Swedish Covid-19 response, as interpreted through an economic lens, mostly differs from other countries in terms of degree rather than content (with the exception of the open schools). The “recommendations” are more binding than the word may suggest as residents and firms are expected to abide by them. It is obvious that the recommendations had a massive impact on people’s behavior.<sup>1</sup> The recommendations

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<sup>1</sup> Compliance with the “recommendations” have been particularly high on public holidays. Travel out of Stockholm was very limited across Easter, and parks were completely empty during April 30th (“Walpurgis”) when students traditionally celebrate the arrival of spring in public parks.

therefore had a sharp effect on economic outcomes. Sales in restaurants dropped by 70 percent from the second week of March and sales of apparel fell by about 50 percent during the same weeks.<sup>2</sup>

**Figure 1:** Timeline of the Covid-19 spread



Source: Intensive care patients: Svt.se; Deaths: Worldometer.

Sweden has a total population of 10 million, whereof 7.5 million are in working age (15–74). In 2019, the labor force participation rate (73 percent) and employment rate (68 percent) were both high by international standards. The gender employment gap (4 percentage points) is also small. The unemployment rate (6.8 percent) was close to the European average. Unemployment is to a large extent concentrated among low-skilled workers, recently immigrated workers, and students. The GDP-gap in 2019 was small but positive (0.5 percent). Unemployment increased slightly between early 2019 and early 2020. The country has its own currency and a floating exchange rate. Exports are nearly 50 percent of GDP. Public finances are sound with a relatively low level of public debt (Maastricht debt is 35 percent of GDP).<sup>3</sup>

To study the immediate impact on the labor market we primarily rely on data from the Public Employment Service (PES) on workers who are registered as unemployed.<sup>4</sup> In light of the comparatively mild nature of Swedish Covid-19 restrictions, it is remarkable how stark the labor market impact has been. This is, most likely, a consequence of high rates of compliance with the public recommendations. Figure 2 documents a rapid deterioration in labor market conditions as measured by registered unemployment, reduced vacancy postings, increased layoff notices and bankruptcies. We show how these measures evolved before and during the initial phase of the crisis. In all graphs, except for the stock of unemployed, we display the *accumulated flows*. For comparison, we provide corresponding numbers for 2019.

The figures suggest a substantial slow-down of the Swedish labor market starting around the time-of-announcement of the Covid-19 restrictions: The number of workers registered as unemployed at the PES increased by more than 100,000 people in just 3

<sup>2</sup> See <https://www.caspeco.se/> and [www.svenskhandel.se](http://www.svenskhandel.se).

<sup>3</sup> All numbers pertain to 2019. Labor market statistics and export share are taken from Statistics Sweden. Debt statistics are from the OECD. GDP-gap is from the National Institute for Economic Research.

<sup>4</sup> The total number of “registered as unemployed” usually align well with the number of unemployed in the Labor Force Surveys although the workers are not always the same. In particular, unemployed students rarely register as unemployed and participants in some labor market programs may not actively search for jobs and thus not show up as unemployed according to the LFS.

months and the increasing trend clearly continues. During 2019, the number of registered unemployed fell by around 14,000 during the same season. The increase in registered unemployed corresponds to about 1 percent of the labor force.<sup>5</sup> As is apparent, the effect is mainly driven by the inflow into registered unemployment, even though the outflow is reduced as well.

The number of new vacancies at the PES dropped by 1/3 and the number of layoff notices increased sharply from 24,000 to 84,000 compared to the same period in 2019, thus suggesting that around 1 percent of the labor force has been notified of a layoff because of the crisis. There is also a rapid relative increase in the number of workers affected by bankruptcies, although these events affect much fewer workers.

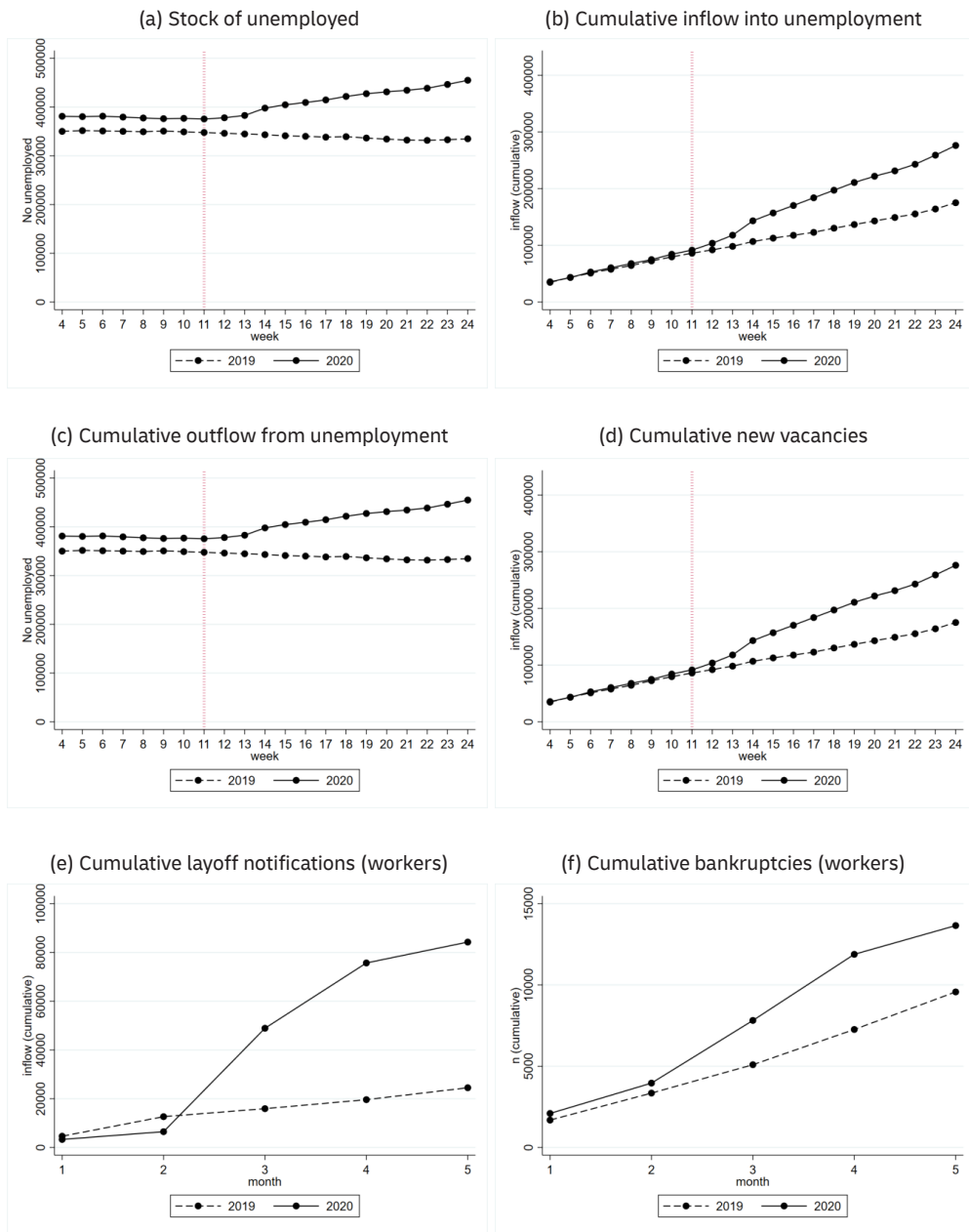
Note that there is a possible element of double-counting across indicators since redundancy notices also include bankruptcies, and an unknown fraction of workers from bankruptcies may have ended up in registered unemployment. Due to relatively long (2-6 months) advance notice periods, most of the workers affected by a layoff notice are, however, not in the unemployment statistics yet and previous experiences suggest that many of the noticed workers will not end up in unemployment at all.<sup>6</sup> The most important aspect to consider is, however, that all of the trends are evolving rapidly at the time of writing. It is therefore almost certain that the final impact will be substantially larger than those suggested by the end-points of our time series.

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<sup>5</sup> The size of the labor force in May 2019 was 5.5 million according to the Labor Force Surveys

<sup>6</sup> During the financial crisis, about 60 percent of notices resulted in layoffs, whereof half became unemployed. The assessment is also somewhat complicated by the fact that layoff notices to the Public Employment Service only are required when firms lay off at least 5 workers, and the impact of the current crisis appears to be concentrated in sectors where there are many small firms.

**Figure 2:** Initial impacts of the Covid-19 crisis



Source: (a)-(c), (e)-(f) The Swedish Public Employment Service; (d) Hensvik et al. (2020).

**Table 1:** Initial impacts of the Covid-19 crisis

Measure	By week 24 2019	By week 24 2020	Percent change
Registered unemployed	334,801	454,859	35.9
New registrations	175,182	276,138	57.6
Outflow to employment	190,984	158,396	-17.1
New vacancies	294,236	204,847	-30.4
New summer jobs	108,588	84,104	-29.1
Noticed workers	24,503	84,240	243.8
Bankruptcies	9,569	13,651	42.7
Short-time work (employers)	0	50,584	-
Short-time work (workers)	0	486,421	-

Note: The table shows the numbers and percent change corresponding to Figures 2 and 3. In addition, it shows the number of workers on short-time contracts. The numbers reflect the total stock/inflow/outflow over the period Jan-April in 2019 and 2020.

## Orientation and targeting of adopted measures

Given the dramatic impact of the Covid-19 restrictions on the labor market it is not surprising that the Swedish government, as governments elsewhere, has imposed a number of targeted economic policy measures, some of which we summarize here. The specific policy measures appear to have had three objectives:

1. Reduce the financial burden from sickness absence.
2. Protect firms and jobs.
3. Increase access and generosity within the unemployment insurance system.

*On sickness absence:* The Swedish health insurance temporary covers the first day of sickness absence – normally paid by the absentee – and the first two weeks of sickness absence thereafter – normally paid by the employers.<sup>7</sup> The measures were some of the first responses to the virus and its aim was clearly to ensure that workers with symptoms of Covid-19 should stay at home and not be tempted to remain at work for financial reasons.<sup>8</sup> The measures are perhaps particularly important for the Swedish Covid-19 strategy as it relies heavily on workers remaining at home after self-assessment of symptoms.

*Protecting jobs and firms:* There are a number of policy measures aimed at protecting firms and jobs at this early stage of the crisis. Several of the policies are explicitly short-term in nature. A scheme for general compensation for reduced sales relative to the previous year compensates for sales losses in March and April. It was announced early May to avoid strategic reduction of sales and is labelled as a “restructuring support program”. Payroll taxes for the first 30 employees are reduced from around 30 to 10 percent of wages during March to June. This scheme covers wage costs up to a low wage cap of 25,000 SEK/Month which is close to the 10th percentile in the wage distribution. Financial support are available for landlords who rent out space to firms in some targeted industries (hotels, restaurants, and some retail) between April and June; the support reimburses half of any temporary rent-reduction for firms in covered industries, but at most 25 percent of the original rent. A targeted support system for cancelled events in arts and sports cover cancellations in April to May.

<sup>7</sup> These measures are currently set to end in September.

<sup>8</sup> Requirement for doctor’s certificate when absent is also temporarily relaxed.

The most important policy tool, at least from a labor market perspective, is, however, the short-time work system that was set up as a response to the crisis. The system, which is in place for the full duration of 2020, allows firms to reduce working time for their employees by 20, 40 or 60 percent (May to July also 80 percent). Firms, workers and the central government share the costs, but most of the costs are born by the government. With a 60 percent reduction, employers reduce their wage cost to half, and workers retain over 90 percent of their initial salary, see Table 2. There is a wage cap around the 80th percentile in the wage distribution (SEK 44,000/month). Costs above this cap are not covered by the subsidies. Firms are expected to do whatever else they can to reduce their labor costs, which implies that they should not hire new workers unless absolutely necessary. Only workers with at least 3 months tenure at the time of application can be covered by the system. Notably, this subsidy can be combined with the payroll tax reduction which implies that firms with less than 30 (low-wage) employees essentially have all their wage costs covered if workers are on 80 percent short-time work. At the time of writing, applications for short-time work covers 490,000 workers (9 percent of the labor force) whereof 394,000 were already approved.

In addition to these subsidies, there are various liquidity measures aimed directly at firms, including a measure which allows firms to postpone 3 months of payroll taxes and VAT for one year at a low interest rate. These measures are complemented by interventions to ensure market-level financial stability by the Riksbank and other government agencies.

*Unemployment insurance:* The government has taken several measures to extend unemployment insurance coverage and increase benefit levels during the crisis. As a starting point, it is worthwhile to note that the UI system in Sweden has a very low cap which in effect means that the compensation is at the same flat rate for nearly all full-time employed workers. Compensation is even lower for workers who have chosen not to be members of a UI fund. Many workers are covered by additional insurance through schemes organized by unions or jointly by the social partners. These schemes cover workers who are union members and/or are employed at workplaces that are covered by collective agreements.

The main reforms put in place during the current crisis is a reduction of the work-requirements for UI eligibility from 80 to 60 hours/month during 6 of the past 12 months and a lowered required duration of membership in UI funds from 12 to 3 months. The lowest benefit level (for those without UI membership) and the benefit cap have both been increased quite substantially; the increases are around 30 percent relative to previous levels. In addition, the Swedish financial supervisory authority have granted banks the right to provide general exemptions from rules regarding amortization of mortgages between April and June. The aim is to provide workers with additional liquidity in the case of job loss or other income disturbances.

*Remaining challenges:* Current measures have either focused on running costs (short-time work, payroll reduction and financial support for rental costs) or replacing past lost earnings during specific months (compensation for reduced sales and cancelled arts/sports events). There is still considerable uncertainty regarding future lost earnings, perhaps in the next step within the tourist dependent sectors that rely heavily on earnings during the summer in Sweden as elsewhere.

**Table 2:** The short-time work scheme

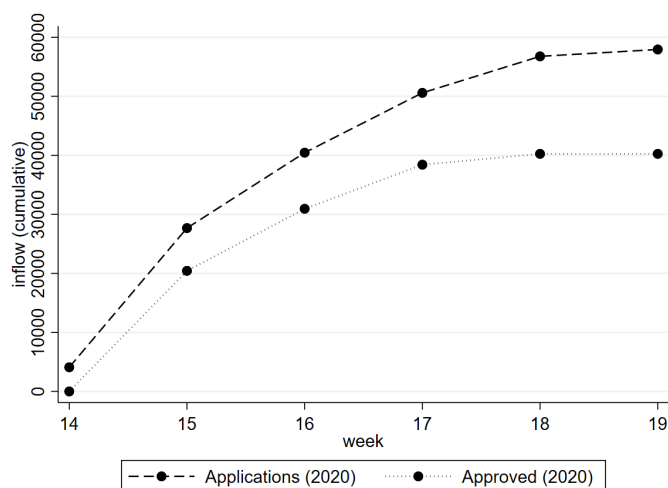
Working time reduction	Worker pay reduction	Labor cost reduction
20 %	4 %	19 %
40 %	6 %	36 %
60 %	7.5 %	53 %
80 %*	12 %	72 %

Note: Numbers pertain to workers earning less than 44,000 SEK/Month. Support is available for up to 6 months during March to December 2020. \*80 % reduction is only available during May to July.

Source: The Swedish Agency for Economic and Regional Growth.

