

## RESEARCH REPORT SERIES

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IZA COVID-19 Crisis Response Monitoring

### **The Second Phase of the Crisis**

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IZA COVID-19 Crisis Response Monitoring  
**The Second Phase of the Crisis**

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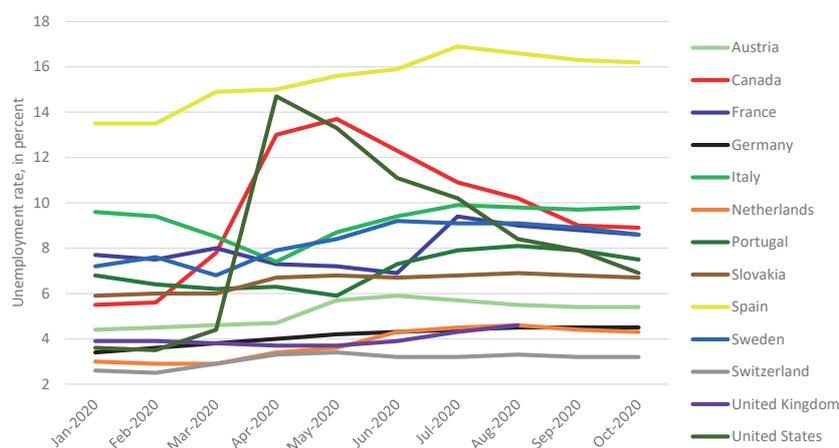
## Revisiting crisis responses

As the pandemic continues and countries experience a massive second wave, labor markets continue to be heavily affected. At the same time, countries have started to extend, but also adjust stabilization measures initially introduced at the outset of the crisis. As of today, three main elements of crisis response require particular attention: the further development of short-time work schemes, ad hoc income protection for the self-employed, and the specific difficulties labor markets are currently facing. This overview addresses focusses on these three essential issues.

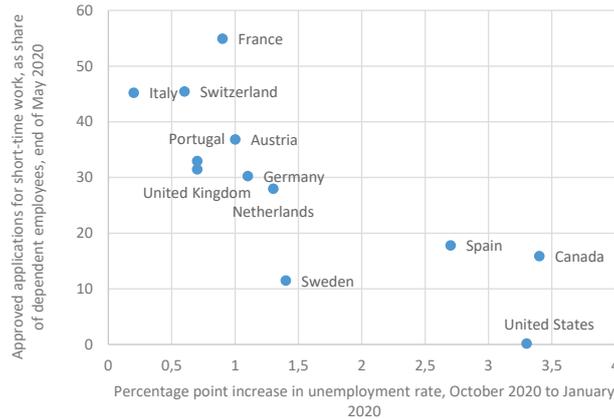
## Labor markets in the second phase of the crisis

Regarding the labor market and considering the development of unemployment during the course of 2020, there has been a massive increase in countries as diverse as Austria, Spain or Sweden. However, this increase has been even larger in the United States, while other countries saw a rather moderate reaction of unemployment, e.g., France, the UK or Italy. Some countries have seen a massive decline in working hours in general, and in particular a massive increase in notifications for and take-up of short-time work or job retention schemes although there is a lack of up-to-date data on actual use, while national data show some decline in the second half of 2020. This points at important institutional factors in explaining labor market reactions. Hence, countries can be mapped along the following two dimensions: a) the increase in unemployment, and b) the extent to which short-time work is used, based on broadly comparable data available. Figure 2 provides the general picture, which points towards an inverse relationship between the early expansion of short-time work and changes in unemployment. The United States is the most prominent case of a steep initial unemployment increase with some improvement later on. To date, many other countries see a relatively stable development of unemployment (and employment). This is partly caused by declining labor force participation (e.g., Italy), but mostly by a steep increase in short-time work in the first half of 2020, with a decline afterwards.

**Figure 1:** Monthly unemployment rates, 2020



Sources: OECD.Stat, Monthly Unemployment Rates; amstat.ch. Note: Switzerland: data for unemployment rates are based on national databases; end point for UK is August 2020.

**Figure 2:** unemployment/short-time work, latest

Sources: OECD.Stat, Monthly Unemployment Rates; OECD Employment Outlook 2020, Figure 1.8; amstat.ch. 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. Switzerland: data for unemployment rates are based on national databases; end point for UK is August 2020.

## Extended income stabilization via short-time work

The initial crisis response in the first half of 2020 included in virtually all covered countries a version of short-time work schemes. While short-time work is an established policy tool in several countries, others implemented new schemes. The rapid diffusion indicates that the pandemic has facilitated policy learning. Moreover, countries with existing schemes typically introduced temporary expansions to make them more inclusive and to lower residual costs for employers. Prima facie, the measures seem to serve their goal of keeping unemployment low. As shown in Figure 2, countries with strong reliance on short-time work have experienced weaker growth of joblessness. Particularly in countries with strict employment protection, short-time work is an attractive form of adjustment for firms which would otherwise need liquidity for separation costs. At the same time, short-time work has incurred considerable cost for public budgets. This is why policy debates in many countries have revolved around how long the measures should be kept in place.

Hence, while short-time work remains a crucial policy tool, some countries have begun or plan to phase out at least parts of it. These plans were obstructed in many cases by the second wave of the pandemic. The UK, for instance, introduced the new Coronavirus Job Retention Scheme, which compensates 80 percent of the salary of workers who are send leaves by their companies. This scheme was planned to be phased out from May onwards. However, in the face of re-surfing case numbers, this decision was recently revoked and the scheme was extended until March 2021. In France, the temporary expansion of short-time work (limited until the end of 2020) initially abolished all residual costs to employers. Since June, employers in most sectors have to pay ten percent of the short-time work benefit. The Dutch government introduced a new temporary scheme in March. It recently decided to extend it until June 2021, while the initially very high replacement rates of 90 percent are gradually reduced to 60 percent. Also, eligibility for firms will be tightened in January 2021. Austria follows a different approach by defining a maximum budget (not reached yet) and by regularly extending short-time work if necessary. In October, eligibility was tightened by narrowing the allowed reduction of working hours to a range from 30 to 80 percent (previously ten to 90 percent). In addition, stronger requirements to combine short-time-work benefits with training were introduced. In Switzerland temporary expansions of short-time work expired in August, but were partly re-instated in November when the

second wave hit the country. Also the German and Spanish governments decided to prolong the crisis-related expansions into 2021.

In sum, the common trend across countries is that planned expiry dates of new or expanded schemes are postponed because of the second wave. This reflects the fact that many governments and experts view short-time work as an effective policy response to the crisis. However, in many countries concerns about costs and deadweight losses are growing, which in some cases is reflected in adjustments towards lower generosity.

There is a general concern regarding job retention or short-time work schemes that becomes more serious the longer the crisis lasts. The longer firms and workers rely heavily on (generous) short-time work schemes, the less likely appears a full return to the “old normal” before the crisis as markets and business models change. A long period of ‘passive’ short-time work may keep unemployment low for the time being, but also make further adjustments in employment more difficult. Rather, the main challenge is to prepare for either changing job requirements when firms undergo internal restructuring in an increasingly difficult economic environment or for a move to other employers, sectors or occupations if external mobility on the labor market is the only viable option in the medium and long run. This makes retraining (during short-time work) essential, ideally combined with work experience in firms, sectors or occupations with better employment prospects. It might make sense to stipulate that advice on future job options, related training and acquiring some real-world work experience (e.g., via internships, posting, or qualified secondary education) are established as general requirements when extending public short-time work support. In a way, this would imply a partial detachment of long-term short-time workers from their employer even when the employment relationship continues to exist. Current policies in most countries do not effectively move in that direction and neglect the training and mobility component in short-time work. Training elements are not very strong in short-time work schemes at the moment although some countries are beginning to move in that direction. Providing mostly “passive” short-time work support for a longer period, e.g., as in the German case, is not a sustainable solution. A stepwise strengthening of the co-funding share borne by employers that continue to rely on short-time work would also be essential as to create a stronger incentive to reconsider the viability of jobs stabilized through job retention schemes.

## **Beyond temporary income support to the self-employed**

The peculiar situation of self-employed workers has triggered the creation of tax-funded ad hoc support schemes that are hardly integrated into the regular unemployment insurance system. In some cases, access to means-tested income support was facilitated by lifting requirements. All these measures have a distinct temporary nature, and they are tax-funded as the self-employed are typically not covered by contributory unemployment insurance (except for some self-employed in Portugal, for example). Where there is unemployment insurance for the self-employed the coverage used to be very limited, e.g. in Germany or Austria, but also in Sweden where self-employed had to close down their business in order to claim unemployment benefits if insured on a voluntary basis. All in all, however, the social protection of self-employed workers was patchy at best at the outset of the crisis, so that emergency measures to close these gaps had to be undertaken.

They have taken different forms by way of temporary assistance programs (e.g. in Germany, the United Kingdom, the United States or the Netherlands) sometimes introduced as designated ‘hardship funds’ (e.g. in Austria, Switzerland or France) that provide self-employed experiencing significant earnings losses with one-off payments or a limited

number of repeated monthly payments. Some countries granted lump-sum payments (e.g. in the Netherlands, Italy or Germany) while in some cases payments were related to earnings losses (such as in Austria, Slovakia, in the United Kingdom or Portugal), covering operating expenses and/or living cost as well as tax and contribution referrals. The duration of the measures was designed to correspond more or less to the duration of lockdown period(s). With hindsight, the early support schemes often did not cover operating expenses and entrepreneurial remuneration (living expenses) of the self-employed appropriately, leading to some difficulties in claiming and implementing them correctly (e.g. in Germany). While originally the ad hoc measures were expected to expire in early summer, most programs have been continued or reactivated in fall with the second lockdown period (see, for example, the Austrian hardship fund, TOZO in the Netherlands or SEISS in the UK). Some of the schemes look different now compared to the situation in spring 2020. Typically, they were designed to become more accessible and better targeted, trying to reach also subgroups of self-employed neglected before such as arts and culture freelancers. The generosity varies, and administrative implementation is still slow in some cases.

It is justified to support the self-employed through tax funded measures when their activity is banned or severely hampered during lockdown periods, e.g. in events and trade fairs, tourism, arts and culture, hairdressing, small shops and restaurants etc. Beyond the acute crisis, income fluctuations of self-employed deserve a more conceptual and fundamental consideration. To date, to design a regular and permanent system of unemployment protection for self-employed workers is still a pending issue. Taking into account the crises responses in individual countries, a more stable institutional solution in terms of a contribution-based unemployment insurance or an equivalent mechanism is not visible yet, but it will likely be an area for intensified debate during later stages of the pandemic and its aftermath.

Introducing a contributory unemployment insurance for the self-employed can be considered fair with regard to employers and employees contributing to unemployment insurance and the tax payers, reducing, first, the moral hazard of self-employed that do not save and are not obliged to, but can rely on collective support in times of crisis, and, second, labor cost arbitrage considerations of employers or clients that resort to outsourcing via formally self-employed contractors given their competitive edge. Design issues are quite complex in self-employed unemployment insurance, in particular regarding appropriate funding, benefit generosity, and the voluntary/mandatory character of the self-employed unemployment insurance. More or less subsidized voluntary unemployment insurance models for the self-employed typically only have low coverage rates, hence a mandatory insurance would allow for a better pooling of risks and could ensure a more substantial protection as well as more reliable funding.

One option would be to integrate people who are to a substantial extent engaged in self-employment into public unemployment insurance (and old-age insurance), at least after an initial start-up phase. By doing so, it would be possible to establish a clear link between benefits and contributions comparable to dependent workers. The self-employed would become liable to pay contributions, based on declared earnings, which would then lead to earnings replacement in case of an involuntary and final stop of business. Under certain conditions a partial unemployment benefit, similar to a short-time work allowances for employees, could be feasible, provided that the involuntary and temporary character of reduced activity can be proven. Of course, this would make self-employment potentially more expensive in terms of labor cost and bring self-employment more in line with dependent employment but this would also reduce the labor cost advantage of outsourcing to self-employed which can be understood as implicit subsidy of self-employment currently.

## Postponed Challenges for Labor Market Entrants

The current crisis continues to pose significant challenges for labor market entrants in many countries. This group of typically young individuals with limited work experience will have to compete with many highly skilled, experienced and qualified job seekers in the foreseeable future. It is a well-established fact that graduating in a recession leads to significant long-term disadvantages in terms of wage and employment outcomes. In the current crisis, the situation is exacerbated by the fact that sectors that usually absorb part of the downturn employment shocks of recent crises are now precisely the most affected. It therefore remains of utmost importance to build bridges for young people leaving school or university that establish early contacts to employers and provide work experiences. However, in many countries the focus of crisis responses has been on supporting measures to stabilize existing employment relationships. This has been the case, for example, in Southern European countries such as Italy, Spain or Portugal where youth unemployment rates had been notoriously high already before the current crisis. But it also applies to countries such as the Netherlands, Sweden, the United States and Canada, which have so far also not implemented specific measures for young labor market entrants.

Other countries did implement specific measures for labor market entrants. For example, the French government launched a “youth plan” in July 2020 that involves hiring subsidies for firms as well as funded training opportunities for low-skilled young persons. The United Kingdom has announced initiatives aimed at training and retraining, which will however only start to be implemented in mid-2021.

Relatively smooth school-to-work transitions can generally be observed in countries with dual apprenticeship systems, such as Austria, Germany and Switzerland. However, given persistently weak labor demand, the potential problems of current graduates might be actually amplified in these countries. But according to preliminary evidence, the negative impacts in these countries appear at least less severe than initially expected; and these countries mostly also adopted specific measures to stabilize the apprenticeship market.

In Germany, for example, a substantial slowdown of the matching process between applicants and apprenticeship positions can be observed. But both supply and demand decreased simultaneously by about 8 percent compared to the previous year. This ultimately resulted in roughly 11 percent more applicants who had not been placed in 2020. Against this background, a joint federal support initiative to make apprenticeship capacities more resilient in times of crisis has been adopted. Similar developments can be observed in Austria and Switzerland.

Vocational training as a joint responsibility of public actors, employers and trade unions has been one key element of resilient youth labor markets in the past. It appears that this dual apprenticeship model continues to provide relatively smooth transitions, also due to the continued commitment of the involved stakeholders.

In countries where such a dual apprenticeship system does not exist, governments and social partners should thus try to establish functionally equivalent programs that help integrate young people into initial jobs along with the provision of relevant skills, after school or university. In the current situation this will require the increasing use of digital tools. The idea of the European youth guarantee may also be helpful in that respect, but it calls for a systematic implementation in countries and regions that are particularly affected, ensuring a sufficient quality of work and/or training offers.

## **Further stabilization efforts in the second phase**

Many countries have undertaken unprecedented and continued governmental stabilization efforts with considerable fiscal implications, using a broad repertoire of instruments to mitigate income losses, avoid or postpone bankruptcies and dismissals. While many of the temporary emergency support schemes were initially planned to be phased out over the summer, the bulk of them was continued into fall and winter and announced to run until mid-2021. This shows the continued importance of income and employment stability during the current second wave of the pandemic. In some countries, these responses rely to a larger extent on automatic stabilizers, while the amount of additional discretionary measures is generally large. Nonetheless, the overall degree of policy innovation appears rather incremental than revolutionary – possibly with the exception of new or revised short-time work schemes in some countries and some ad-hoc schemes to support the self-employed. Yet, beyond the current emergencies, the further development of these policies is still a pending issue that warrants close observation over the next months.

## IZA COVID-19 Crisis Response Monitoring **Austria (October 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. Since the end of the lockdown in May, the employment situation improved gradually. In September, unemployment was about 22% higher compared to the same month in the previous year (down from almost 60% in April). The number of workers registered with the short-time working scheme declined by 70% from the peak in spring. Since the start of autumn, however, the number of new Covid-19 infections has been rising again and the federal government as well as regional authorities have re-imposed more restrictions that will impact the recovery negatively. In November 2020, there will be a partial lockdown with a closure of restaurants and theaters.

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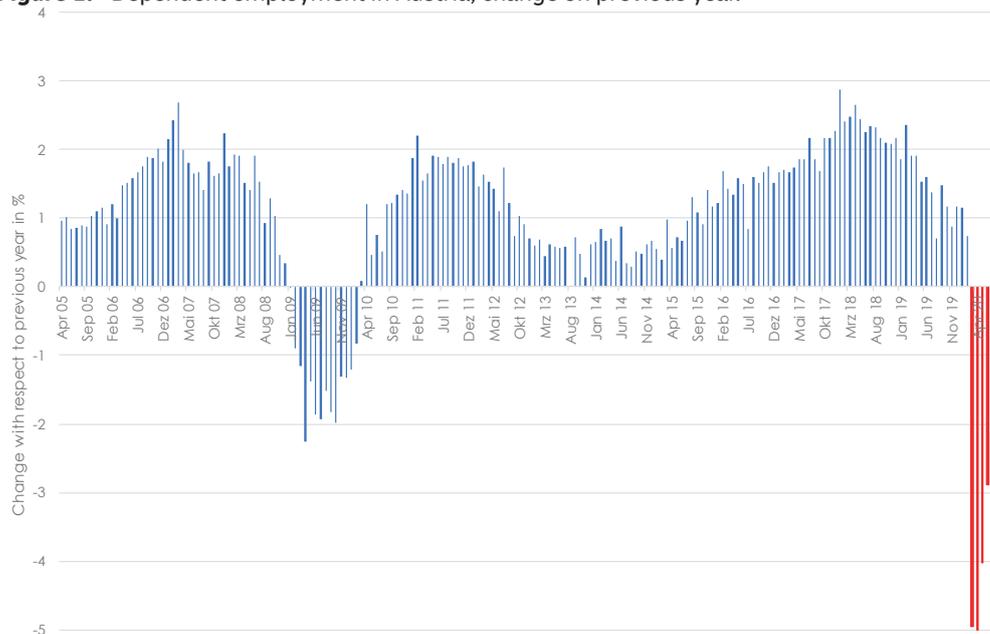
Böheim, Leoni (2020): IZA COVID-19 Crisis Response Monitoring: Austria (October 2020).