## Immediate liquidity support to businesses

The short-time work policy, which is the key policy tool at this stage, was introduced very rapidly and efficiently. It was announced to be in effect from the day of announcement even though it would take a few weeks to get the proposal through parliament and set up the system (i.e. firms could apply retroactively). Applications could be submitted by early April but slightly more than half of the applications submitted at the time of writing pertain to working-time reductions starting in March. Access and application is streamlined through an on-line portal requiring very little information above a listing of the covered employees. Payments from the scheme came within days of the application for most firms.<sup>9</sup> Figure 3 illustrates the application and approval (i.e. processing, as most will be approved) rates across time. By the end of April, more than 50,000 firms have applied for the short-time work subsidy, which can be compared to 2,104 firms filing for bankruptcy during the same period. The applications cover 490,000 workers.<sup>10</sup> Application numbers correspond to 15% of all firms and 9% of all workers in Sweden. This suggests that many small firms applied.<sup>11</sup>

**Figure 3:** Take up of short-time contracts

Source: The Swedish Agency for Economic and Regional Growth

<sup>9</sup> Firms without collective agreements need to make individual arrangements with 70 percent of employees in order to access the scheme. This is mostly relevant for small firms.

<sup>10</sup> The numbers are from Swedish agency for Economic and Regional Growth.

<sup>11</sup> Note that employers that were funded or owned by central or local employers were not eligible to apply, a restriction that apply to more than 1/3 of all workers in the economy.



Because of the fairly mechanical approval of the applications, there is an obvious risk of fraud. There are, e.g., some anecdotal reports that employees are required to work more than allowed by the short-time work schemes while paid by the subsidies. There has been a discussion regarding whether subsidies should be accessible for profitable firms that pay out major dividends, which was possible initially but appear not to be any more after some adjustments by the responsible agency. In addition, there is an obvious risk that these policies are used by firms that in the end will not survive. But given the short-run nature of the policies, these seem as acceptable costs, at least at this early stage – but concerns could potentially be more severe in the longer run considering that the policy will be in effect throughout the year (at 60 percent work reduction).<sup>12</sup> An unfortunate feature of the system is that it does not contain any guarantees for employment relationships to be maintained – the system can even be used while workers have received an advance notice of layoff.

Some measures are explicitly targeted at the small firms and freelance workers. Reduced payroll taxes are clearly of largest importance for small firms as it only covers the first 30 employees. Self-employed workers have been given additional opportunities to put their firms in hibernation in order to access unemployment insurance. Firms can use the short-time work scheme even if self-employed as long as the firm is incorporated, and many small firms seem to be among the applicants as noted above. The arts and sports support which also could cover many freelancers have, however, taken long to materialize and there is still considerable uncertainty as to who will receive funding; the budget is fixed and will be allocated among applications after individual assessment.

## Support of dependent workers

The Swedish labor market is characterized by very low wage dispersion which has remained reasonably constant across the past two decades.<sup>13</sup> On the other hand, income inequality has increased, partly because caps on most social insurance payments, including UI, have remained largely fixed in nominal terms for a very long time. The combination of uniformly growing nominal (and real) wages together with fixed UI-payments have generated a situation where much of the income inequality is related to the employment margin. In this respect, the policy direction during the initial phase of the crisis has the benefit of effectively preventing poverty. This is true in particular, as the replacement rates in the short-time work program are very high – workers in this program are much better insured than they would be if they lost their job. On the losing side, however, are those marginal workers who are on temporary contracts that will not be renewed when expiring. The reduction of UI eligibility requirements may serve as to alleviate some of this impact.<sup>14</sup>

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<sup>12</sup> After the end-of-the year, there will be a slightly less generous system in place (permanently) that grants firms access to short-time work under more restrictive conditions.

<sup>13</sup> The background description in this paragraph draws heavily on Nordström Skans et al. (2017), for a summary in English of that source, see <https://www.sns.se/en/articles/sns-economic-policy-council-report-2017-policies-for-an-inclusive-swedish-labor-market/>. For a description of the Swedish wage structure see Carlsson et al. (2019).

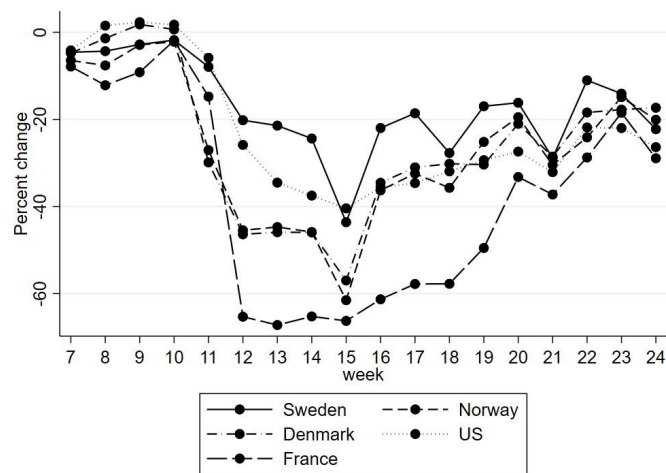
<sup>14</sup> We have not been able to document how various aspects of Swedish active labor market policies have changed in response to the crisis.

## Working conditions and work organization

The Swedish Public Health Agency recommends that all workers who can should work from home. As is shown in figure 4 this seems to have had a substantial impact on the time spent at work. As a contrast, the figure also shows comparable statistics for neighboring countries with stricter policies and it is clear that the Swedish response was more gradual and less pronounced. To some extent this is mechanical as some workplaces that were closed by law in other countries remained open in Sweden, most notably schools and child-care facilities. From the parents' perspectives this may also have been an important factor in terms of ensuring effective labor supply by making it possible for parents to travel to work if needed, and to remain more productive when working from home. These factors may be particularly important in a Nordic context with a very clear dual-earner model and a near universal residential separation between children and grandparents. Very few families have access to non-employed household members who can take care of children, at least before the short-term work policies took effect.

A direct consequence of the Covid-19 outbreak is the fast increase in the demand for health care personnel. To accommodate this, medical unions and employers have agreed on a "crisis" agreement, which requires staff to potentially work more hours and adapt to location changes in an emergency. A 120% "crisis compensation" is offered in return on top of existing pay (yielding a 220% pay increase). The agreement has so far only been activated for a subset of ICU medics in the worst affected area of Stockholm.

**Figure 4:** Time spent in workplace



Note: The figure shows the change in the time spent in the workplace provided by Google's Covid-19 Community Mobility Report. The data is drawn from users who have opted-in to Location History for their Google Account and the baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020. The data and more information can be found at <https://www.google.com/Covid19/mobility/>. Because the location accuracy and the understanding of categorized places varies from region to region, some cautions is warranted when interpreting the cross-country differences.

## New labor market entrants

The cohorts about to enter the Swedish labor market face particularly challenging circumstances due to the Covid-19 outbreak. It is well-established that labor market entrants are more adversely affected by downturns compared to workers established on the labor market, which has long-lasting effects on job finding and earnings as shown by Oreopoulos et al. (2012) and by Engdahl et al. (2019) for Sweden. As shown by Aslund and Rooth (2007), labor market conditions upon entry also have lasting negative effects

on refugee immigrants. Adding to this general picture is the fact that the current crisis so far has been particularly damaging to the hotel, restaurant and retail sectors, all of which provide many entry-level jobs. The crisis is therefore likely to affect both young workers and immigrants particularly hard. This is very different from the Swedish experience during the financial crisis when the main effects were felt in industries that employ much fewer labor market entrants.<sup>15</sup> Table 3 shows that the early impact on the inflow into unemployment during the first few week of the current crisis. The adverse effects so far appear to be strongest among workers aged 25-29.

Figure 5 shows that the number of posted summer-job vacancies has decreased by 18 per cent after the onset of the crisis.<sup>16</sup> This is another cause for concern given the major role played by summer job contacts in the school-to-work transition for high school graduates in Sweden. Hensvik et al. (2017) show that as many as 1/3 of vocational high school students in Sweden find their first stable job in establishments where they had a summer/extra job during high school, a share that is notably higher during recessions. Müller (2020) shows that closures of such stepping-stones establishments before graduation have lasting negative effects on the affected youths, in particular if parents also lose their jobs at the same point in time.<sup>17</sup>

**Table 3:** New registrations in unemployment by age and gender

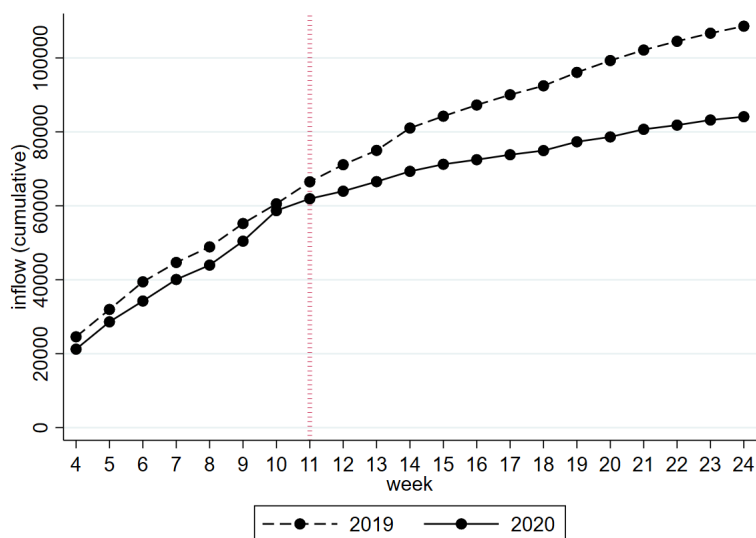
Measure	By week 24 2019	By week 24 2020	Percent change
<b>By age:</b>			
- 24	43,941	70,675	60.8
25-29	28,725	48,121	67.5
30-39	43,110	67,422	56.4
40-49	29,196	44,439	52.2
50-59	23,286	35,269	51.4
60+	6,924	10,212	47.5
<b>By gender:</b>			
women	85,582	132,995	55.4
men	89,600	143,143	59.8

Source: Public Employment Service

<sup>15</sup> The financial crisis primarily affected exporting firms in manufacturing and their domestic suppliers in Sweden, see Olsson (2020).

<sup>16</sup> The drop is substantially higher - 30 percent - in Stockholm (the region hit hardest by the outbreak).

<sup>17</sup> Concerns have also been raised that the physical closings of high schools since March will be particularly harmful to student from low SES households and students with disabilities, potentially further widening the SES-gap in high school achievement and early labor market outcomes.

**Figure 5:** Cumulative inflow of summer-job vacancies, by week

Source: Public Employment Service

## Policy innovations and labor market trends

Figure 6 illustrates how the number of notified workers and workers covered by the short-time work program are distributed across industries. Layoff notifications are highest in hotels and restaurants, followed by administrative services. Short-time work on the other hand, is used most in manufacturing followed by wholesale and retail trade. The difference in the prevalence of layoffs vs. short-time work is interesting, as it could serve as a measure of the willingness to hoard labor in anticipation of future business opportunities. With this interpretation in mind, it seems as if restaurants and hotels are much less willing to hoard labor than employers in the manufacturing sector where much of the (early stage) disturbances appear to be in the form of supply-chain disturbances.<sup>18</sup>

Hensvik et al. (2020) provide a more detailed documentation of the differential labor demand response by industries and occupations as measured by vacancy inflows. They show that while the negative shock has a clear impact on all industries, some industries are substantially more affected than others. As with the figure discussed above, they document substantially larger drops in industries where social-distancing measures are likely to bind, such as hotels and restaurants, entertainment and retail trade. The impact is much more moderate in the health and education sector, in real estate and in public administration and defense. A similar picture emerges in their analysis of vacancies by occupations. Among the ten occupations with the largest decrease in vacancy inflow, they find waiters and bar tenders, dentists, and fast-food workers. On the other extreme, they show that the demand for journalists and health care specialists remain relatively resilient.

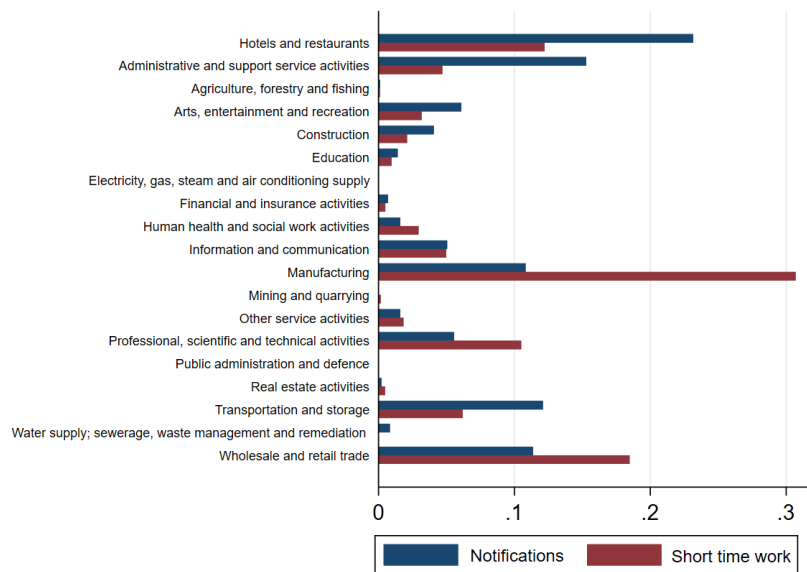
Overall, it seems plausible that the distribution of the shock speeds up ongoing structural transformation. The large impact in retail, and perhaps also in restaurants, is likely to be associated with a move towards online distribution of these goods, a process that was already ongoing but at a slower pace before the crisis. Much of this (pre-crisis) transformation appears to be a within-industry phenomenon which is much more visible in bankruptcy statistics than in overall employment trends, at least within broad industry

<sup>18</sup> See e.g. Riksbank (2020).

categories. In retail, the rate of layoffs due to bankruptcies grew by 50 percent between 2018 and 2019 (from 2,000 to 3,000 workers) suggesting that the structural change was ongoing already before the current crisis.<sup>19</sup> But the pace, as measured in the growth rate of bankruptcies, increased five-fold when the crisis hit; bankruptcies grew by 250 percent from March 2019 to March 2020 (from 370 to 937 workers).<sup>20</sup> From a labor market perspective, this is both good and bad news. It is good news in the sense that many of the businesses that are failing at the moment are likely to have been unsustainable in the long run even without the current shock. It is bad news in the sense that an accelerated pace of job destruction in weak industries may make it very hard for laid-off workers to find new employment.

On the flip-side of this process, we see signs of encouraging supply-side adjustments. As an example, there has been a 30 percent increase in applications of prospective students to University nursing programs,<sup>21</sup> which is very good news as this is a profession where the lack of skilled workers is particularly predominant. Similarly, Hensvik et al. (2020) find that job-seekers searching online on Sweden’s largest online job board respond to the crisis by redirecting their search efforts towards vacancies from the more resilient occupations.

**Figure 6:** Distribution of the aggregate number of workers noticed/on short-time work Jan-April 2020, by industry



Note: Each bar shows the share of all noticed workers (and workers on short-time work); this means that blue (and red) bars sum to 1 across industries.

Source: The Swedish Agency for Economic and Regional Growth.

<sup>19</sup> We see the same rate of increase between February 2019 and February 2020.

<sup>20</sup> Data is from scb.se. We do not see a corresponding pre-trend in other hard-hit industries such as hotels and restaurants and wholesale.

<sup>21</sup> Applications closed on April 15. 1st option applications increased from 9,400 to 12,200. Data are from the national admissions office uhr.se.

## Next steps and fiscal viability

There is no doubt that the current economic policy measures are dramatic by any normal standards. The total cost of the current set of (short-run) discretionary measures is estimated to be 240 billion SEK,<sup>22</sup> i.e. 4.8 percent of GDP. The most expensive measure is the short-time work scheme (95 billion SEK). The total cost estimate does not include liquidity measures or additional funding for health care expenditures and other related costs. As most programs have “running” costs, i.e. no fixed budget, it is not unlikely that the costs will exceed these estimates even without extensions, and extensions are likely to come. On top of this, there will be a substantial additional financial burden incurred from lost tax revenues and payments related to the automatic stabilizers. On the positive side, Sweden benefits from reasonably sound public finances, and in particular, low public debt (35 percent of GDP) at the onset of the crisis. Obviously, a low debt rate makes the response more sustainable than otherwise. At the same time, it is unlikely to be sustainable to retain one in every ten worker on a near full payroll without participating in productive work. In the worst case, the very generous subsidy rates in the short-time work scheme may induce firms to postpone the reopening of business activities for too long. In particular, the speed of recovery for “up-stream” firms that supply inputs to other firms may be hampered if their “down-stream” buyers remain in short-time work schemes for too long. This suggests that the most generous subsidy rate (80 percent) which currently will end in July, probably should not be extended.

Tentative conclusions: This report has produced an early assessment of the impact on the Swedish labor market from restrictions related to the Covid-19 outbreak with the aim of making an early assessment of policy measures aimed at mitigating the negative impact on the labor market. Our documentation and assessments are early and partial in nature. We hope to return and update our assessments later on.

In this early report, we make three main observations: First, despite the apparent comparative leniency of the Swedish Covid-19 restrictions, the Swedish labor market has been hit hard. The impact has been particularly severe in industries where Covid-19 recommendations are most directly relevant, such as hotels, restaurants and retail. Eight weeks after the restrictions were announced, 9 percent of the labor force is on short-term work. The crisis has led to an increase in registered unemployment and layoff notices of layoffs by 1 percent of the labor force each and the numbers continue to accumulate. Second, the negative impact has arisen even though policy responses have been massive by historical standards. Measures have primarily been aimed at protecting firms and permanent jobs. Our early assessment is that this has been a reasonable objective as it may facilitate a more rapid recovery when the economy rebounds. On the negative side, this focus inevitably leaves marginal workers to be hit very hard by the downturn. Reduced eligibility criteria for unemployment insurance may alleviate some of this impact. Third, despite being expensive, the current policy stance is financially sustainable. But current measures are explicitly short-run in nature, and it is likely that several of them may need to be prolonged. Strong public finances ensures that the country can spend and loan for some time, but as current measures are draining the public finances at a rapid pace, they are not sustainable indefinitely.

Perhaps the clearest take-away from our early assessment of the Swedish experience is to caution against overly optimistic assessments of the economic impact of gradual openings from complete lockdowns to Swedish-style “modest” restrictions in other countries. Even though it seems possible, or even plausible, that the labor market impact has been even worse in other countries (we leave explicit cross-country comparisons to

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<sup>22</sup> Source: Government press conference on May 14, 2020

the comparative part of this assessment project), it seems fair to conclude that restrictions such as those currently held in Sweden – with Swedish compliance rates – generate a substantial drop in labor demand, in particular within the hotels, restaurants and retail sectors. Thus, if Swedish-style restrictions are perceived as the route forward and the “new normal” as indicated by the WHO, we should expect the European labor markets, at least in segments related to personal services, to suffer greatly for an extended period of time. Recovery hopes may be more reasonable in the manufacturing sector where firms appear more willing to hoard labor at the moment, and where much of the (initial) negative impact appears to have been related to international supply-chain disturbances. These disturbances may be mitigated as restrictions are lifted across multiple countries at the same time.



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## IZA COVID-19 Crisis Response Monitoring Switzerland (June 2020)

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### ABSTRACT

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By mid of March (lock-down), published job vacancies on the Swiss labour market dropped by 45%. The collapse of labour demand led to an application of the short-time work scheme at unprecedented levels, covering 37% of the labour force by end of May. The scheme has been extended to also cover fixed-term employment and temp work. The unemployment rate increased comparably modestly to 3.4%, whereby youth was most severely hit. A further substantial rise of unemployment is expected in autumn. The Swiss Confederation has so far activated 72.2 bio CHF to support the economy, 30.8 bio for expenditures on support schemes and 41.4 bio for guarantees securing business loans.

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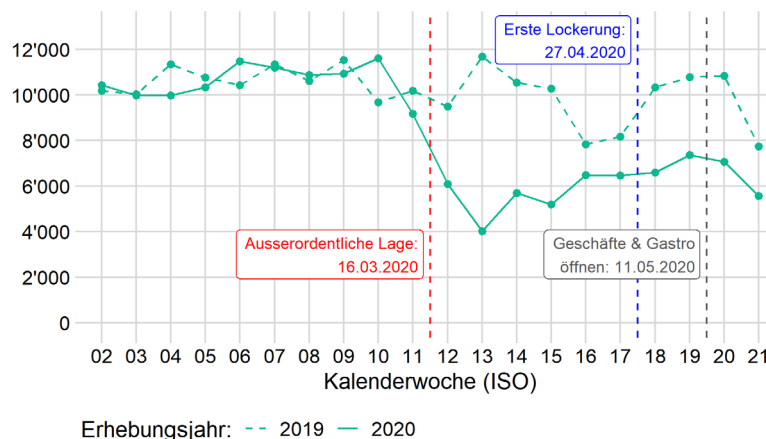
Arni (2020): IZA COVID-19 Crisis Response Monitoring: Switzerland (June 2020).

## Labor market impact of COVID-19

According to the last official labor market statistics, the unemployment rate (registered unemployed) rose from 2.5%<sup>1</sup> by end of February to 3.3% by end of April to 3.4% by end of May, implying an increase of 54% compared to May last year [SECO 2020a]. Larger immediate increases have been prevented by the extensive use of the short-time work scheme (see below). However, I expect that unemployment will further increase by a substantial extent. The amount of job vacancies has plummeted substantively. Within two weeks after the launch of the Covid emergency measures and lock-down (March 16th), the number of vacancies posted on job boards have decreased by 26% [Adecco Group Swiss Job Market Index/Stellenmarkt-Monitor University of Zurich]. The newly published vacancies initially fell by 45%. In May the situation slightly recovered, but the amount of new job ads locates still 30% below the comparable pre-year period [Novalytica/x28]. Figure 1 shows the weekly evolution of newly published vacancies in conjunction with the lock-down and re-opening steps. This evolution implies that, by end of May, the total number of posted vacancies (by firms and recruiters) was down to a level of approximately 130K, whereas it has been at 210K in the middle of Q1-2020 [jobradar.ch]. This massive reduction in labor demand, combined with expectedly increasing unemployment durations, gives rise to the prediction that unemployment will continue to substantially increase over the next months.

**Figure 1:** Newly published vacancies in Switzerland, per week

(“Ausserordentliche Lage”: lock-down and emergency measures by March 16, 2020)

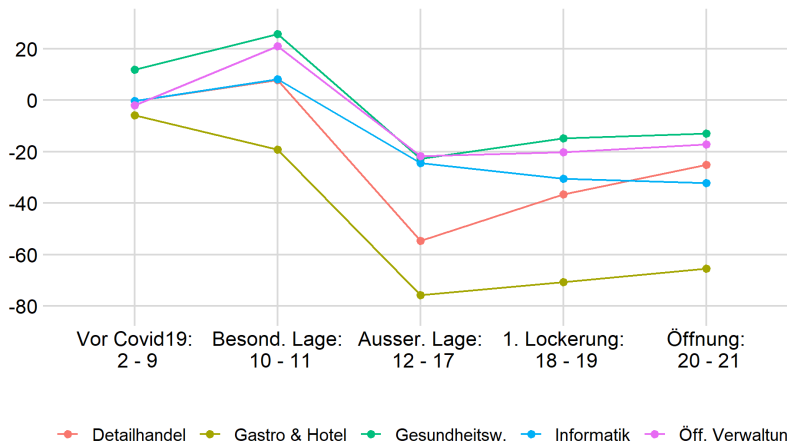


Source: x28/Novalytica

The extent of the labor demand drop differs substantially between sectors. Figure 2 tracks the 5 sectors with the largest amount of job postings (which cover more than 35% of the newly published job ads [Novalytica/x28]). Whereas the catering industry postings dropped by about 75% compared to the pre-year period, and retail by about 55%, the postings in the health and public sectors were much less affected (only about 20%). The most substantial recovery in the demand drop is seen in the retail sector, which most obviously benefitted from the stepwise re-openings in May.

<sup>1</sup> These are the official figures for the rate of registered unemployment (i.e., in unemployment insurance), reported by the Swiss State Secretariat of Economic Affairs (SECO). The unemployment rate according to the ILO definition, based on the labour force survey, amounts to 4.5% for Q1-2020 (not yet affected by Covid) [BFS 2020a, Swiss Federal Statistical Office].

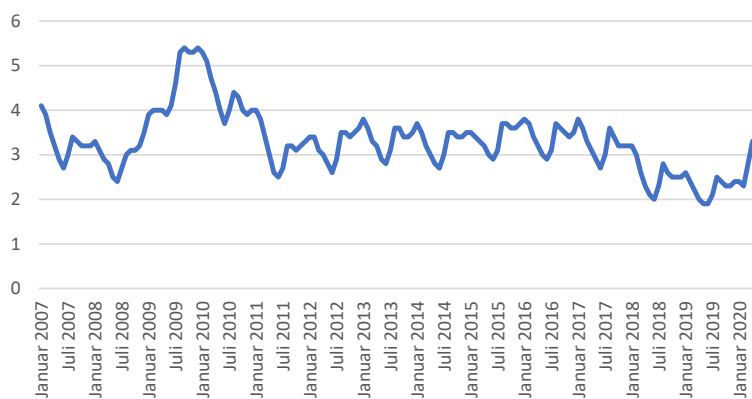
**Figure 1:** Newly published vacancies in Switzerland, by top 5 sectors and week, % changes compared to corresponding pre-year week



Source: x28/Novalytica

Relatively mostly affected by increased unemployment are young workers. The number of youth unemployed (< 25 years) by end of May rose by 76.7% as compared to a year ago [SECO 2020a]. The youth unemployment rate started rising to 3.4%<sup>2</sup>, undoing the improvements over the last two years; it didn't reach yet the peak level of the financial crisis (5.4%), but a further increase is to be expected in autumn. The impact of the Covid crisis on rising unemployment is broadly spread across industries and jobs. Massively affected is the gastronomy sector, over-proportionally affected are construction and the machine-, watch and metal industries. Areas within Switzerland that heavily rely on tourism tend to show larger increases in the local unemployment rates. Also, areas where export-oriented industries (except pharmaceuticals) and finance are strongly represented tend to suffer relatively more. Interestingly, the unemployment shock affected both of each, women and men, foreigners and Swiss, German-speaking and Latin areas, in about the same extent.

**Figure 3:** Rate of registered youth unemployment (ages 15 to < 25), by month



Source: SECO

By the end of April, about half of the total Swiss workforce (5.1 million workers in Q1-2020, [BFS 2020a]) did rely on some support of one of the main (extended) social insurance/support schemes, i.e. unemployment insurance, short-time work scheme or the Income Compensation Act (EO, Erwerbsersatzordnung). For more details on the use and evolution of short-time work, see section “Support of dependent workers” below.

<sup>2</sup> The youth unemployment rate by ILO definition is at 7.2% in Q1-2020 [BFS 2020a], before Covid. (EU: 15.3%)

## Orientation and targeting of adopted measures

Overall, the set of adopted policies is quite comprehensive and seems to serve well its initial purpose to shield the affected participants of the economy against the short-run impact of the Covid shock. At the core, there are three sets of measures: short-time work (STW) and unemployment insurance (UI); income compensation; loans and guarantees for businesses directly or indirectly affected by the lock-down. The most important set of measures is – in terms of participants and financially – the STW/UI, whereby the vast majority of affected individuals and of the funding is in STW. So far, CHF 20.2 billion of additional federal funding has been transferred into the UI fund [EFV]. Second in terms of importance are the “Covid bridging loans”. CHF 41.4 billion have been given out as guarantees by the Swiss Confederation [EFV]. So far, only CHF 1 billion of these potential loans have been booked as losses (due to defaulted loans) by the confederation. It is expected that the credit default rate will remain relatively low; however, this heavily depends on how persistent the ongoing crisis and recession will turn out to be. The booked expenditures for income compensation (EO) amount so far to CHF 5.3 billion, whereby CHF 4 billion is assigned to directly affected self-employed and employees and CHF 1.3 billion to the indirectly affected [EFV]. Thus, the focus of the income compensation scheme is on directly affected self-employed<sup>3</sup> during the lock-down measures.

Initially some target groups among the self-employed, notably the ones indirectly affected by the shut-down measures, were neglected by the income compensation policies. However, this has been adjusted mid of April, through allowing these groups as well access to the Income Compensation scheme (EO) [BSV 2020a]. This coverage is restricted to a maximum duration of two months and terminates latest with the end of the Covid restrictions.

Important is as well the extension of the short-time work (STW) scheme to fixed-term contract employment and to employees working for temp agencies by March 20. By the same date, the STW was opened as well to persons in an “employer-like status” (mostly partners in small limited liability companies who work as salaried employees in the company), persons in apprenticeship and persons working in the business of the spouse. [Bundesrat 2020a,b]

A potential issue of the adopted policy set is its relatively strong focus on providing loans and guarantees. This liquidity aid in form of “Covid bridging loans” is supposed to be paid back, which may lead to debt issues for substantial numbers of SMEs. However, so far only a smaller part of the credits approved by the banks have been finally taken up by the firms. It seems that (smaller) firms are reluctant to indebting themselves and currently mostly try to survive on their own resources, taking the credit only as a “last resort”. Thus, from a policy point of view it is questionable whether the loan and guarantee schemes will be sufficient to support the sustainability of some parts of the economy if the crisis turns out to harm firms over a longer time period. In the case of a longer crisis it may be advisable to extend the measures by possibly turning some loan schemes into cash grants and by adding some additional support for firms through fiscal policy. A further measure of effective additional support is the possible extension of the maximum duration of STW coverage from 6 months to 12 months, which is currently in political debate.

In the course of May, some further complements have been added to the financial support measures. A support scheme for start-up firms has been established by May 7. Start-ups in liquidity problems can apply for government-backed loans of up to CHF 1 million [SECO 2020b]. Furthermore, it has been decided that the Cantons are obliged to

<sup>3</sup> The eligibility for income compensation among the employed is restricted to parents who are not able to work due to the closure of the schools or to individuals who have to isolate in quarantine.

reimburse childcare institutions for parental contributions they lost due to the Covid lock-down measures in the period from March 17 to June 17, 2020 [SECO 2020d].

## **Immediate liquidity support to businesses**

As mentioned in the last section “Orientation and targeting of adopted measures”, the amount of potential liquidity support through credit guarantees is large in Switzerland. However, as mentioned, there is a substantial gap between the amount of credit support that firms and self-employed apply for and the amount they really claim. The mentioned reluctance to finally take up bridging loans could lead to some under-supply of liquidity and, relatedly, to some additional layoffs. The extent of this practical issue is currently hard to quantify.

Given the reluctance of firms to claim the loans, the issue of credit misallocation should be rather minor. There is a certain risk of deadweight losses and abuse of the credit schemes – it is argued, however, that screening should be at a good level due to the fact that it is the ‘home bank’ of the firm which is in charge of assessing the loan application. Moreover, ex-post screenings (and penalties for abuse) are being implemented in the design of the loan schemes.