## 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. Over the summer, the situation largely normalized, and most pandemic measures were lifted. Restrictions applied to events and gatherings of larger numbers of people, as well as to workplaces, which limited the allowed number of persons. Since the start of autumn, however, the number of new infections has been rising and the federal government as well as regional authorities re-imposed restrictions.

The strict measures during the lockdown and the ensuing economic crisis 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. (See Figures 1 to 3.) 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 was less by a quarter due to the discontinuation of training courses, the number of persons registered as unemployed was greater by about two thirds. The unemployment rate (based on persons registered with the PES, excluding persons in training) reached 12.7%. This is the largest unemployment rate for April since the early 1950s and it was only exceeded by the unemployment in the winter of 1953/54.

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



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

The rise in unemployment was mirrored by a strong decline in employment. In comparison to March and April of 2019, total employment was lower by about 5%,

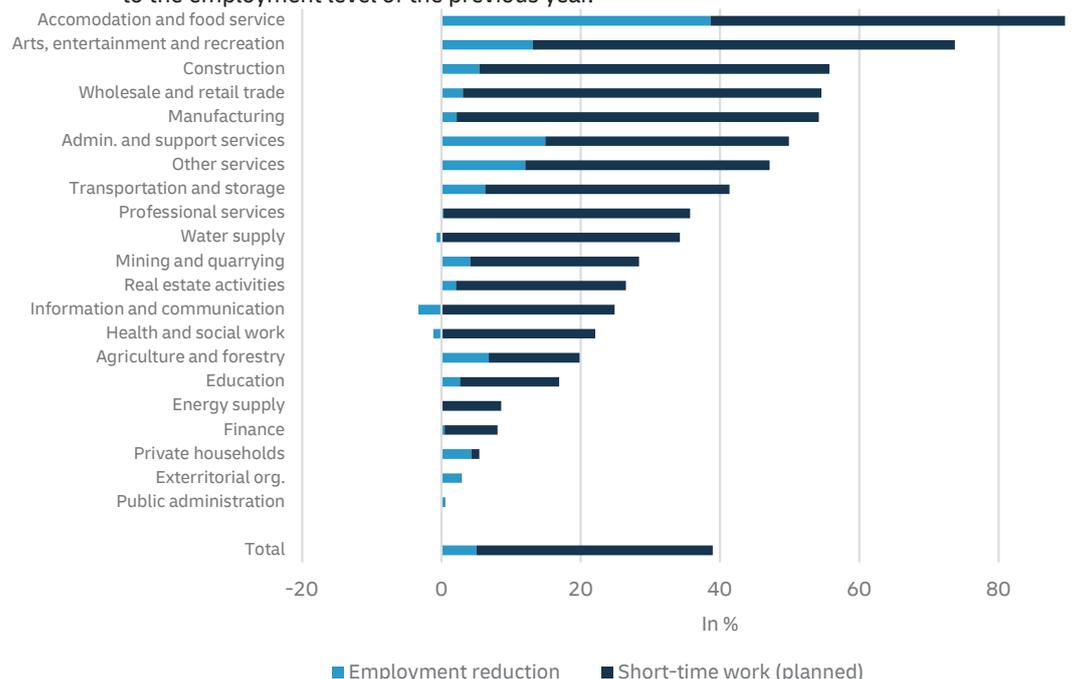
corresponding to a loss of 185,000 jobs. In May, however, the labor market situation improved slightly. The number of unemployed fell by almost 10% compared to April and employment rose by 1.6%. Compared to the same month in the previous year, unemployment was still up by 50% and employment down by 4%, but the downward spiral halted.

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. The labor market effects of the crisis were 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 loss of 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 the employment level of the previous year.



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

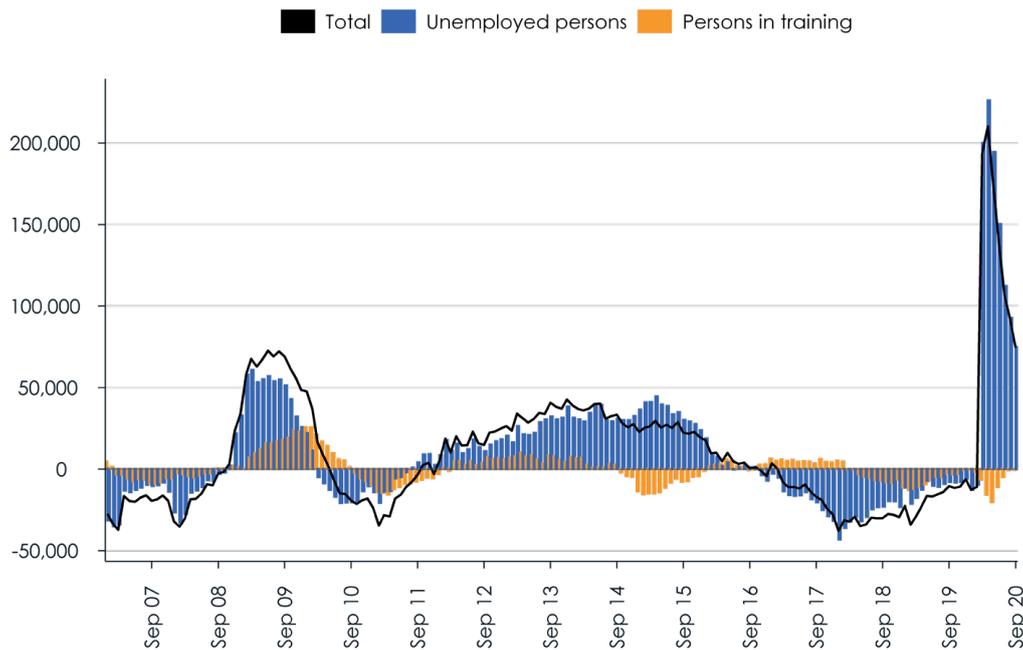
Gaps between other worker groups are much more pronounced. The number of workers with Austrian citizenship fell by 4% (114,000 workers), but for workers with foreign citizenship the job loss was more than twice as large (-9.2%, corresponding to 72,000 workers). This difference reflects the different 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 were 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 their, compared to white-collar workers, weaker employment protection. 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 be extended by collective agreement. Young workers (under the age of 25) were 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 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 almost one third of the workforce. Figure 2 shows the impact that this measure had on employment across industries. Although these numbers do not show to what extent the short-time periods were used – firms do not need to use their approved applications – it is safe to say that 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%.

With the beginning of the summer, the employment situation started to improve. In July, the employment level was 2.1% lower than in July of the previous year, while in August it was 1.1% lower (Figure 1). Unemployment has also been declining (Figure 3). In August, registered unemployment was up by one third with respect to the same month in the previous year and the number of those in training, which had dropped during the lockdown, returned almost to the level of 2019. The most recent data released by the PES indicate that this positive trend continued in September. Registered unemployment plus training were up by 75,000 persons compared to the numbers of the previous year's September. The year-on-year comparison thus shows an increase of 22% in September, compared to a peak of 58% in April. These developments were accompanied by a steady reduction in the number of workers registered for short-time work. This number peaked in April and May, involving up to 1.3 million workers, but it has been declining since then and stood at about 400,000 workers at the beginning of September. It must be noted that not all workers registered for the scheme end up working short-time, as firms can decide flexibly to what extent they want to use this instrument once their application has been approved.

**Figure 3:** Number of registered unemployed in Austria, change on previous year.

Source: Arbeitsmarktservice, WIFO.