The delivery and implementation of the different schemes by public agencies and other entities (banks) is seen positively by firms and self-employed according to reports in the media. Both, applications for short-time work (through unemployment insurance agencies) and applications for bridging loans (through banks), were designed to be simple and fast. The banks usually reached the target of assessing a loan application within 24 hours. The public agencies were struggling with the huge amount of short-time work applications but still usually managed to digest them without substantial delay and backlog. As for the extended use of the support scheme provided by the Income Compensation Act (EO), it has been reported that some eligible self-employed ended up touching very small daily allowances due to outdated income information recorded at the social security agency. But as well for this scheme, no broader complaints have been raised so far.

However, the government’s decision to terminate the extensions of the STW scheme to persons in an “employer-like status”, in apprenticeship and to co-working spouses by the end of May – roughly in time line with the relief of Covid lock-down restrictions in May – has been criticized as being too early. This early termination is indeed problematic, since many of the (small) businesses that relied on this STW extension are still quite far away from returning to levels of economic activities similar to the pre-crisis time; also, some are in practice prevented from restarting their business due to the imposed protective measures (e.g., the event industry). Furthermore, also the income compensation extended to indirectly affected self-employed is running out quite quickly (see section “Orientation and targeting of adopted measures”). Thus, some of these types of businesses may need additional support to avoid insolvencies.

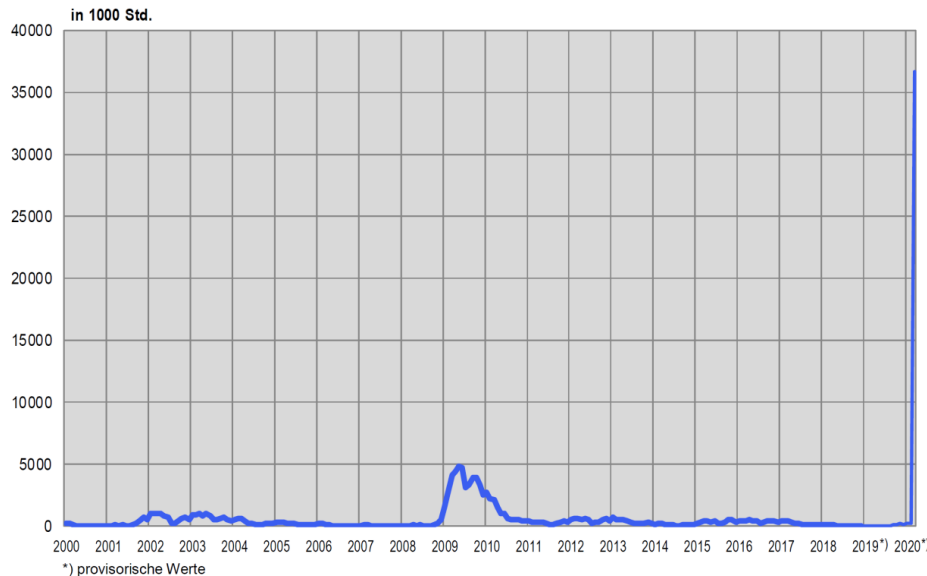
## **Support of dependent workers**

I assess the effectiveness notably of the short-time work (STW) scheme to avoid additional unemployment in the short run as being high. By 20 May, about 190,000 firms covering about 1.94 million employees have applied for STW [SECO 2020c]. This corresponds to 37% of the Swiss work force. The broad and extended application of the scheme, its simplified

administration and the elimination of barriers to getting STW (e.g., no waiting period for the employer anymore) helped avoid larger rates of increase in the unemployment rate.

Data on effectively claimed STW coverage are released with a time lag. In March 2020, the effective claim of STW jumped up to covering 0.782 million employees, 0.778 million more than in February [SECO 2020a]. The number of affected establishments reached about 97,400 by end of March, as compared to a few hundred in the month before. The enormous leap in claimed hours is visible in Figure 4. It reached unprecedented levels, as the comparison with the increase during the Financial Crisis in 2009 documents.

**Figure 4:** STW: Number of reported (claimed) cancelled working hours (in 1000 hours)



Source: SECO

A crucial question for policy and the future evolution of the unemployment rate will be how long the coverage with STW will be sustained. Currently, a time limit of 12 months is stipulated; the political debate to extend this limit to 18 months is ongoing. Moreover, the extension of the STW scheme to persons in an “employer-like status”, in apprenticeship and to co-working spouses (see also section “Orientation and targeting of adopted measures”) has already been terminated by end of May. The larger (in terms of number of affected persons) extension of the scheme to fixed-term contract employment and to employees working for temp agencies is still operative. Thus, it will be up to political discussion in the parliament how long the extended use of STW should be sustained and if, in general, the time limit should be extended or not. This will be related to the issue how long the approved additional CHF 20.2 billion for the UI fund (see also section “Orientation and targeting of adopted measures”) will cover the accumulating cost of STW and UI. A possible extension of the time STW time limit will presumably lead to additional financial requirements towards the end of the year. From an economic policy point of view, the key question is to which degree an extension of the STW time limit has an impact on mitigating additional unemployment. At which point is there a risk that longer STW coverage just supports unsustainable structures, i.e. struggling businesses that will have to lay off employees anyway? When this point will occur is difficult to assess and predict. This is crucially dependent on whether and when there will be a second wave, and of which dimension. Particularly in the case of shorter and rather local second waves, which may not that heavily affect the duration of the economic crisis, an extension of the STW time limit may be effective in sustainably avoiding some unemployment incidence. In the case of a more severe second wave that substantially increases the duration of the crisis it will be



difficult to mitigate a larger leap in the unemployment rate in the second part of this year or in next winter.

In any case, firms on STW will soon have to assess and revise their prediction concerning their future business prospects. If they are not sufficiently positive, firms may still decide at that point to lay off parts of their work force. This could lead to an additional increase in unemployment in autumn – particularly if it turns out that the dip of the international economic crises is not just short and that it is possibly related to some structural change within the economies.

The support delivered to job seekers is marked by a shift of weights from active to passive labor market policy measures. To avoid larger peaks of benefit exhaustion, the Swiss unemployment insurance (UI) extended maximum entitlement to benefits for all types of job seekers by 120 additional daily allowances. This brings potential benefit duration for a prime-age individual up to 520 work days (about 2 years). On the other hand, the submission of proof of job search efforts is waived during the period of the Covid special regulations. Job seekers are, however, still obliged to search for jobs. [Bundesrat 2020c] How long the additional benefit duration will be granted is not yet determined; this will depend on the timing of the termination of the related Covid ordinance. Since June, the monitoring of job search effort is gradually being re-established. Currently, it is in the discretion of the Cantons to define the practical monitoring intensity, the official wording is that job seekers and Public Employment Service (PES) counselors are “in dialogue” about the proof of regular job search effort.

During the lock-down, activation by ALMPs came to a halt and counseling by caseworkers was reduced to an administrative minimum by telephone. Thus, the active part of labor market policy was – and still is – almost entirely inexistent. Since June 8th, the PES in most Cantons run the important first meeting between job seeker and counselor (initial assessment and strategy definition) again as face-to-face (unless the job seeker belongs to a risk group). Further interactions are mostly by telephone. Officially, it is not forbidden, to my knowledge, to run ALMPs. However, in practice, classical measures like training programs are not operative at the moment (some training operators may work on online solutions). It is interesting, though, to observe that the number of participants in the temporary subsidized employment scheme during UI (“Zwischenverdienst”) did not reduce in the last lock-down months. The number of participants turns out to be even slightly higher by end of May (about 40,000) than it has been by end of February 2020 [SECO 2020a].

The full reinstatement of the PES services and of ALMP is, at current state, predicted to happen after the summer break in August. However, this is of course dependent on the evolution of the infection rates. In any case, it is to be expected that some services will resume at lower level and the use of telephone and online channels will remain to be more common than before the crisis. The current focus of the PES is on speedy hiring and educating additional counselors, in order to handle the rising influx of newly unemployed individuals.

## **Working conditions and work organization**

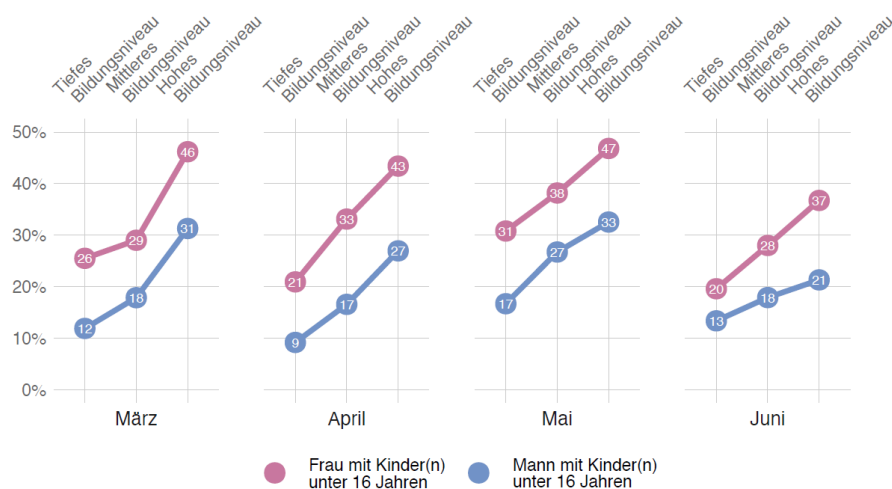
To respond to the increased workload demands due to the pandemic, the Swiss government relaxed the working condition rules (according to the labor law) for medical institutions, notably with respect to working and resting times. Moreover, specific exceptions to extend the weekly maximum working hours beyond the usual legal level have been given to the

meat industry and to the banks (to handle the bridging loans applications.) [SECO 2020e] These are of course all temporary exceptions. However, particularly employees in the medical sector complained that some employers expect too much flexibility with respect to work arrangements. Notably employees who were not involved in the treatment of the Covid pandemic and were not allowed to work during the infection peak (but weren't on STW either) criticize that some employers require them to compensate now the forgone working time by working overtime.

There is no broader evidence yet for Switzerland on the question how working practice changed as a consequence of the Covid shock. A smaller survey (n=1500) run by [Deloitte] in April documents that 48% of the Swiss employees worked during the Covid period in home office arrangements; before the crisis only about 25% of the employees worked at least once a week at home. Of course, during the Covid crisis period, the proportion of those among the home office workers who worked 100% at home has increased substantively. The responses on whether individuals are more or less productive at home and on whether they believe to continue to partially work at home after the crisis are highly heterogenous. However, about 34% of the respondents indicated that they plan to regularly work from home after the crisis. All in all, it seems realistic to predict that the share of employees who work (partially) at home will remain on a higher level after the crisis than before.

The additional workload generated by the combination of home office and home childcare was not evenly distributed between the genders. As an analysis of four waves of the SRG Corona-Monitor shows (with n=30,000 approx. by wave), women were substantially more charged by the additional childcare necessities than men. Depending on the education level, 21 to 43% of the female respondents declared in April that they incurred reduced capacity for working in paid employment, whereas this was the case for 9 to 27% of the male respondents. Similar patterns are visible in the months before and thereafter, as documented in Figure 5. Thus, it is clearly shown that highly educated women suffered mostly from this double load situation. One driver of this gender difference is the current structure of labor force participation in Switzerland: more than 80 percent of women are employed – but often in a part-time position. Thus, already in normal times women tend to spend more time on household work than men; this pattern has rather been reinforced in the crisis times.

**Figure 5:** Reduced capacity for gainful employment due to child care, by education level



«Wie hat sich Ihre berufliche Arbeitsbelastung im Vergleich zum Februar verändert?» «Weniger Kapazitäten aufgrund von Betreuungspflichten, Homeschooling usw.». Bildungsniveau: «Tiefes» = obgl. Schule, Berufsschule, «Mittleres» = Höhere Berufsbildung, Mittelschule, «Hohes» = Fachhochschule, Universität, ETH.

The expected higher level of work at home arrangements and, relatedly, more flexible work organization in general will boost the political discussion about the appropriate regulation of such arrangements, I think. Many related questions are not systematically discussed and regulated so far. For instance, who pays for equipment and office space at home? How can appropriate supervision be implemented without invading the individual privacy sphere? Should employers contribute more to childcare costs if employees work at home more often? How can the employee's private life be protected against the inherent risk of being absorbed by 'permanent availability for work' at home? Etc. I would expect that some of these questions may become more salient in the political debate in the closer future.

## **New labor market entrants**

The challenge to find a job or an apprenticeship after school or university is and will clearly be bigger than under normal conditions. The uncertainty among firms has led large amounts of hiring processes to be temporarily suspended during the lock-down period, with no clear expectation yet when (and if) they will be relaunched. This difficult situation particularly affects new labor market entrants who are not yet much experienced in job search and who often have a less clearly defined profile than older job seekers. These challenges are reflected in the mentioned rising youth unemployment rate (see section "Labor market impact of COVID-19"). The issue of less defined profiles among young job seekers is aggravated by the fact that some (parts of) final exams are not held. In vocational education (apprenticeship plus part-time school), where the majority of new labor market entrants is enrolled in Switzerland, only the practical exams are held where possible but not the theoretical ones. Whether high school (Gymnasium) final exams are held or not is heterogenous, as it is decided regionally (by Canton). In both cases the partially missing exam outcomes will potentially weaken the signal and profiling information about new labor market (or university) entrants, which may affect the hiring chances and the choice options negatively. How severe this issue will be depends crucially on the firms' reactions in adjusting their hiring procedures to the post-lock-down situation.

A positive sign of stability in the apprenticeship market is that traditionally the majority of all offered apprenticeship positions are already filled (particularly in the German-speaking area of the country). This has been the case as well for the current hiring round, 66% (or 58K) of all the available apprenticeship positions have been filled already by March/April [Nahtstellenbarometer gfs.bern]. By end of May, about 48K apprenticeship contracts have been signed so far, 4% less than last year at the same time. In general, the Cantons report "stable conditions" on the apprenticeship market. The lock-down had more impact in the Latin areas of the country because there traditionally the recruitment of apprentices is done later and has now been substantially delayed due to the situation. Luckily, only very few cancellations of new apprenticeship contracts have been reported across Switzerland. [SBFI 2020]

The Cantons address the complex situation on the apprenticeship market by reinforcing existing sets of support activities: additional marketing for apprenticeships, intensified occupational counselling, "bridging" offers (e.g., additional year of school) and individual coaching of young labor market entrants. Some Cantons plan "last minute apprenticeship markets" in cooperation with the local economy to improve the matching on the market, or they allow for an extension of the apprenticeship contract conclusion deadline into autumn. Beyond these activities, a new funding mechanism for innovative projects to support the apprenticeship market has been introduced by the responsible ministry (SBFI) by end of May. First projects have been approved by the SBFI. They focus

on measures like coaching and training in occupation and apprenticeship choice as well as in application skills, or the launch of virtual apprenticeship market platforms operated by local stakeholders. [SBFI 2020]

It remains to be seen whether these supportive activities by the stakeholders are sufficient to achieve a final matching level on the apprenticeship market which is comparable to the last years. However, the rising youth unemployment is not only related to the finding of apprenticeship positions. Increased difficulties for young labor market entrants to find a first job, as discussed above, are salient as well beyond the apprenticeship market. So far, I have not seen specific policy innovations to cope with these additional challenges in other parts of the labor market for entrants. It is well conceivable that this may change if the youth unemployment rate continues to substantially rise in the coming months.

## **Policy innovations and labor market trends**

It is too early to identify clear trends of (structural) changes in employment so far. I expect that the extensive use of the STW scheme in Switzerland will slow down the speed of change caused by this crisis. STW provides the firms more time to assess their situation and business perspectives and to wait to decide on potential changes in the composition of their workforce.

There are some, currently rather anecdotal, signs indicating possible (accelerated) structural changes. The transportation sector as well as tourism operators expect lower client flows for several years to come. It is thus probable that these industries will reduce hiring and employment for a longer time. In the case of tourism this will affect many short-term contracts and seasonal positions at a first stage and then possibly more ‘structural’ positions in a second stage. Given the rising awareness of the importance and valuation of health-related occupations, I would expect that the already ongoing discussion about shortages in this area will become more salient. The political intention to promote and invest in health-related occupations may increase. A current decision in the parliament to invest in education in nursing tends to support this prediction. Next year a more pronounced proposal on this issue will come to a vote – this will document to which degree the willingness to invest in health-related occupations really increased.

Furthermore, I would expect that the currently massive increase in use of online tools and services will have a sustainable impact on the labor market. Switzerland and its workforce are comparably well equipped with internet and computing infrastructure and related skills. This supports my expectation that this unintended ‘online experiment’ which we are running currently will indeed move the use of online services to a permanently higher level. This would have positive impacts on labor demand in jobs related to online services, including logistics. It opens the door as well to new innovations through creating new online services. I also think it will accelerate the digital transition in how we search for and match jobs. Groups of employees and ages who were not yet that familiar with operating all the exchanges on the labor market digitally were now suddenly included in this transition wave. I think quite many of such immediate transitions of the functioning of the labor market towards online operations will remain in use after the crisis. Notably because many operators – firms, recruiters, public employment services – are now driven into (additionally) investing in new online processes and platform solutions.

First discussions on reshoring some activities back to Switzerland have appeared. The current focus is mostly on ensuring the local availability and production of “essential

goods” in crisis periods – notably goods related to health and hygiene. For example, a broad set of firms have begun producing face masks and developing new technologies to improve these masks. Also, the discussion about ensuring local (Swiss or European) production of key (components of) pharmaceuticals has been fueled. Switzerland is in principle in a good position for the reshoring of such mentioned products, because of the existence of a highly competitive pharmaceutical industry and a specialized textile technology industry in the country. Clearly, all these plans of reshoring will be grounded in heavily automated production strategies. This is the only approach how a high wage country like Switzerland can reshore comparably low-priced products. The country has a high potential for reshoring production through accelerated automation due to its highly developed tech industries and universities. Such structural developments, if they are really boosted by the crisis at the end, will mostly generate additional demand for high skilled labor. Thus, permanent investment in skill development within the labor force will be essential.

## Next steps and fiscal viability

In Switzerland the economy has been reopened essentially in two steps: a first one by May 11, including the retail shopping sector and most restaurants and cafés, and a second one by June 8, where a large part of the touristic infrastructure, cinemas and public transport have been reopened. By June 22, the government has broadly abolished and simplified the Covid-related restrictions. Also, the recommendation to work in home office has been discontinued. A remaining restriction is that large gatherings and events (beyond 1,000 people) are still banned until end of August. The preventive rules have been generalized and simplified: all the public places are required to implement a protection concept, social distancing and hand hygiene have to be maintained and registering (or tracking) a/o the wearing of face masks should be imposed where sufficient distance is not possible. The imposition of these principles currently relies on self-responsibility of citizens and businesses, rather than legal enforcement.

As for fiscal viability: Switzerland is in a comparably good position to sustain financial support of the participants of the economy for a relatively long time. The state has passed a decade of steady debt reduction, and the current debt rate is lower than in most other European countries. However, the additional spending of CHF 30.8 billion and loan guarantees for CHF 41.4 billion as registered by the [EFV] will essentially undo the whole debt reduction achieved over about the last decade. Moreover, projections by KOF-ETH [2020a] predict that the state will face a reduction of tax income at all levels (confederation, cantons, municipalities) of more than CHF 5.5 billion this year. Next year this reduction will expectedly more than double, due to the current measure of deferred invoicing of taxes. For the social insurances it is predicted that they will earn about CHF 1 billion less in contributions this year. KOF-ETH expects that the rate of registered unemployment further increases to 4.7% by the end of 2020 and will remain relatively high with an average rate of 4.3% (6.0% by ILO definition) for 2021. In a historic comparison, these are high unemployment rates for Switzerland, higher as well than in the financial crisis 2009/10.

To sustain the financial stability notably of the social insurance system, political decisions on additional support are required now and next year. Most of the emergency ordinances introduced by the Swiss government will run out by end of August latest. They require ex-post approval by the parliament, which mostly has been given in June. The KOF-ETH projection quantifies the additional financial needs of the unemployment insurance including the STW scheme to about CHF 20 billion (75% going into STW). SECO [2020c] estimates that the unemployment insurance fund will accumulate debts of about



CHF 16 billion by end of 2020, predominantly because of the STW scheme. On May 20, the government proposed to spend another CHF 14.2 billion on the UI fund; bringing the extraordinary injections into the UI fund to CHF 20.2 billion in total (as mentioned in section “Orientation and targeting of adopted measures”). This large support funding has been approved by the parliament in June. Through this act it could be avoided that the UI contributions which employers and employees pay on the wage bill need to be increased.

In addition to the financial challenges for UI and STW, the Income Compensation Act (EO) scheme will require additional funding as well in the medium run. Which amounts of the loan and guarantee schemes will finally be claimed, defaulted or possibly turned into cash grants is hard to predict. However, to support the survival and avoid larger debt problems for small SMEs and self-employed, it may be necessary as one next step to indeed turn loan guarantees into cash grants for such targeted groups of small businesses in need (subject to a sustainable business plan).

All these additional funding challenges seem viable, due to the mentioned good condition of the public finance in Switzerland. The Swiss confederation has implemented a “debt brake” since the nineties. However, the case of exceptional crises has been included in the regulation of the debt brake, allowing for exceptions to the usual speed of debt repayment. Moreover, the Swiss government bonds and central bank operate with negative interest rates – thus, at the current state, increasing debt even pays off. Still, I expect – and it is already the case – that the political debates on approving future spending plans will become tougher.

Possible next steps to reanimate the economic activity and the labor market would be to relaunch and readjust the active labor market policies (ALMPs). ‘Corona-proof’ versions of active job seeker support need to be developed and implemented. The ALMP programs should be adjusted and more focused to support skill acquisition and job finding in areas that are still relatively highly demanded, with good expectations after the crisis.

In a slightly longer run, as soon as patterns of possible structural changes become visible, it may be advisable to set up targeted investment programs in further education and start-up subsidies. The goal could be to support occupational switches towards sectors that develop favorably after the crisis and to support job creation in such areas. I would advise rather against using tax reductions (e.g., VAT) for heavily affected industries like gastronomy and tourism. This would in tendency only support structural problems (of over-supply) in these industries, and it is moreover an inefficient measure which cannot be targeted. If additional support is required in these areas, then specific investments in useful touristic infrastructure and in promising start-ups would be more advisable. More generally, beyond the short-run survival support, it seems more promising to invest in targeted programs that specifically support some risk groups – like young unemployed or employers and employees in structurally weak industries – in their skill acquisition and transition towards more ‘future-proof’ jobs and business models.

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## IZA COVID-19 Crisis Response Monitoring United Kingdom (June 2020)

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### ABSTRACT

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On the 23rd of March, the United Kingdom locked down in response to the COVID-19 pandemic. Subsequently, the UK economy suffered the biggest contraction of economic activity in 41 years, experiencing a 10% year-on-year drop in GDP. The labour market has seen record rises in unemployment claims, big drops in employment and self-employment, a rise in short-time work and a big drop in vacancies. These occurred despite the roll out of the government's job retention scheme for employees and income support scheme for the self-employed. How to ensure affected individuals are not on a trajectory heading towards long-term unemployment is a top priority for economic recovery.

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## Labor market impact of COVID-19

According to the latest official figures released by the Office for National Statistics (ONS), the UK labor market has been hit hard by the COVID-19 crisis. Between March and May 2020, there was a 612,000 fall in employee jobs<sup>1</sup> (Figure 1), and an unprecedentedly large increase in unemployment claims of 1.6 million representing a 125.9% increase since March. (Figure 2). Vacancies dropped sharply – by 58% relative to March. The largest annual decrease in average hours of the past 10 years occurred (6.9 hours fall). For the month of April average earnings growth fell dramatically to -1.7% for total pay<sup>2</sup> and median pay show an estimated fall of 3.5% since March to May<sup>3</sup>. The most recently available monthly GDP growth statistic points to an unprecedented fall of 10.4% in the three months to April 2020 compared to the three months prior. This number obviously aggregates over months in and out of lockdown, yet this contraction of the economy vastly surpasses that experienced at the peak of the 2008 financial crisis (Figure 3).

The most affected sectors are customer-oriented personal and domestic services: Non-food, non-pharmaceutical retail; passenger transport; accommodation and food; travel; childcare; arts and leisure; personal care; domestic services. The combined employment in these sector accounts for roughly 15% of employees in the UK. These sectors have experienced the largest contractions in output with gross valued added growth for March and April on negative ground of 20%, and as high as 40% accommodation and food service activities (Figure 4). According to the latest ONS survey figures<sup>4</sup>, the sectors that reported higher percentages of temporary cease of trading are accommodation and food service activities (74%) and arts, entertainment and recreation (75%).<sup>5</sup> Vacancy drops in these sectors are clearly above 50% (92% and 90% respectively), showing that not all sectors have been equally hit (Figure 5).

The composition of workforce in most affected sectors is not homogeneous: being disproportionately young (2.5 times more likely to work in sector in lockdown), concentrated among low earners (7 times more likely to work in sector in lockdown)<sup>6</sup>, gender biased (women are 33% more likely to work in sector in lockdown), self-employed intensive (22% of self-employed work in affected sectors, disproportional to women – close to a third of self-employed women).

The patterns previously described are corroborated by realized outcomes in a recent work by Adams-Prassl et al (2020a) who find that: young workers are 1.4 more likely to have experienced working hours reductions and earning losses in the past week than their older counterparts, lower income workers are significantly less able to work from home and are more likely to have lost their job due to COVID in the past 4 weeks, and workers in alternative working arrangements (self-employed, those not paid a salary, working with variable hours at employers' discretion (e.g. zero-hours contracts)) are close to 3 times more likely to have seen their earnings fall compared to workers in permanent contracts. Furthermore, Adams-Prassl et al (2020b) finds that women in the UK are 5% more likely to lose their job compared to men. According to the latest Quarterly Labour Force Survey the loss in weekly hours worked has been particularly pronounced among the self-employed with a drop of 11.4 hours on average comparing the periods pre and

<sup>1</sup> Note that employment numbers as presented are likely to underestimate the actual fall in total work as they do not account for self-employment.

<sup>2</sup> The wage growth is 0% for regular pay.

<sup>3</sup> Earnings and employment from Pay As You Earn Real Time Information, UK: June 2020, ONS

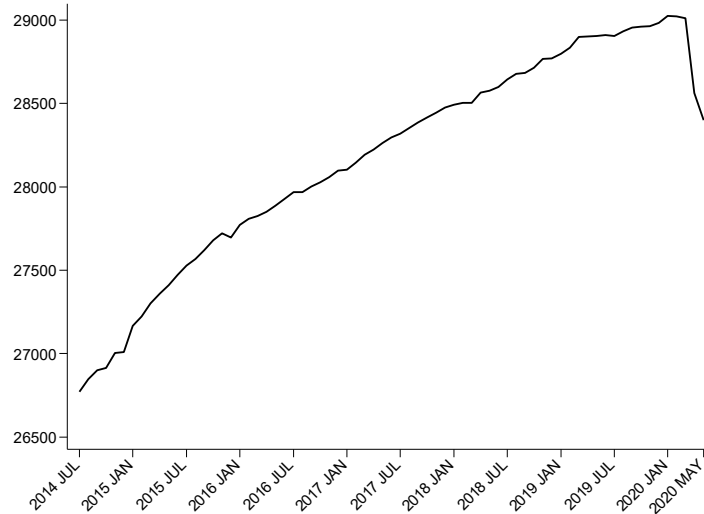
<sup>4</sup> Business Impact of COVID-19 Survey, 4-17 May, ONS

<sup>5</sup> The May figures show a slight improvement relative to the temporary cease of trading experienced in the April by the same sector (80% and 81%)

<sup>6</sup> See Joyce and Xu (2020)

post-lockdown until the end of April. Weekly hours worked prior to lockdown had been on average similar between employees and self-employed (32.2 and 31.9) but the lockdown has affected the self-employed significantly more with a 36% drop in hours relative to 19% felt by employees (Figure #6). Forthcoming study by Blundell and Machin (2020), which has conducted a survey of self-employed workers in the UK in May, finds that despite the disproportionate number of women working as self-employment in affected sectors, the average self-employed female worker has not been more affected, mainly due to the fact that self-employed women are more likely to be able to work from home.

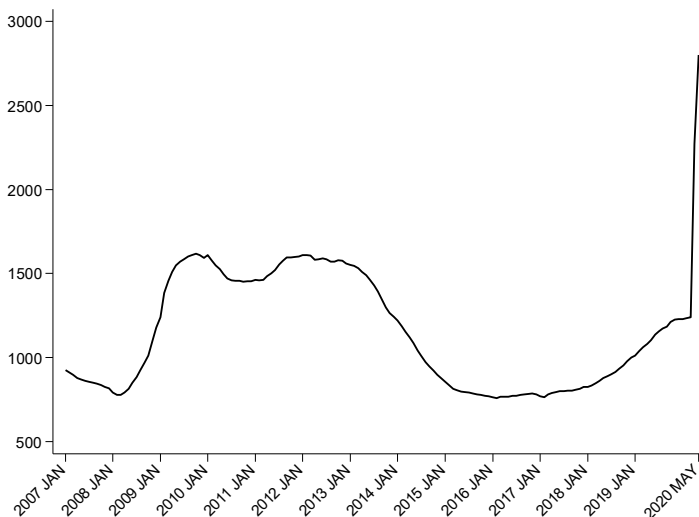
**Figure 1:** UK Employment Count of Paid Employees



Notes: Number of people receiving paid remuneration included in Pay As You Earn (PAYE) Real Time Information (RTI) for work done in the reference period. It also includes people receiving remuneration for the reference period who have not done work but are an employee

Source: ONS Earnings and employment from Pay As You Earn Real Time Information, UK: June 2020

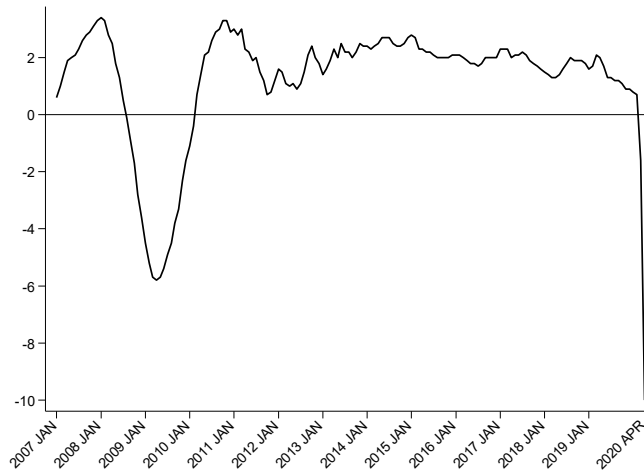
**Figure 2:** UK Claimant Count



Notes: Claimant count covers claims for Jobseeker’s Allowance and those claimants in the Universal Credit “searching for work”