Despite these overall positive trends, the labor market situation remains difficult, particularly for vulnerable groups of workers who face an increased risk of long-term unemployment and labor market exit. Moreover, the impact of the crisis continues to be asymmetric across industries (Bock-Schappelwein, Fritz, Huemer and Hyll, 2020). In addition to the accommodation services (-8.3% employed persons in August, compared to the previous year) and food services (-12.2%), there are several sectors in which lost employment due to the pandemic did not rebound. These include personal services, such as hairdressing and beauty salons; leisure and cultural services, such as libraries, museums, betting offices, theaters, and sports facilities and fitness centers; and the creative, artistic, and entertainment activities. In the arts and culture sector, large numbers of workers are self-employed and thus the loss in dependent employment reflects the decline in economic activity only incompletely. Employment losses are recorded also for temporary agency employment and other economic services (-6.7%) as well as in the large manufacturing sector, where employment in August was 1.6% lower than in August of the previous year.

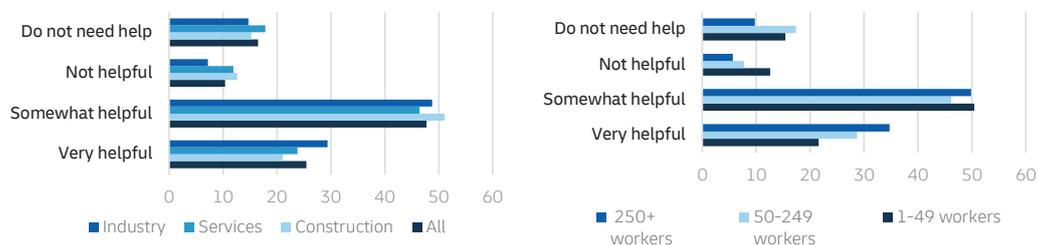
Some industries – agriculture and forestry, energy and water supply, information and communication, and public services (education, health care) – were, on the other hand, able to stabilize or even expand their workforce. A remarkable development took place in the construction sector, where employment in August, compared to previous year's August, was up by almost 6,000 workers (+2.1%). However, at the same time the number of registered unemployed from the construction sector was also up by about 6,000 workers, which corresponds to an increase of about one third.

## 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 an initial 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 measures received additional funds since May 2020, for example, state guarantees for exporting firms were extended from €2 billion to €3 billion.

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 4:** 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 4).

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

<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).

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).

A survey among businesses in August 2020 suggests that about two thirds of these businesses used short-time work (Hölzl et al., 2020). There was little change over time, in March some 64% of businesses used short-time work and in August it was about 66%. Financial support to ensure financial liquidity was used by 18% of businesses in August.

## **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. Until the 15th of August, about €458 million were paid out. On October 7, the government announced that the hardship fund will be extended until mid-March 2021.

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.

Businesses that experience a significant drop in revenues may apply for a payment towards the fixed costs, such as rent, interest payments, license fees, et cet. For a drop of revenues between 40 to 60%, businesses may receive 25% of their fixed costs, for a drop between 60 and 80% they may receive 50% of their fixed costs, and they may receive 75% of their fixed costs if they experience a drop of 80% or more. In August 2020, about 7% of businesses stated that they received payments towards their fixed costs (Hölzl et al, 2020).

## 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 400,000 workers are registered for the scheme. However, it is important to stress that the budgeted €12 billion represent a maximum limit that is only called up if companies actually reduce their workers’ working hours. By mid-August, €4.25 billion had been paid out in short-time working allowances (at a time when applications up to €9.14 billion had been approved). Although these numbers are still provisional, and will continue to rise, they indicate that the costs of the scheme are likely to remain below the maximum budget.

The first three-month period of the short-time work scheme ended in June and firms were allowed to re-apply for a second three-month period. Several rules of the scheme were revised for this second phase. For instance, companies were granted additional flexibility in the adaptation of working hours after approval of their short-time work application. However, the key points of the short-time working regulations remained unchanged from the first phase. As of October 1, a new phase with adapted regulations applies, with the possibility to extend short-time work to March 2021. The most important difference with respect to the first two phases concerns the extent of the reduction of working hours. The reduction has been restricted to a minimum of 30% and a maximum of 80% (previously at least 10% and max. 90%). This new requirement is meant to improve the targeting of the measure and to counteract deadweight losses associated with the scheme. Employees must also be prepared to take part in training during the short-time working period, provided that such training is offered by the firm. In small companies, new training opportunities are to be created in cooperation with the PES. The linking of short-time work with further training is also aimed at the reduction of deadweight and displacement effects. However, the training requirement is not binding and it remains to be seen to what extent further training is taken up.

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 must pay

their workers in advance and are 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.

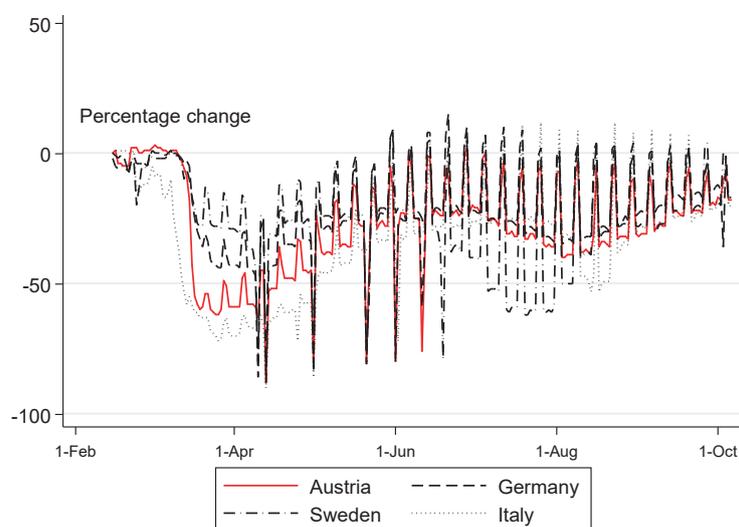
During the acute lockdown period, ALMP and especially training activities carried out by the PES came to a halt. Training measures for unemployed persons started again on May 15 and attendance of further education started from May 29. In recent months, the absolute number of persons in training has reached pre-crisis levels, but ALMP is still lower than in the previous year relative to the number of workers registered with the PES. To expand training and re-qualification, the government has announced a new initiative, funded with about €650 million. The specific details of this plan have still to be defined.

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 expired at the end of September.

## 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 5, 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 rapidly increased after the lockdown, experienced a slight decline over the summer, and have been slowly increasing since then.

**Figure 5:** Mobility trends during the Covid-19 pandemic. Change in visits to the workplace, daily data compared to the baseline for selected countries.

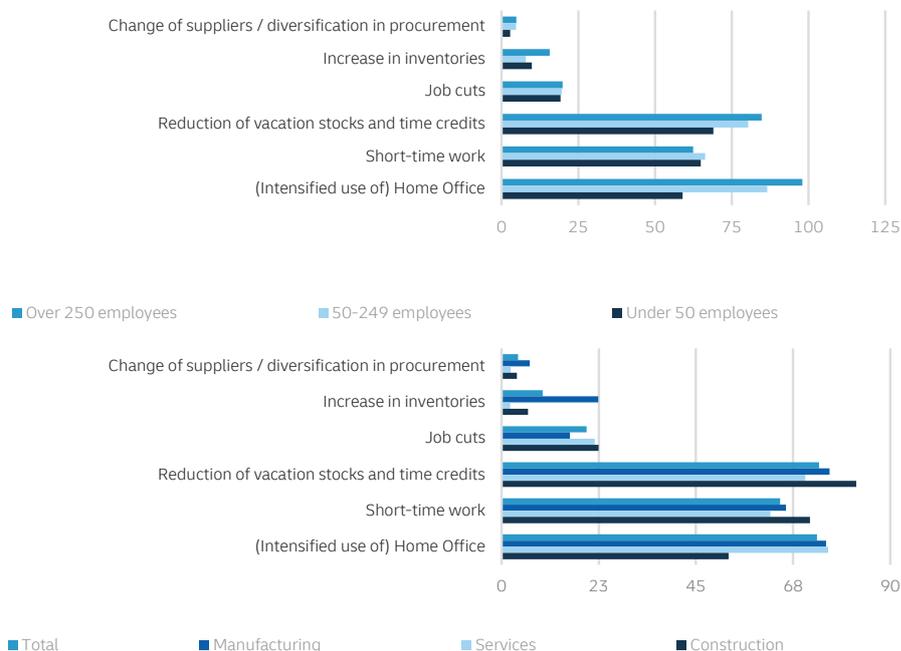


Source: Google LLC "Google COVID-19 Community Mobility Reports"; authors' calculations. The data are available under [www.google.com/covid19/mobility](http://www.google.com/covid19/mobility) and were accessed on October 12, 2020. The data show how visits and length of stay change compared to a baseline the median value for the corresponding day of the week, during the five-week period 3 Jan – 6 Feb 2020.

After the lockdown, schools reopened, but pupils were attending classes on alternate days. Although child care arrangements were provided for children who could not be cared for at home, only a small fraction of children spent the “regular” number of hours at school. In addition, special working arrangements were (and 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 6.) Virtually all larger firms implemented (additional) forms of mobile working. About 80% of medium-sized firms and close to 60% of 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 (Hözl, 2020). Another wide-spread measure concerned the reduction of saved vacation and time credits accumulated by employees in previous periods. (Employees may save part of their entitlement to paid vacation for another year.) These data refer to the lockdown period, but currently many firms still allow workers, especially 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. This situation is reflected in the data presented in Figure 5, according to which workplace attendance is still about 20% below the baseline level.

**Figure 6:** Measures implemented by firms as consequence of the pandemic (in %).



Source: Hözl (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.

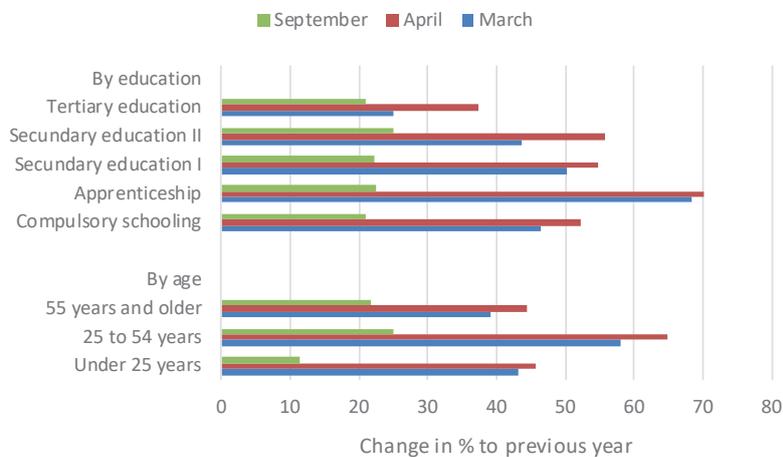
### New labor market entrants

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 7:** 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. Small firms with up to 9 employees will receive an additional bonus of €1,000 per apprentice; medium-sized firms with 10 to 49 receive an additional bonus of €500 per apprentice.

The increase in persons claiming unemployment benefits, including ALMP training, for people under 25 years of age was less than for workers between 25 and 64 years of

<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).

age and was initially about as strong as for people aged 55 and over (Figure 7). In recent months, the unemployment figures developed somewhat more favorably for the young than for the other age groups. In September, registered unemployment was up by 11.4% in the age group under 25 years, against +25.1% and +21.7% in the other two age groups displayed in the graph.

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). In August, employment of the young was still 3% below the previous year, compared to a reduction by 1.7% for those in prime working age and an increase by 3.2% for older workers. The situation of apprentices continues to be dire, the number of available training posts in September 2020 is 18% lower than in September 2019, while the number of persons who are looking for a training post is almost 5% greater. In an international comparison, however, the seasonally adjusted unemployment rate for youth is with 10% well below the EU27's average of 17%.

## 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 in the coming months, the economy will shrink by close to 7% in the current year. Next year, expected growth of GDP will be 4.4% which only partially compensates for this year's losses. The unemployment rate is expected to rise to almost 10% (according to the national definition and compared to 7.4% in 2019) and only slowly improve to close to 9% next year.<sup>3</sup> The outlook might deteriorate considerably in a more pessimistic scenario, according to which the pandemic is not contained in the coming months and continues to severely disrupt the economy.

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 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. These fears are compounded by data on the number of long-term unemployed. According to recent data released by the PES, in September long-term unemployment was up 44.5% (compared to 22% for all registered unemployed and training participants) relative to the previous year (AMS 2020b). This number refers to workers who have been registered as unemployed for more than a year (interruptions of up to four weeks are not counted to this effect).

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<sup>3</sup> The unemployment rate according to the labor-force concept is expected to increase to 5.4% in 2020 (from 4.5% last year) and then decline to 5% in 2021.

## Next steps and fiscal viability

Policy measures in Austria since the start of the pandemic aimed to help businesses survive and to cushion employment losses. However, uncertainty about the future development of the infections lowers demand and global supply chains are disrupted. With the start of autumn, infection numbers have been on the rise, with negative consequences for the recovery. The touristic sector, which had partially compensated the losses of the lockdown period during the summer months (at least outside the cities), was hit severely by travel restrictions on Austrian regions with high infection rates imposed by Germany and other countries. As the increasing concentration of short-time work on manufacturing jobs and some instances of mass-layoffs show, the outlook is dire for parts of the manufacturing industry, too. There is concern that a substantial number of businesses will have to fold towards the end of this year and in early 2021. This will undoubtedly have implications for employment levels.

Policies so far have focused primarily on minimizing job destruction, with little or no measures to foster job creation. As the extensions of the short-time work scheme and of the hardship fund indicate, these policies will continue to play an important role in the coming months. Future policies will however have to focus more strongly on job creation, for instance through government investment and spending on infrastructure such as public transport or the renovation of schools. Substantial efforts will have to be made to address the situation of vulnerable labor market groups and their households, who risk to face long-lasting negative consequences from the pandemic in terms of employment and income perspectives. To this end, close monitoring and scrutiny of socioeconomic indicators will be important, with focus on the development of different dimensions of inequality, including gender gaps.

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. The most recent WIFO forecast predicts that the deficit will reach -9.4% of GDP in 2020 and -4.7% of GDP in 2021. In addition to the initial €38 bn. rescue package, the government implemented a reform of the income tax, which lowered the entry tax rate from 25% to 20%. This reform was applied retroactively to January 2020 with the goal to support household incomes. In addition, the government decided to boost low pensions (up to €1.000), with an increase by 3.5%. This adjustment is well above the inflation rate for the reference period (1.5%). On average, pension incomes will increase by 1.8%. Other measures to support employment, fight the recession, and stimulate aggregate demand are being discussed.

The yields on government bonds rose slightly during the first weeks of the pandemic lockdown, but they declined again thereafter 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 **Canada (November 2020)**

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### ABSTRACT

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During the height of the COVID-19 pandemic in March and April 2020, Canada lost more jobs than it had in the past three recessions combined. The labour market recovered the majority of those losses by the end of the summer, but by the fall of 2020 the rate of employment gains slowed and employment losses continue to, especially, weigh on youth, low-wage workers, women and workers in hard hit industries. The Federal Government's response in support of individuals and business has been equally unprecedented, including introducing entirely new programs with direct transfers to individuals and wage subsidies for businesses. Given the urgency with which these new measures were introduced, the eligibility criteria and benefit levels, especially for individual-oriented programs, were intentionally generous. As a result of the government support measures there has been a significant deterioration of Canada's fiscal position, with federal debt-to-GDP rising from 31% to about 50%. Like many other OECD countries, the ongoing sustainability of public finances is dependent primarily on interest rates remaining low and on phasing out pandemic-related measures reasonably quickly. The pandemic-induced increase in debt will have very far-reaching and long-lasting impacts that will affect Canadian federal and provincial governments' ability to address major pre-COVID structural issues such as population aging and climate change, as well as new policy initiatives.

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## Labor market impact of COVID-19

The initial impact of the COVID-19 crisis was steep and rapid. In its first two months, March and April of 2020, Canada lost more than three million jobs from a workforce of just over 19 million. The worst months were April and May, and the bounce back was initially robust with nearly 2.4 million jobs added between May and September. However, there was a slowdown in the rate of recovery between September and October as the second wave of COVID-19 grew. Overall, as of October 2020 (the most recent data available), employment levels remain just over 635,000 workers below the February peak.<sup>1</sup>

The Canadian government's support for the labour market and the economy in general is put into perspective by an economic statement issued on November 30, 2020 by the federal government<sup>2</sup>, and a July fiscal snapshot.<sup>3</sup> In light of the COVID-19 crisis, the November statement projects the federal debt to gross domestic product (GDP) ratio to be just under 51% in the current fiscal year, rising to nearly 53% in 2021–22 (see section below on fiscal viability). Interestingly, the federal government indicated these recently announced measures are time-limited and bound by the health of the economy, which will be measured by, among other things, the employment rate, total hours worked and the level of unemployment.