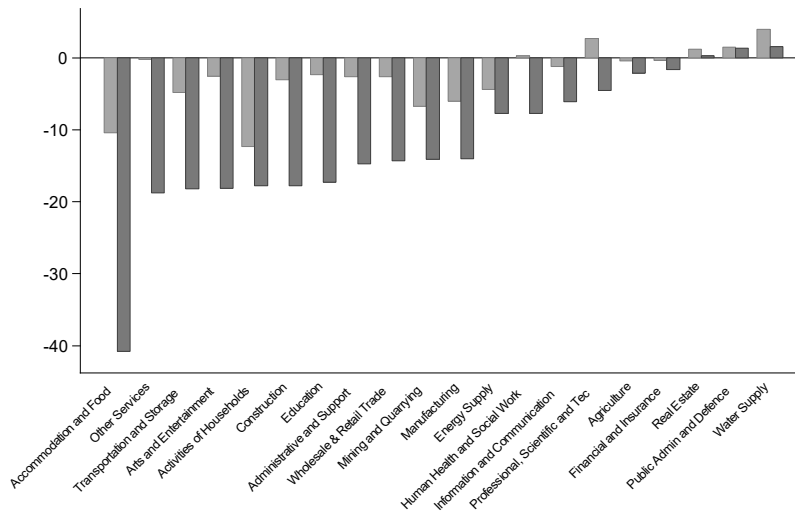
Source: ONS

**Figure 3:** Gross Domestic Product Growth UK, 2007 Jan-2020 April



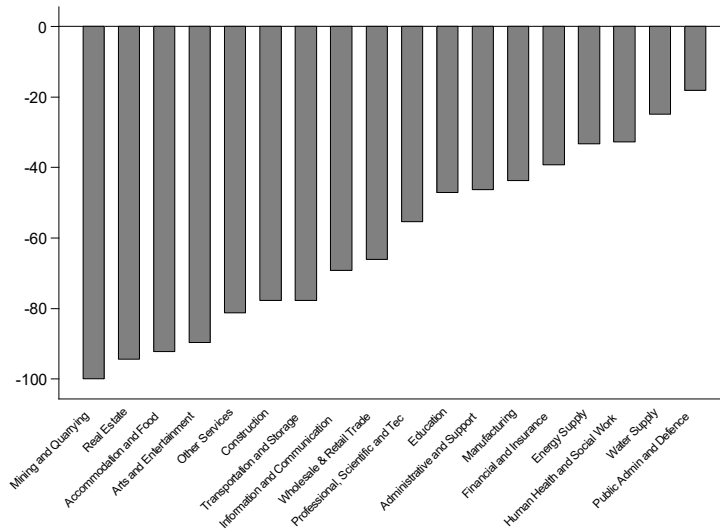
Notes: Three Month-on-Three Month growth rates relative to previous year  
Source: ONS

**Figure 4:** Gross Domestic Product Growth UK by Sector, March and April 2020



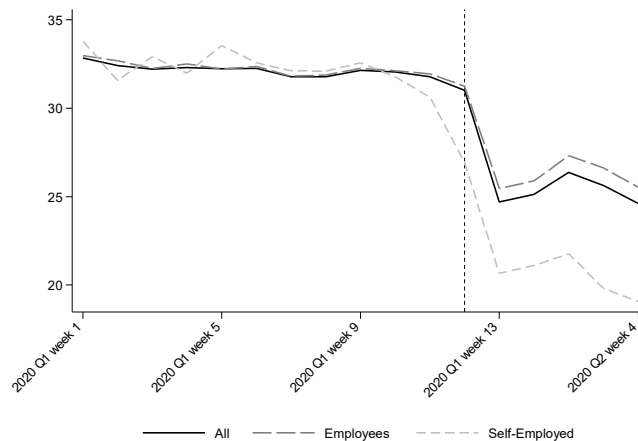
Notes: Three Month-on-Three Month growth rates relative to previous year  
Source: ONS

**Figure 5: Vacancies Growth UK by Sector, May 2020**



Notes: Growth rates are calculated relative to March 2020 levels  
 Source: ONS

**Figure 6: Average Weekly Hours Worker UK by Employment Type, January to April 2020**



Notes: Average weekly hours worked calculated as total hours worked in the reference week including overtime and 2nd jobs. The dashed vertical line identifies the week prior to lockdown on the 23rd of March.  
 Source: ONS

## Orientation and targeting of adopted measures

The last update (8h June) for the UK is appropriate although does not include the recent extensions of both Coronavirus Job Retention Scheme (CJRS) and Self-Employed Income Support Scheme (SEISS) until October announced by the Chancellor Rishi Sunak on the 29th of May. The labor market policies introduced to date have been gradual, with measures being announced first to provide the businesses with liquidity and to shield workers with permanent contracts and then expanded to other workers. Most of the initial measures have targeted the preservation of firm-worker matches through furloughing in the Coronavirus Job Retention Scheme (CJRS), reducing and delaying the permanent ceasing of trading of firms and consequent destruction of jobs primarily among those in permanent contracts. This implied that workers in alternative working arrangements

when and if eligible<sup>7</sup> for support will receive so at a later point in time (Self-Employed Income Support Scheme (SEISS) starts payment only in June). As of June 4, the Office for Budget Responsibility estimates that CJRS and SEISS will represent an expenditure of 54 and 10.5 billion pounds respectively accruing to the equivalent to 3.1% of UK GDP in 2019 (Table 1).<sup>8</sup> The most significant policies with respect to estimated cost are CJRS, SEISS, the Small Business Grant Scheme and Business Rates Relief Package as presented in Table 1. The policies have not yet been granular enough as to take into account the disparities in workforce composition stated previously, although that would require more discretionary actions that are not easy to plan and could delay effective implementation. However, one can observe that the policies first enacted have been directed at workers with arguably less exposure to economic damage due to the current crisis (Adams-Prassl et al, 2020a, b).

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<sup>7</sup> Not all workers in alternative work arrangements will be eligible for governmental support (for example, self-employed workers that have not traded in the tax year 2018 to 2019 are excluded)

<sup>8</sup> Coronavirus Policy Monitoring Database – 4 June 2020, Office for Budget Responsibility

**Table 1:** Estimated Cost of COVID-19 Support Measures UK

COVID-19 Support Measures	Net Cost in £ billion (2020-21)	Source
<b>DEL measures</b>		
1 Public services spending	-16	OBR
2 Additional funding for charities	-0.8	HMT
3 Local authority funding to support vulnerable people	-0.5	HMT
<b>Employment support</b>		
4 Coronavirus job retention scheme	-54	OBR
5 Self-employed income support scheme	-15	OBR
<b>Other support for households</b>		
6 Statutory sick pay support	-1	OBR
7 Welfare package	-8	OBR
Universal credit - minimum income floor		
Increase weekly universal credit by £20		
Increase weekly tax credit by £20		
Employment and support allowance: removing 7 day wait		
Local Housing Allowance measures		
Stopping all health assessments and job centre appointments		
Stopping conditionality reassessments		
8 Welfare - suspending benefit recovery	*	n/a
9 Tax credits: automatic renewal and relaxation of hours rules	*	n/a
<b>Business support: tax and spending measures</b>		
10 Small business grant schemes	-15	OBR
11 Business rates package	-13	OBR
12 Off-payroll working: delay extension to private sector by 1 year	-1.2	OBR
13 VAT on e-publications - early introduction	-0.1	OBR
<b>Business support: loans and guarantees</b>		
14 Loan schemes	-5	OBR
Coronavirus business interruption loan scheme (CBILs)		
Coronavirus large business interruption loan scheme (CLBILS)		
Bounce Back Loan Scheme (BBLs)		
15 Covid Corporate Financing Facility (CCFF)	*	n/a
16 Support for start-ups (Future Fund and Innovate UK)	*	n/a
17 Trade credit insurance	*	n/a
<b>Tax measures</b>		
18 VAT deferral	-1.9	OBR
19 Self-assessed income tax deferral	-1.2	OBR
20 Time-to-pay arrangements	*	n/a
21 Import duty exemptions for medical products	-0.1	OBR
22 Zero rate of VAT on PPE	-0.1	OBR
<b>Other measures</b>		
23 Rail franchise suspension	*	n/a
24 Interest holiday for help-to-buy equity loan holders	*	n/a
25 Lifetime ISA early access	*	n/a
26 TFL package	-	HMT
27 Waiving the immigration health surcharge for NHS workers and other care providers	*	n/a
<b>Memo: policy assumptions included in the fiscal scenario</b>		
28 Major financial asset sales - assumed delays	-10.5	OBR

Notes: The estimates cover cash impacts of the policies in 2020-21 based on the illustrative assumption that economic activity would be heavily restricted for three months and then gradually return to normal over the subsequent three months. Impacts at future periods are not covered. \* means no estimate has yet been produced.

Source: Office for Budget Responsibility.



## Immediate liquidity support to businesses

As of June 14, HMRC declared that 1.1 million firms had claimed support of the Coronavirus Job Retention Scheme (CJRS), representing 9.1 million jobs furloughed (Figure 7). According to the latest release from HMRC<sup>9</sup>, firms with less than 50 employees represented 92% of all firms claiming support and 44% of the jobs covered. Considering the official count of the population of firms as of 2019 by employment size, it is estimated that 37% of firms with less than 50 employees have asked support of CJRS and the same statistic climbs to 79% for larger firms. According to ONS latest survey figures (covering 4 to 17th of May) it is estimated that 79% of responding businesses had applied for the CJRS with a success rate of 90%, this represents a significant improvement in the roll out of the scheme compared to April. The differences between smaller and larger firms (250 employees threshold) in applications does not look to be statistically large (80% vs 78%) whereas the difference in approved status is more pronounced (92% vs 84%)<sup>10</sup>. The March to April differences in vacancies growth for businesses employing less than 50 employees compared to larger firms of 69.3% and 47.3% respectively, looks to have been reduced during the month of May with small and large firms experiencing a similar reduction of 58% compared to March<sup>11</sup>. Firms with workforce size below 250 are 32%<sup>12</sup> more likely to have temporarily closed or temporarily ceased trading. Furthermore, inefficiencies and burden disparities are present in the schemes as set currently, for example, when applying for the CJRS with less than 100 employees, firms are required to enter the individual details (name, NI number, claim period, claim amount and payroll number (optional)) for each worker which plausibly represents an extra burden for smaller firms.

According to HMRC, the official number of applications received for the Coronavirus Self-Employed Income Support Scheme (SEISS) was 2.6 million as of June 14 (Figure 8), corresponding to a value claimed of 7.6 billion pounds. According to their analysis, Blundell and Machin (2020) estimate the take-up of the scheme to be increasing since the opening of applications on 13th of May with 43% of their survey respondents declaring they had applied as of 15th of May. However, it is worrying that of those not applying, 41% say they are unsure about whether they are eligible for the scheme. Most recent official statistics from HMRC estimate the take up of the SEISS to be approximately 70% of the eligible population<sup>13</sup>.

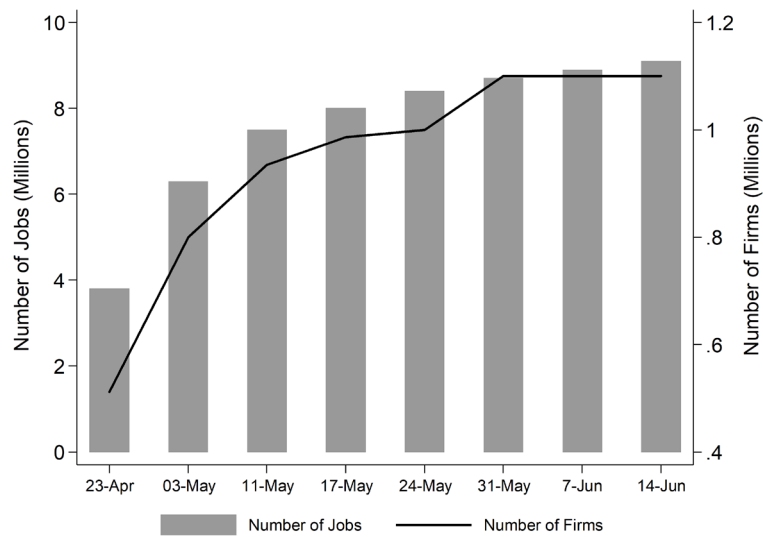
<sup>9</sup> Coronavirus Job Retention Scheme (CJRS) statistics: June 2020, HMRC

<sup>10</sup> It is not possible to conduct inference to conclude if the differences are statistically significant.

<sup>11</sup> The improvement for small businesses (firms employing less than 50 workers) is driven by an increase of vacancies in the 1-9 employee band from April to May of 65%.

<sup>12</sup> 25% in April figures

<sup>13</sup> Self-Employment Income Support Scheme (SEISS) Statistics: June 2020, HMRC

**Figure 7:** Coronavirus Job Retention Scheme Take Up

Notes: Number of jobs is calculated as the sum of the maximum number of employees furloughed by each PAYE scheme that has made a claim. Number of firms is calculated as the number of distinct PAYE schemes that have made a claim

**Figure 8:** Coronavirus Self-Employed Income Support Scheme Take Up

the official number of applications received for the Coronavirus Self-Employed Income Support Scheme (SEISS) was 2.6 million as of June 14 (Figure 8) with a total value claimed of 7.6 billion pounds. According to their analysis (2020) estimate the take-up of the scheme to be increasing significantly on 13<sup>th</sup> of May with 43% of their survey respondents replying as of 15<sup>th</sup> of May. However, it is worrying that of those who have applied are unsure about whether they are eligible for the scheme. Metrics from HMRC estimate the take up of the SEISS to be about 20% of the eligible population<sup>13</sup>.

Notes: Number of claims is calculated as the number of distinct PAYE schemes that have made a claim  
Source: HMRC.

## Support of dependent workers

Jobseeker's Allowance (Unemployment Benefit) has suffered no changes apart from the waiving of interviews and appointment attendance. Universal credit suspension of the minimum wage floor aims to facilitate eligibility of self-employed. An encouraging update relates to the option available to furloughed workers under the CJRS to take up part-time work for another employer if their employment contract allows. Additionally, flexibility on the phasing of workforce has been provided by allowing employers to be able to roll employees on and off furlough within the duration of the scheme. The first version of the CJRS did not allow for any of the previously mentioned options hence limiting the

allocation of work resources and alternative income sources. It is estimated that between 28 to 31% of the employees in the UK have now been furloughed<sup>14</sup>, these figures represent a considerable effort in reducing or postponing inflows into unemployment. Measures addressing job seekers are plausible to be announced at a later stage of deconfinement, so far the policies in place have focused on attenuating and postponing the inflows into unemployment.