In examining the evolution of employment and unemployment rates during the pandemic, some concerns have been raised about how comparable these recent trends are to historical norms given that the share of the employed reporting zero hours has also increased dramatically.<sup>4</sup> Thomas Lemieux and colleagues report that by April 2020, a 32% decline in hours worked coincided with a 15% decline in overall employment.<sup>5</sup>

COVID-19's labour market impacts have been uneven on several dimensions, especially age, wage, sector/industry, immigration status, gender and geography, as seen in Table 1, which looks at February to October changes. The most dramatic differences are across industries, where accommodation and food services; arts, entertainment and recreation; and transportation and warehousing, were particularly hard hit whereas (for example) finance, insurance, real estate, rental and leasing were little impacted. Low wage workers (in the first 25th quartile of earnings) and those with less education were also more negatively affected in terms of employment. To some extent, this reflects the sectoral composition of employment losses, meaning that the sectors most affected by the pandemic such as accommodation and food services, tend to employ younger, lower-educated workers and the wages tend to be below the median. Each of these groups most impacted by job losses has also been slow to recover, with employment levels remaining well below their pre-crisis levels of February 2020.

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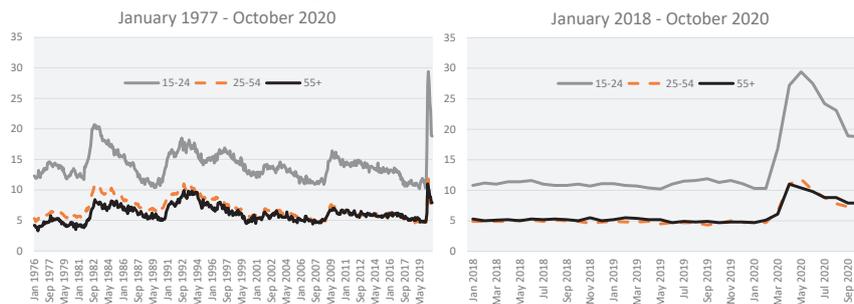
**Table 1:** Employment Changes Since the Onset of the Crisis

|                    |                                 | <b>Employment loss</b><br>(% from peak to trough) | <b>Employment in October</b><br>(as a % of Feb) |
|--------------------|---------------------------------|---|---|
| <b>Age</b>         | 15–24                           | -34.7%  | 92.6%   |
|                    | 24–54                           | -12.6%  | 99.6%   |
|                    | 55+ (or 55–64)                  | -13.7%  | 98.7%   |
| <b>Wage</b>        | Low                             | -26.1%  | 94.5%   |
|                    | Med/High                        | -9.1%   | 100.9%  |
| <b>Sector</b>      | Accommodation and food services | -49.3%  | 83.1%   |
|                    | Wholesale and retail trade      | -19.8%  | 98.6%   |
|                    | Total                           | -15.4%  | 98.5%   |
| <b>Immigration</b> | Landed                          | -13.9%  | 95.1%   |
|                    | Canadian Born                   | -9.9%   | 99.5%   |
| <b>Gender</b>      | Women                           | -16.7%  | 97.3%   |
|                    | Men                             | -14.1%  | 99.6%   |
| <b>Education</b>   | High school graduate            | -16.8%  | 97.0%   |
|                    | Post Secondary Diploma          | -13.9%  | 98.5%   |
|                    | Bachelor                        | -7.7%   | 103.5%  |
|                    | Above Bachelor                  | -8.1%   | 100.3%  |

Source: Authors’ calculations based on Statistics Canada, Labour Force Survey.

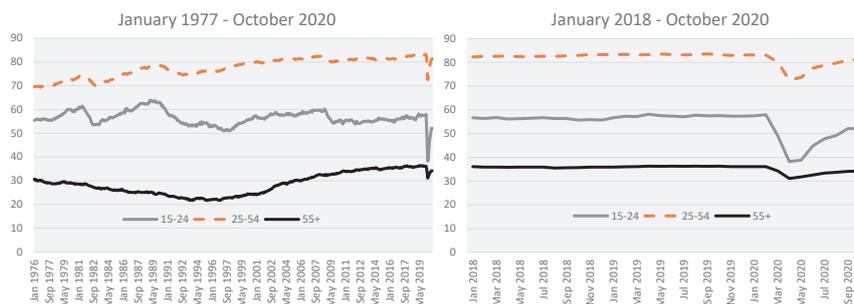
Figure 1 shows the dramatic impact on young workers by contrasting the unemployment rate for three age groups. To provide perspective, on the left-hand side are the unemployment rates since 1976, and on the right is a magnified view since January 2018. The extreme unemployment rate for young workers during the COVID crisis relative to historical recessions is noteworthy. In contrast, for workers aged 25–54 and 55 and over, COVID-era unemployment rates are comparable to those experienced during previous recessions. Figure 2 similarly addresses the employment rate and again shows the relatively large decline for young workers.

**Figure 1:** Unemployment rate by age group



Source: Authors’ calculations based on Statistics Canada, Labour Force Survey.

**Figure 2:** Employment rate by age group



Source: Authors’ calculations based on Statistics Canada, Labour Force Survey.

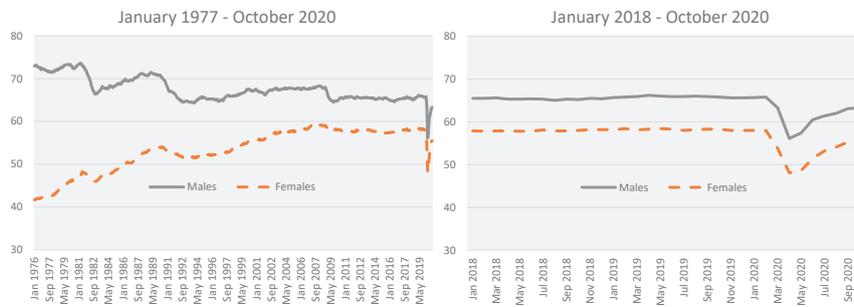
Figures 3 and 4 undertake a similar exercise as Figures 1 and 2, but for females and males. As seen on the right-hand side of Figure 3, at the onset of the pandemic (April and May 2020), the female unemployment rate jumped from somewhat lower to slightly higher than that for males. This led to an initial narrative about females being harder hit, which was true. However, in the recovery starting in June 2020, the female unemployment rate declined more quickly than that for males. The uneven changes in unemployment for both females and males follow in part from the gender composition of the industries most affected by lockdowns and physical distancing requirements. Figure 4 tells a similar story about employment rates by gender, but also raises a serious concern for the future. On the left of Figure 4, we see that female employment has recovered, or at least not been permanently reduced by recent recessions, whereas male employees appear to have experienced more permanent effects from recessionary shocks. This issue requires careful attention going forward.

**Figure 3:** Unemployment rate by gender



Source: Authors' calculations based on Statistics Canada, Labour Force Survey.

**Figure 4:** Employment rate by gender



Source: Authors' calculations based on Statistics Canada, Labour Force Survey.

Although the second wave of COVID-19 has been geographically dispersed, the initial impact was concentrated, with a few major urban areas disproportionately affected. On this dimension, provincial government reactions play a role in labour market outcomes. Canada is a decentralized federation with two constitutionally recognized orders of government (not levels — neither has authority over the other): federal (national) and provincial (regional).<sup>6</sup> Healthcare is almost entirely a provincial responsibility although the federal government has influence by virtue of fiscal transfers to the provinces. Most labour markets are also the responsibility of the provinces. The federal government has responsibility for a very limited set of industries including banking, interprovincial transportation and the military. This means that business restrictions, social distancing and mask wearing are the

<sup>6</sup> In contrast, municipal governments are creatures of provincial governments and represent a lower level of government over which the federal government has no direct responsibility. Canada also has three territories with very small populations; they have ties to the federal government but are treated similarly to provinces.

responsibility of provinces. Substantial differences in provincial policy approaches due to differing local conditions have been seen throughout the pandemic.

Despite having less formal responsibility than the provinces for labour markets, the federal government has greater fiscal capacity relative to its responsibilities and has constitutionally protected “spending power.” It runs the national Employment Insurance (EI) program (called unemployment insurance in some countries), and during the COVID-19 crisis it established a wide array of short-term and one-time benefit programs, discussed below. Almost all COVID-19 labour market-oriented direct transfers to residents and employers originated with the federal government, although a few were cost-shared with the provinces.

## Orientation and targeting of adopted measures

For individuals, the most important, broadly based program introduced by the Federal Government was the Canada Emergency Response Benefit (CERB), which operated from March 15 to September 26, 2020. CERB was a temporary direct transfer program that operated two parallel streams: one for those (expected to be) EI eligible (CERB-EI), and another for those not EI eligible (CERB-CRA; Canada Revenue Agency). Especially in the early days of CERB there was some confusion about who should apply to which stream and some people applied to both and needed (or will need) to make repayments. The EI stream of CERB simplified and effectively temporarily replaced the existing EI program’s regular and sickness benefits. The combined CERB streams had less stringent entrance requirements than pre-COVID EI and was accessible for workers with minimal labour force attachment who would not normally qualify for EI. CERB was also more generous for those with low EI benefit rates and receiving it did not directly affect subsequent EI eligibility (although the latter was not entirely clear at the outset). Processing time to the payment of the first cheque was also supposed to be (on average) faster and there was less administrative burden for workers and employers. On the funding side, the CERB-CRA stream was paid out of the federal government’s general revenues whereas CERB-EI stream was entirely premium funded by employers and workers. CERB provided a taxable benefit of \$2,000 every four weeks for eligible workers<sup>7</sup> — that is, those who stopped working or whose work hours were reduced due to COVID-19 (with retroactive applications accepted until December 2, 2020).<sup>8</sup> The program was initially only intended to last 16 weeks but was extended to 28 weeks in total. As of October 4, 2020, about 27.5 million total applications had come from 8.9 million unique applicants, representing 48.1% of the labour force; 51.4% of applicants were male, and 48.5% were female.<sup>9</sup> Payments totalled \$81.6 billion. The contrast between so many processed claims relative to job losses peaking at just over three million is stark, especially since other programs were also operating.

The federal government made a deliberate decision to move quickly, recognizing that some errors would occur. Support for those who needed to self-isolate or who had lost income because of temporary layoffs or COVID-19 related issues was a government priority. Some confusion ensued and continued into the fall of 2020. A non-trivial number of individuals erroneously claimed both CERB-EI and the CERB-CRA, and some claimed CERB (for which the initial administration was minimal) who were ineligible.

<sup>7</sup> All monetary figures in this document are in Canadian dollars.

<sup>8</sup> For a comprehensive list and description of federal programs introduced, including eligibility requirements, please consult the following: <https://www.canada.ca/en/department-finance/economic-response-plan.html>; and <https://www.canada.ca/en/services/benefits/covid19-emergency-benefits.html>.

<sup>9</sup> See <https://www.canada.ca/en/services/benefits/ei/claims-report.html>; and <http://dashboard.cdhowe.org/>.

Recently, the tax authority reported that 213,000 Canadians may have to repay benefits. Many had voluntarily repaid benefits<sup>10</sup> prior to this announcement.<sup>11</sup> Also, although CERB was taxable, no taxes were deducted from the transfer, which many anticipate will be problematic when income taxes become payable.

CERB also interacted with other elements of the tax and transfer system in a manner that was not always initially obvious to claimants and potential claimants. As a result, beneficial tax and application strategies were not always clear to claimants at the outset. Of particular policy interest are the impacts on very low-income individuals. They experienced heterogeneous treatments on several dimensions — especially as a function of province of residence. Since for some individuals CERB paid more than disability and other social assistance programs, and certain recipients met the eligibility criteria, some applied (either switching or claiming both). In Canada social assistance (including some disability programs; also called income assistance or welfare) is operated by provincial and territorial governments; CERB claimants who were also social assistance recipients were treated quite differently across provinces.<sup>12</sup> Some provinces/territories offset CERB payments with dollar-for-dollar reductions in social support payments; others, representing the vast majority of the population, undertook partial claw backs. Only one province and two territories allowed recipients to retain both transfers. Despite incomes remaining constant or increasing, cash management problems ensued, especially where rent for living accommodations was paid directly by the social assistance program. Once the COVID-19 moratorium on evictions was over, some income assistance recipients faced the loss of their housing.<sup>13</sup>

Beyond CERB, in the early days of the COVID-19 pandemic, well above average applications for EI were also made. The EI program was temporarily modified with some administrative steps simplified to reduce the burden on EI staff and to speed up the delivery of benefits. COVID-specific claims were also sped up. Canada has a one week waiting period for EI eligibility — a type of deductible — and this was waved for quarantine cases.

Effective September 27, 2020, workers previously covered by CERB have been transitioned to a modified EI program with generous temporary measures for both entrance requirements and minimum benefit rate so that marginally attached workers and those affected by the pandemic are eligible. In Canada, EI's eligibility threshold and weeks of entitlement (maximum 45 weeks) are functions of hours worked in the qualifying period (typically one year, depending on the regional unemployment rate), but the duration has been extended for CERB beneficiaries. For the next year, applicants are treated as if they reside in a region with an unemployment rate of at least 13.1% and are given a "credit" of 300 hours towards qualifying for benefits. Moreover, the minimum (taxable) weekly benefit has been increased to \$500.

For those not eligible for EI, three new programs were also created:

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**10** See, for example, Catherine Cullen, "Canadians Applying for New Pandemic Benefit Report Confusion, Frustration," CBC News, Oct. 16, 2020, <https://www.cbc.ca/news/politics/canada-recovery-benefit-crb-cerb-pandemic-covid-1.5764377>; and Catherine Cullen, "CRA Warns 213,000 Canadians That They Might Have to Pay Back CERB Overpayments," CBC News, Nov. 23, 2020, <https://www.cbc.ca/news/politics/canada-revenue-agency-cra-cerb-pandemic-covid-1.5812925>.

**11** Kathleen Harris, "Canadians Have Made 190,000 Repayments on CERB Claims, Says CRA," CBC News, Jun. 10, 2020, <https://www.cbc.ca/news/politics/cerb-repayments-claims-tips-abuse-1.5605838>.

**12** Gillian Petit and Lindsay M. Tedds, "The Effect of Differences in Treatment of the Canada Emergency Response Benefit across Provincial and Territorial Income Assistance Programs," *Canadian Public Policy* 46, no. S1 (2020): S29–S43, <https://www.utpjournals.press/doi/full/10.3138/cpp.2020-054>.

**13** Bonnie Allen, "Landlords Say Poor Tenants Who Received CERB Can't Make Rent After Losing Social Assistance," CBC News, Nov. 22, 2020, <https://www.cbc.ca/news/canada/saskatchewan/landlords-tenants-cerb-rent-1.5810230>.

- The *Canada Recovery Caregiving Benefit* (CRCB) for those forced to take time off work to care for a dependent due to the pandemic.
- The *Canada Recovery Benefit* (CRB) for those who do not qualify for EI.
- The *Canada Recovery Sickness Benefit* (CRSB) for those employed and self-employed individuals unable to work because they are sick or need to self-isolate due to COVID-19, or who have an underlying health condition.

A series of targeted programs was also designed to help certain sub-populations, especially persons with disabilities, students, Indigenous peoples and seniors. Selected programs include:

- *Persons with disabilities*: As of October 30, 2020, a non-taxable, non-reportable, one-time payment provides up to \$600 for extraordinary expenses incurred by (eligible) persons with disabilities during the COVID-19 pandemic.
- *Students*: The Canada Emergency Student Benefit (CESB) — operating from May to September 30, 2020 — provided financial support to post-secondary students, and recent post-secondary and high school graduates, unable to find work due to COVID-19.
- *Indigenous persons*: A range of broad-based financial support was provided to address several issues including community supports, health preparedness, on-reserve income assistance and mental health services.
- *Seniors*: In July 2020, those eligible to receive the Old Age Security pension received a one-time payment of \$300; those eligible to receive the Guaranteed Income Supplement also received \$200.

There has been some criticism of the federal government for not moving more quickly but given that, in the vast majority of instances, entirely new programs were being developed and introduced, the government's response has been rather swift, with the exception of the one-time payment for persons with disabilities, announced only recently.

Overall, this COVID safety net was designed and executed remarkably quickly. It has been criticized for having poor eligibility screening and for being too wide and too generous. However, spending too much time on designing and screening for means-tested criteria would have certainly delayed the availability of support. Given the unprecedented nature of the crisis in both depth and speed of job losses, and the need to encourage self-isolation and quarantine, it is better that too many rather than too few received support.

The potential work disincentive of such support, however, has raised two serious debates. First, transfers that do not negatively affect output are not normally of concern to economists, but disincentives to work are viewed as problematic. Yakabuski points to the remarkable level of support provided to workers in Canada.<sup>14</sup> To this point in the COVID crisis, Canadian labour income fell by \$100 billion, but the federal government provided \$225 billion in direct transfers to workers and employers. The full potential downside of this may only become apparent in future. Further, despite the rather substantial transfer, for businesses, as discussed later, the criteria were said by some to be too narrow and too stringent. Second, public discussion has focussed on the poor wages of many essential workers and their lack of benefits, especially sick leave, which may have exacerbated the spread of the pandemic, particularly in long-term care homes.<sup>15</sup>

<sup>14</sup> Yakabuski, Konrad, "Chrystia Freeland rolls the dice on federal finances" *The Globe and Mail*, Nov. 28, 2020, <https://www.theglobeandmail.com/opinion/article-chrystia-freeland-rolls-the-dice-on-federal-finances/>.