## Working conditions and work organization

“Essential” sectors (health, wholesale retail (groceries), public transport) have adopted strict health guidelines with their operation procedures. Opening hours and/or frequency of service have been affected and “mirrored” work shifts are in place in order to try to minimize exposure and strain of workers. According to ONS survey calculations, 7.7% of workers in Great Britain responded that they have been working longer hours with no or reduced breaks in the past seven days.<sup>15</sup> Furthermore, when asked about if they are worried about their health and safety at work 17.2% responded positively. Blundell and Machin (2020) find that around a third of self-employed workers still working have felt their health safety at risk, when focusing on the subset of self-employed who work with digital platforms this steeply rises to 79%. Notice that the average self-employed worker, according to the study, experiences an exposure to health risk similar to that of key workers when surveyed by ONS in May<sup>16</sup>. Homeworking has seen a pronounced increase; in the month of April it is estimated that 36% of employed workers were always working from home compared to the reporting by the same workers in January and February of 6%<sup>17</sup>. The gender gap in working from home relative to the month of April was small but statistically significant, 2% in favor of men. Furthermore, education seems to play an important role in being able to perform work remotely from home, with 47.7% of graduates reporting being continuously working from home in April, whereas only 22.5% of non-graduates were able to do so. The gap illustrates a sharp difference even with respect to the same workers’ response in January and February, when the graduate to non-graduate differential was only 1.8% (7% of graduates and 5.2% of non-graduates reported as homeworking). More educated workers’ higher accessibility to remote work represents a significant shielding mechanism against the labor shock resulting from the lockdown and mobility restrictions in place. Looking at the sectoral difference in remote work arrangements one can see considerable variation with sector like Information and Communication, Education and Professional, Scientific and Technical Activities reporting a proportion of workforce working remotely considerably above 50% (Figure 9). In contrast sectors such as Accommodation and Food, Transport and Manufacturing show only approximately 20% of their workforce being able to work from their homes. When considering care responsibilities facing workers, it is estimated the COVID is directly affecting the degree of caring arrangements for 10% of those in working age with sharp gender differential: 7.2% of men compared to 12.6% of women. For those whose caring responsibilities were disrupted, 51% state that they are now spending more time caring for others.<sup>18</sup>

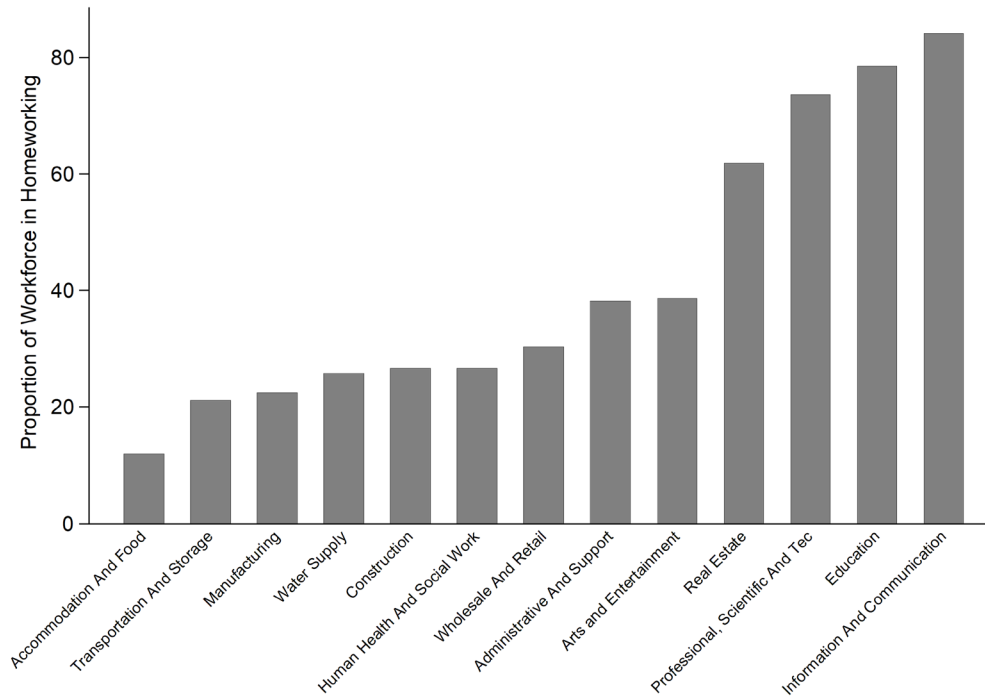
<sup>14</sup> Business Impact of COVID-19 Survey, 4-17 May, ONS

<sup>15</sup> Coronavirus and the social impacts on Great Britain: 12 June 2020, ONS

<sup>16</sup> Coronavirus and the social impacts on Great Britain: 7 May 2020, ONS

<sup>17</sup> Understanding Society COVID-19, May 2020, Institute for Social and Economic Research

<sup>18</sup> Coronavirus and the social impacts on Great Britain: 12 June 2020, ONS

**Figure 9:** Proportion of Workforce in Homeworking UK, May 2020

Source: Business Impact of COVID-19 Survey, 4-17 May, ONS

## New labor market entrants

Considering the recent figures on the performance of the UK labor market and the likely scenario for coming months, it is expected that school leavers and graduates will be facing remarkable difficulties in entering the market and potentially severe scarring effects. In general, sectors that usually absorb part of the downturn employment shocks of recent crisis are precisely the most affected in the current situation, this worsens considerably the outlook for new labor market entrants. A natural response from school and university graduates will be to stay on in education longer, such will imply the need for additional funding on an emergency basis aimed at both students and educators. For those choosing to leave education and try to enter the labor market, targeted job guarantee schemes and prioritizing of apprenticeships for younger people will be sensible policies to reduce the detrimental impacts of crisis for new labor market entrants.<sup>19</sup> Several key higher education institutions, including University of Cambridge and University of Manchester, have announced that their teaching will resume online for at least the next academic term. Other major universities, such as Oxford University and London School of Economics, are planning for a “blended” approach mixing online and face-to-face tuition next year. Although it is less clear how smaller institutions will adapt to the need for online teaching, the trend in the UK seems to be clearly oriented towards it. In a recent survey to the UK universities, 97% of the institutions (89 out of 92) answered they will be following a “blended” approach to teaching while the other 3% answered they will be exclusively online on the start of the new academic year.<sup>20</sup>

<sup>19</sup> For a comprehensive analysis of the economic consequences of the crisis on education leavers and policy recommendations to tackle it see Henekan (2020).

<sup>20</sup> <https://www.universitiesuk.ac.uk/news/Pages/Most-universities-will-teach-in-person-this-autumn.aspx>

## Policy innovations and labor market trends

It is expected an acceleration of the pre-crisis trend in shifting a share of the usual work schedule to working from home. As several current studies point out there was already a willingness-to-pay for job security among self-employed workers which were willing to sacrifice part of their income in order to access the benefits of the social safety net (Blundell and Machin, 2020; Boeri, Giupponi, Krueger and Machin, 2020). This preference will likely be intensified now that a significant proportion of workers in alternative work arrangements are suffering significant economic hardship. In the terms of structural changes in production technology, one expects a hastening in adoption of automation processes in production in order to circumvent the reliance on in-workplace presence. A degree of reorganization and reallocation of global value chain downstream production is likely to take place as consequence of firms experience during this crisis. In the UK for example, 20.5% of importing businesses<sup>21</sup> declared that they completely stopped importing materials, goods or services during the outbreak. Of those businesses continuing to import 60.4% has reduced their importing (62.5% for manufacturing)<sup>22</sup>. This shock can push firms to decrease dependency on single geographic-centric suppliers, which in turn can have the potential to benefit labor market effects for domestic workers and closer trade partnering economies. The shifts in global value chains will likely to prioritize resilience and responsiveness over low-cost, centralized production. When asked about what type of support would help their importing challenges, 15.4% of businesses whose importing has suffered from the current crisis state support in finding new alternative supply chains as beneficial. It is hard to disentangle if firms' future decisions regarding their downstream production will mainly be driven by Brexit or the COVID crisis, although the changes due to Brexit are heavily dependent on the future trade deals. Also, we expect to see further wage stagnation particularly with some sectors affected (passenger transport; accommodation and food; travel) being considerably restricted even in the medium run.

## Next steps and fiscal viability

According to OBR, the latest estimate of the aggregate cost of the COVID response support packages is approximately -132.5 billion pounds, 6.3% of GDP. The current policy stance is likely to be unsustainable if unchanged until the end of the year (potentially even earlier). Future fiscal viability is dependent on the speed of recovery of the UK and World economy and the "tolerance" by the international financial markets towards the sovereign debt level. If the tolerance shown is the same as the one display in the European crisis of started in 2008, then most likely it will not be sustainable and can bring pressure of restrictive fiscal policies in the medium-term with severe consequences for inequality in the long-run. Additionally, the UK is no longer part of the EU making the mutualization of debt via mechanisms such as the so-called "coronabonds" is not an option. A mitigating factor is a likely sustained reduction in the capital financing costs due to a fall in investment demand.

The next steps to revive economic activity without significant job destruction and high long-term unemployment need to be focused on an efficient and well-monitored phasing out of the job retention schemes coupled with a sustained policy of investment in human capital and reskilling. One in four workers are currently furloughed and their prospects of being kept on are critical to the recovery and the phasing down of the Job Retention Scheme. As employers start to bear more of the costs there would seem to be two groups to

<sup>21</sup> Importing business is defined as having imported in the last 12 months

<sup>22</sup> The effects were felt by exporter firm as well. 20.1% completely stopped their exporting during the outbreak, of those who did not 73.5% have reduced their exports.

carefully consider. The first will return to work, possibly first on a part-time or short time work basis. The second will not, either being laid off because there is not demand for their job, or because their employer closes down. For this group, policy is vital to ensure they do not be placed on a trajectory heading towards long-term unemployment, the economic, psychological and social costs of which are substantial as we know from a large body of research from earlier downturns that featured high levels of long term unemployment (Machin and Manning, 1999). It is important, for individuals, families and society that we do not return to the kind of long-term unemployment picture that did such damage in the UK in the early 1980s. Job guarantees for those reaching long-term unemployment (12 months), and perhaps at an earlier cutoff for younger workers (e.g. 6 months for under 25's), are being discussed by some UK labor economists.

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## IZA COVID-19 Crisis Response Monitoring **United States (June 2020)**

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### ABSTRACT

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Widespread business closures and social distancing practices led to an unprecedented fall in employment and rise in unemployment in the United States in March and April, although the labor market has improved somewhat since May. Extended and more generous benefits for the unemployed and measures to encourage businesses to retain workers have been the focus of the labor policy response. Although new policies strongly incentivize work share, program take up has been relatively low thus far. As key labor policy measures will expire at the end of July, the US Congress is debating a new relief package.

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## Labor market impact of COVID-19

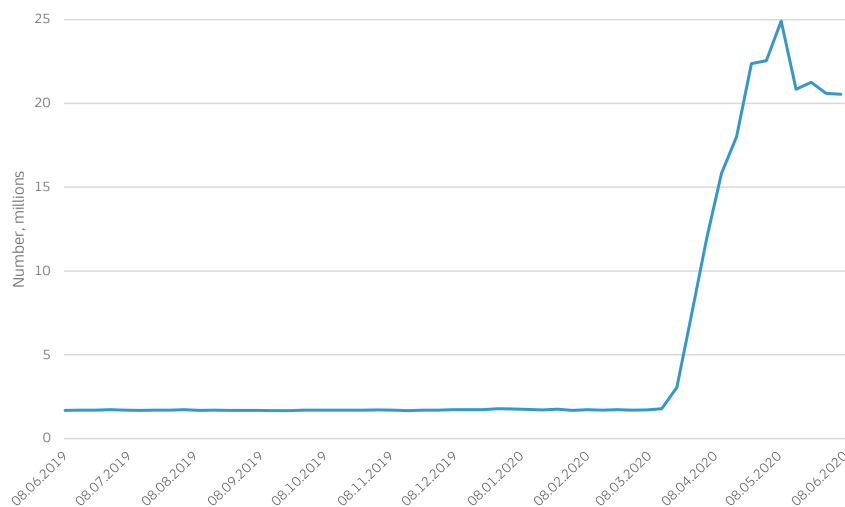
Widespread mandatory business closures and social distancing practices have led to an unprecedented fall in employment and rise in unemployment in the United States since March.

Official unemployment statistics for the United States are based on a monthly household survey. They are released at the beginning of each month and reflect the unemployment situation in the middle of the prior month (specifically, the week including the 12th of the month). A separate employer survey tracks changes in payroll employment. According to the U.S. Bureau of Labor Statistics (BLS)<sup>1</sup>, the official unemployment rate was 14.7 percent in mid-April, the highest since the Great Depression of the 1930s. Owing to potential problems in the coding by interviewers of individuals who were not at work during the survey week, the BLS reported that the unemployment rate could have been up to 5 percentage points higher. The employment-to-population ratio for those age 16 and older was at 51.3, the lowest rate recorded in the history of the series, which date back to January 1948.

Reflecting the loosening of restrictions on business openings, the employment situation improved somewhat between April and May. The official unemployment rate fell by 1.4 percentage points to 13.3 percent, and the employment to population ratio improved by 1.5 percentage points to 52.8 percent. The Bureau of Labor Statistics continued to flag as a problem the potential understatement of the unemployment rate.

Administrative data on unemployment insurance<sup>2</sup>, which are published weekly, similarly show a surge in unemployment during the crisis. Figure 1 depicts the number of people previously in wage and salary jobs receiving unemployment benefits over the last year. That number started rising sharply in mid-March and peaked at 25.9 million in early May. For the week ending June 6, the number receiving unemployment insurance benefits had declined to 20.5 million. Because this figure does not count those who are unemployed but do not normally qualify for unemployment benefits, which includes the self-employed and new entrants to the labor force, the concept is different from that measured in the household survey.

**Figure 1:** Number receiving unemployment insurance (millions)



Source: Administrative data published by the U.S. Department of Labor. The numbers exclude those on work-share programs and the self-employed on Pandemic Unemployment Assistance, who do not normally qualify for unemployment benefits.

<sup>1</sup> <https://www.bls.gov/news.release/pdf/empst.pdf>

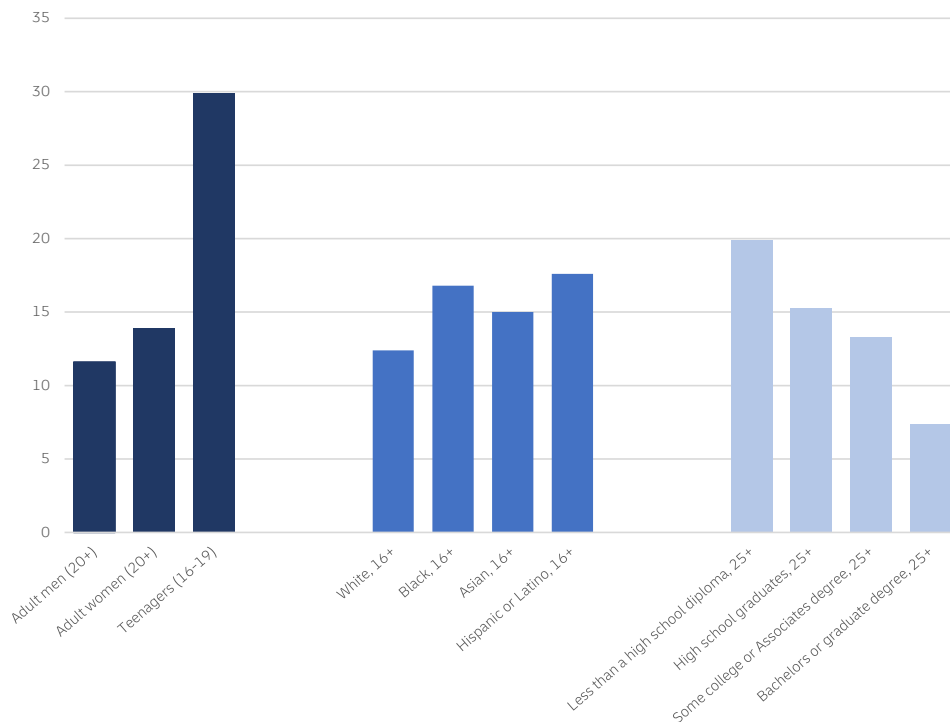
<sup>2</sup> <https://www.dol.gov/ui/data.pdf>

Analyses<sup>3</sup> of unemployment insurance claims from the state of California show that one-third of wage and salary workers age 16–23 and one fourth of those age 24–39 have filed for unemployment benefits. Especially striking is the fact that in California nearly half of those without any college education have applied for unemployment benefits during the crisis.

Mirroring the dramatic rise in unemployment, figures from the BLS employer survey<sup>4</sup> show payroll employment falling by 20.7 million between March and April. Nonfarm payroll employment rose by 2.5 million, recovering about 12 percent of the jobs lost in the preceding month. Job losses were widespread across sectors but especially steep leisure and hospitality, education and health, professional and business services (particularly temporary help agencies), and retail trade. Employment in the leisure and hospitality industry, which includes restaurants, fell by nearly half or 7.7 million between March and April; that sector recovered 1.2 million of those jobs between April and May.

Reflecting the composition of employment in sectors hardest hit by the crisis, the data show that youth, minorities, and the low educated have suffered especially high levels of unemployment (See Figure 2). Teenage employment, for example, was nearly 30 percent in May compared nearly 14 percent among adult women and between 11.6 percent among adult men. Unemployment falls dramatically with educational attainment. As shown in Figure 2, the unemployment rate among those age 25 and over with less than a high education was nearly 20 percent in May compared to an unemployment rate of 7.4 percent among the college educated.

**Figure 2:** Unemployment rates by age and gender, race and ethnicity, and educational attainment, May 2020



Source: U.S. Bureau of Labor Statistics, Current Population Survey

In addition to job loss, many people have experienced lower earnings because of reduced hours or a pay cut owing to the financial stress experienced by their employer. New data

<sup>3</sup> <https://www.capolicylab.org/wp-content/uploads/2020/05/May-21st-Analysis-of-California-UI-Claims-During-the-COVID-19-Pandemic.pdf>

<sup>4</sup> <https://www.bls.gov/news.release/pdf/empst.pdf>

from U.S. Census Bureau<sup>5</sup> show that in the week ending June 9, nearly half of those surveyed reported that they or someone in their household had experienced a loss of employment income since March 13. That figure was about 60 percent for those age 18–24, for Hispanics, and for those with less than a high school education.

## Orientation and targeting of adopted measures

The Corona Virus Aid, Relief, and Economic Security Act (CARES Act<sup>6</sup>) enacted at the end of March contains several important measures designed to mitigate the impacts of the pandemic on workers and businesses. In policies designed to reduce employment costs for businesses, the CARES Act gives businesses a payroll tax credit and sets up a program (the Paycheck Protection Program) that provides forgivable loans to small and medium sized businesses if they do not lay off employees.

The Act also provides substantial federal support for unemployment insurance during the crisis. In the United States, the unemployment insurance system is a federal-state partnership. While the federal government provides states with funding for the administration of the program, the benefits paid out to the unemployed normally come from state trust funds that are financed through experience-rated taxes on employers operating in the state. The CARES Act extends by 13 weeks the maximum duration of unemployment benefits, and the federal government reimburses the states for these extended benefits. Moreover, out of concern that the unemployment benefit is too low in many states to sustain the unemployed and their families during a period when new hiring is very low, the federal government is providing a supplemental unemployment insurance benefit of \$600 per week.

The CARES Act also provides benefits to selected groups who normally are not eligible to receive unemployment benefits—primarily the self-employed, which includes independent contractors and freelance workers. The federal government reimburses the states for all unemployment benefits paid to these groups.

Additionally, the CARES Act contains several provisions designed to promote the use of short-time compensation (STC) or work sharing during the recession. At the start of the recession, only 26 states, which accounted for about 70 percent of the U.S. workforce, operated work-share programs. The law provides financial support to states without work-sharing to develop one. Through the end of the year, the federal government will reimburse states for all STC benefits paid out. This means that state UI trust funds, which are being rapidly drained by the high level of regular unemployment insurance payments, will not be affected by STC use and employers will not face higher future unemployment taxes if they use work sharing in lieu of layoffs. Importantly given the already high level of unemployment, employers are permitted to use work sharing to bring furloughed workers back to work and even to hire new employees. Those on work share receive the flat \$600 weekly federal supplement to their unemployment benefit, irrespective of the percentage cut in hours. These generous STC benefits should make the work sharing attractive to workers.

Even if an employee is not laid off, the worker may be unable to work for reasons related to the Covid-19 crisis. Workers may themselves be sick with the virus or may have to care for family members who are sick. Additionally, most schools and daycares closed, leaving many workers without affordable childcare options. In response to these problems,

<sup>5</sup> <https://www.census.gov/data/tables/2020/demo/hhp/hhp6.html#tables>

<sup>6</sup> <https://www.govinfo.gov/content/pkg/BILLS-116hr748enr/pdf/BILLS-116hr748enr.pdf>

the Families First Coronavirus Response Act<sup>7</sup>, enacted into law in March, requires small and medium sized employers to provide paid sick leave (up to two weeks with full pay) and paid family and medical leave (up to 10 weeks at two-thirds workers' regular pay) to employees who must miss work for reasons related to the coronavirus outbreak. Although most large employers offer paid sick leave and family and medical leave, this act does not mandate coverage by employers with over 500 workers, and some have argued this omission represents a major gap in coverage<sup>8</sup>.

## Immediate liquidity support to businesses

Under the Paycheck Protection Program, if the business retains all employees, the loan is forgiven. The original law stipulated that at least 75 percent of the loan must be used for employee compensation, but that share was subsequently reduced to 60 percent. This program has been very popular and ran out of its initial \$349 billion allocation in less than two weeks. Congress has replenished the fund with an additional \$310 billion. The loans under the Paycheck Protection Program are only available for businesses with 500 or fewer employees. One concern has been that relatively large organizations have been better equipped to apply for loans, which have been administered through private lenders, and that smaller businesses have been underrepresented among those receiving funds.

Additionally, the federal government has helped provide liquidity to medium and large businesses by purchasing loans on favorable terms. For large businesses, the federal government has been buying corporate bonds directly (up to \$750 billion), and for medium sized businesses it has been purchasing business loans from banks (up to \$600 billion).

As noted, independent contractors, freelancers, and other self-employed individuals may receive unemployment benefits through a special federally funded program. This new program, Pandemic Unemployment Assistance (PUA), took time to set up in each of the 50 states, but applications for unemployment benefits through the PUA—many if not most of which come from the self-employed—have been large in recent weeks. In the week ending May 30, 9.2 million of the 29.2 million receiving some type of unemployment benefit in the United States were funded through the PUA<sup>9</sup>.

## Support of dependent workers

As outlined above, the primary policy for dependent workers (i.e., employees) losing their jobs has been income support through the state-run unemployment insurance system, supplemented with a federal benefit. States were overwhelmed with applicants in the early weeks of the pandemic and the processing of applications was slow. While the situation varies across states, the state unemployment insurance agencies have been hiring and training new staff and are now better able to process the applications. The insured unemployment rate for dependent workers, defined as the share of dependent workers receiving unemployment benefits, was high—17.2 percent—in the week ending May 9.

The federal supplement to the state benefit was set at a fixed amount (\$600 per week through the end of July) to speed the processing of claims. The supplement,

<sup>7</sup> <https://www.dol.gov/agencies/whd/pandemic/ffcra-employee-paid-leave#:~:text=Families%20First%20Coronavirus%20Response%20Act%3A%20Employee%20Paid%20Leave%20Rights,reasons%20related%20to%20COVID%2D19.>

<sup>8</sup> <https://www.washingtonpost.com/business/2020/03/16/paid-sick-leave-coronavirus-house-bill/>

<sup>9</sup> <https://www.dol.gov/ui/data.pdf>

however, makes benefits very generous for low and middle-income workers. Analyses of unemployment insurance administrative data<sup>10</sup> in the state of California show that the wage replacement rate for workers on unemployment insurance is 140 percent—meaning that more than half of workers receiving benefits are earning substantially more than they did when employed. Consistent with this evidence, a study<sup>11</sup> of the entire United States estimates that, with the federal benefit supplement, the median unemployment insurance benefit replacement rate in the United States is 134 percent and that two-thirds of workers eligible for unemployment insurance could earn more than they would earn on their jobs. There have been widespread reports from employers that it is difficult to get workers to return to work. Although in principle workers become ineligible for benefits if they turn down a job offer or are recalled to their old job, this rule may be hard to enforce during the economic crisis.

Thus far, although use of work-share programs is high by historical standards, less than one percent of workers receiving unemployment insurance benefits are on work-share programs. Active labor market programs have been greatly pared back both because there has been relatively little new hiring and because job service centers have been closed due to health risks. In Michigan, some employees who had been working in job service centers have been reassigned to assist with the processing of unemployment insurance claims and setting up work-share programs.

## Working conditions and work organization

As in other countries, there has been a tremendous increase in remote work wherever this is feasible—generally for office workers. Although U.S. statistical agencies have not collected data on the prevalence of remote work since the start of the crisis, several privately conducted surveys have. The Gallup organization reports that in mid-April, 62 percent of employed respondents to its panel survey<sup>12</sup> reported working from home out of concern for the Covid-19 virus, up from 31 percent in mid-March. Consistent with this estimate, a Google Consumer Survey<sup>13</sup> conducted by researchers at MIT and Upwork in early April estimates that among those employed four weeks prior to the survey and still employed at the time of the survey, about 55 percent were working remotely and that 38 percent, or 69 percent of those working remotely at the time of the survey, had shifted to remote work during the four weeks.

In the United States, there has been no national policy regarding which businesses should be shut down to prevent the spread of the virus, when those businesses may reopen, and what workplace practices must be adopted to help prevent the spread of the disease and to protect workers. Instead, those decisions have been left up to the governors of each of the 50 states and, in many cases, individual businesses have adopted more restrictive practices to protect workers. Restrictions, for example, have involved limiting the number of people who may enter retail stores, requiring individuals in open spaces to wear face masks and stay at least 6 feet from others, and mandating daily checks of employees' health status before they may enter the workplace.

Even though all states have greatly relaxed restrictions on business openings since

<sup>10</sup> <https://www.capolicylab.org/wp-content/uploads/2020/05/May-21st-Analysis-of-California-UI-Claims-During-the-COVID-19-Pandemic.pdf>

<sup>11</sup> <https://www.nber.org/papers/w27216.pdf>

<sup>12</sup> <https://news.gallup.com/poll/311375/reviewing-remote-work-covid.aspx>

<sup>13</sup> [https://john-joseph-horton.com/papers/remote\\_work.pdf](https://john-joseph-horton.com/papers/remote_work.pdf)

May, many companies, including prominent tech companies<sup>14</sup>, continue to have their employees work remotely when feasible. Google, Facebook, and Microsoft, for example, have announced that many of their workers can work from home through the end of 2020.

Some businesses have redesigned their workplaces to make them safer for employees. For instance, many stores and factories<sup>15</sup> have erected plexiglass barriers to protect workers from customers or other employees. Some businesses, most notably meat packing<sup>16</sup> facilities where employees work in cramped conditions, have been forced to shut owing to Covid-19 outbreaks among workers.

## New labor market entrants

College students usually graduate in May and high school students in June. Although the labor market for new graduates is very weak, thus far, labor market policies have focused on assisting those who have lost work, not on those entering the labor market. As shown in Figure 2, the unemployment rate for teenagers—which includes high school leavers—was nearly 30 percent in mid-May and points to the serious challenges facing new labor market entrants.

## Policy innovations and labor market trends

Virtually all state governors implemented mandatory business shutdowns in March and April and have since largely lifted restrictions, allowing most if not all businesses to reopen. There has been considerable variation across states in approaches to and the timing of re-openings, and because there has been no uniform national policy to govern the process, this variation is not always related to regional variation in coronavirus trends.

Provided another major coronavirus outbreak does not materialize, the economy is expected to continue to steadily improve. Nonetheless, many businesses likely will not be operating at full capacity until a vaccine or effective treatment is developed, and the Congressional Budget Office<sup>17</sup> projects unemployment to remain high through 2021. As noted earlier, the federal government is permitting employers to use work share to rehire furloughed workers<sup>18</sup>, which has the potential to significantly lower unemployment and help reconnect workers to jobs. Furthermore, the CARES Act provides strong incentives for states to promote the program and for employers and businesses to use it: The federal government will pay for all short-time compensation benefits through 2020, and consequently state unemployment insurance trust funds will not be drained and employer unemployment insurance tax rates should not increase if employers use STC in lieu of layoffs; employees on STC receive a generous federal supplement to the unemployment insurance premium, making this option attractive to workers.

Although there have been reports of strong interest in STC by both private sector and government employers, as noted, the weekly unemployment insurance reports suggest that use is still relatively low—accounting for less than 1 percent of those receiving

<sup>14</sup> <https://www.cnn.com/2020/05/08/tech/tech-companies-working-remotely-2020/index.html>

<sup>15</sup> <https://www.cnn.com/2020/04/30/cars/gm-ford-plans-restart-us-factories/index.html>

<sup>16</sup> <https://www.wired.com/story/why-meatpacking-plants-have-become-covid-19-hot-spots/>

<sup>17</sup> <https://www.cbo.gov/publication/56335#:~:text=The%20Labor%20Market,percent%20in%20the%20first%20quarter.&text=In%20particular%2C%20the%20unemployment%20rate,by%20the%20end%20of%202021.>

<sup>18</sup> <https://www.wsj.com/articles/since-work-is-rare-its-time-to-share-11589235150>



unemployment benefits. Low use may reflect lack of familiarity among employers in the program. Prior research<sup>19</sup> shows that relatively few employers in states with programs know about the option, and that this lack of information poses a major impediment to its use. In addition, the process of setting up a work share program is more involved for employers. Just as unemployment agencies have been slow to process regular unemployment claims from individuals, state agencies have been ill-equipped to handle the surge of interest from employers in work sharing. In Michigan, for example, the state agency has increased staff to handle this interest and this is likely occurring in other states as well. Given strong financial incentives to use work share programs, there may be a significant increase in use of the program in the coming months. It is also possible that states unemployment insurance agencies, whose staff have been overwhelmed during the current crisis, lag in their reporting on STC program use.

## Next steps and fiscal viability

The United States is at a policy crossroads. Three months into the pandemic recession, unemployment remains at historically high levels and Congress is debating the next round of legislation to give further relief to the unemployed, to provide additional liquidity to businesses, and to boost hiring. Generous federal supplemental benefits to regular weekly unemployment insurance benefits have been effective in providing financial assistance to the many low-wage workers who have been laid off, but these benefits are set to expire at the end of July. The fact that a majority receiving unemployment insurance earn more than they did while working has been highly controversial, and it is unclear whether these payments—or any federal supplement—will be extended beyond July.

Another salient issue is budgetary problems<sup>20</sup> faced by states. Unlike the federal government, which can run budget deficits, states must balance their budgets each year. High unemployment and a reduction in business revenues are expected to lead to large state budget shortfalls. States, in turn, will need make deep cuts to services, which will have adverse spillover effects on the economy. So far, the federal government has provided limited assistance to states, and those funds must be directly tied to expenditures related to addressing Covid-19 issues. This situation has prompted calls for additional, significant aid from the federal government to states.

It is likely that a new focus of this round of legislation will be on economic stimulus measures that will increase hiring through federal spending on infrastructure projects. The policy landscape is fluid, but reports suggest that federal budgetary expenditures in legislation that includes infrastructure spending could be large—possibly approaching or even exceeding \$1 trillion.

<sup>19</sup> <https://research.upjohn.org/cgi/viewcontent.cgi?article=1081&context=externalpapers>

<sup>20</sup> <https://www.upjohn.org/research-highlights/automatic-stabilizers-and-federal-aid-states>