<sup>15</sup> See, for example, Stephanie Marotta, "Pandemic Highlights Paltry Sick-Day Policies," *The Globe and Mail*, Nov. 28, 2020,

A preferable strategy for some may have been greater emphasis on subsidizing employment in situations where self-isolation and shutdowns were not required. Canada's effort here was smaller than for CERB and the debate is really about the emphasis placed on alternative programs.

At the intersection of support to workers and support to businesses, non-profits and charitable organizations is the Canada Emergency Wage Subsidy (CEWS), from March 15, 2020, until June 2021. It was originally a 12-week program that was then extended. CEWS's primary goals were to support workers, to maintain employment relationships, to keep workers with firm-specific knowledge in their workplaces, and to reduce EI and CERB claims. CEWS is similar to the EI work-sharing program, but it provides faster access to funds, is less administratively burdensome, is usually more generous, and is paid for from general federal revenues rather than by employers and worker EI premiums. CEWS was originally a 75% wage subsidy to a maximum of \$847. The subsidy was reduced to 65% from September 2020 until the end of the year, with subsequent declines until June 2021. The key eligibility requirement is for firms to have had a minimum revenue decline. This figure was 15% from March 15 to mid-April 2020, then 30% until early July, and subsequently "any decline" until December 2020. The required decline for 2021 has not yet been announced.<sup>16</sup> At the outset, there were complaints about the CEWS threshold revenue loss being too high, and the administrative burden for businesses being too great.

As of November 22, 2020, CEWS had approved 355,990 unique claims and paid out over \$50 billion in subsidies (in contrast to about \$80 billion for CERB). The number of unique employees subsidized is not available given worker turnover, but at the peak of the program in May/June 2020, just over 3.9 million workers were being supported. By October/November 2020, that number fell to about 1.5 million in a Canadian workforce of about 19 million.

## Immediate liquidity support to businesses

Akin to pandemic reactions in most OECD nations, Canada's liquidity support to businesses involves monetary policy action, interventions in financial markets and direct support to employers.<sup>17</sup> In March 2020, the Bank of Canada's target interest rate was reduced by 150 basis points (the same reduction as the U.S. Federal Reserve's Federal Funds Rate, but from a slightly higher initial value). A form of quantitative easing was commenced with the Bank purchasing not only provincial bonds but also corporate bonds and commercial paper. Programs were also introduced to purchase federal securities and government backed mortgage bonds in secondary markets. Further, the Bank of Canada and the Office of the Superintendent of Financial Institutions introduced or eased a variety of credit and liquidity measures, allowing financial institutions to continue serving customers who might otherwise have experienced (more severe) liquidity constraints.

A variety of targeted, broad-based direct approaches were also undertaken to support businesses. On one front, normal financial interactions with government were relaxed in recognition of liquidity constraints. There was a one-time enhanced goods and services tax (GST, akin to a VAT) credit, and deferral of business (and personal) taxes, customs

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<https://www.theglobeandmail.com/canada/article-covid-19-pandemic-highlights-canadas-paltry-policies-for-paid-sick/>.

<sup>16</sup> See <https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy/cews-statistics.html>; and <https://www.canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy.html>.

<sup>17</sup> See Bank of Canada, "Table 1: Summary of Key Policy Measures," Monetary Policy Report, April 2020, pp. 13–14, <https://www.bankofcanada.ca/wp-content/uploads/2020/04/mpr-2020-04-15.pdf>; and CD Howe Institute, "COVID-19 Policy Measures by Country," June 1, 2020, <https://www.cdhowe.org/covid-19-policy-measures-country-0>.

duties, and sales taxes. On a second front, established loan facilities expanded farm credit, business development and export development loans. Some new programs were also commenced. Of particular note are the following:

- *Canada Emergency Business Account (CEBA)*: Interest-free business loans of up to \$40,000, with up to \$10,000 forgivable with repayment by December 2022. Revised and expanded in October 2020.
- *Canada Emergency Commercial Rent Assistance (CECRA)*: Potentially forgivable loans for landlords of small businesses.
- *Canada Emergency Rent Subsidy (CERA)*: Grants to small businesses for rent. This is paired with the CECRA and requires landlord co-operation. Provinces participated in funding these programs and most also prevented tenant evictions (commercial and personal) during the crisis.
  - *Canada Emergency Rent Subsidy version 2 (CERA v2)*: In October 2020, the government announced appreciable revisions to the rent subsidy program for businesses, non-profits and charities that had suffered a revenue drop retroactive to September 27.<sup>18</sup> This revised program paid funds directly to tenants and no longer required landlord co-operation. Many aspects of its operation and phase-out mirror the CEWS.
- *Business Credit Availability Program (BCAP)*: Loans for small- or medium-sized employers.
- *Large Employer Emergency Financing Facility (LEEFF)*: Short-term loans with a minimum value of \$60 million.

Some have complained that these programs have been too complex, too slow, too late to start and/or too restricted.<sup>19</sup> Given the various program requirements, some borrowers preferred to maintain credit relationships with established banks; others may have strategically delaying borrowing in light of shifting criteria for government programs and/or in search of better terms with banks.

## Support of dependent workers

So called “gig” work is hard to define and is often conflated with non-standard employment and precarious employment. Consequently, data collection on the incidence of gig work remains ad hoc. However, Statistics Canada classifies gig workers as unincorporated self-employed workers who do not report a business number on their tax returns and who contract work with firms or individuals generally through digital platforms. While no COVID-19 programs directly target gig workers, recent changes to programs for individuals, discussed above, will make it easier for them to access certain types of benefits.

## Working conditions and work organization

The potential polarization of the labour market, depending on whether a workers’ job can be performed from home or not, has been raised as another labour market concern. Little evidence exists so far, except that those not able to work from home and not essential workers

<sup>18</sup> See <https://www.canada.ca/en/department-finance/news/2020/11/canada-emergency-rent-subsidy.html>.

<sup>19</sup> See, for example, “Complexity, Slow Rollouts, and Too Many Strings Attached: A Midterm Review of the Business Bailout Programs,” *The Globe and Mail*, Oct. 23, 2020, pp. B1, B4–B5, <https://www.theglobeandmail.com/business/article-complexity-slow-rollouts-and-too-many-strings-attached-a-midterm/>.

have been harder hit by layoffs. More than a quarter of businesses report that all employees could work from home. Close to half of workers in information and cultural industries (42.8%) and professional, scientific, and technical services (45.3%) could do so. Less than 20% of businesses reported that none of their employees could work from home; these were mostly in construction (31.5%), retail trade (29.7%) and accommodation and food services (30%).

The pandemic also saw temporary wage increases for low-paid workers in some parts of the health sector, especially in long-term care homes, and in certain essential retail operations such as grocery stores.

## **New labor market entrants**

Since more than three million Canadians lost their jobs at precisely the same time as the cohort of new graduates and students were formally entering the labour market and beginning their job search, the impact on youth — as seen in Figures 1 and 2 — is not surprising. This has clearly created significant challenges for a group with limited work experience.

Even as employment growth has resumed in many sectors, these new labour market entrants are competing with many highly skilled and qualified people also in search of employment. This can lead to skills erosion and make it more challenging to find work once the recovery is fully underway. In other instances, it can also lead to underemployment as many new labour market entrants seek out “any job.” Indeed, much of the recent increase in employment has been associated with re-employment in lower-skilled occupations.

At the same time, apprenticeships, skilled trades placements and other programs that rely on experiential learning or work-based placements — of which new labour market entrants are primary beneficiaries — have been postponed or outright cancelled. Despite recent efforts to support retraining — for example the Canada Training Benefit — government response to the pandemic has been more focused on supporting those who have lost work than on those entering the labour market for the first time.

We know from past crises that, in the absence of adequate measures to counteract it, employment among youth can take years to recover. Long-term economic and social implications include weak labour force attachment or outright exclusion, poverty, and settling for lower-skilled, lower paid jobs, all of which can impact potential future earnings and the ability to pay back student loans.

As we look ahead, it will be important to consider policy interventions to support youth sooner rather than later. Keeping youth and recent graduates attached to the labour market and providing the means to upskill and reskill is of particular relevance given the pandemic’s acceleration of economic transformation.

## Policy innovations and labor market trends

Governments and businesses are struggling to understand what COVID-19 might mean for the future of work. One common theme depicts COVID-19 as an accelerator of changes already underway. With clear economic/financial winners and losers, many of these changes are viewed as disruptive. These concerns tend to focus on automation;<sup>20</sup> online shopping and the retail sector; and the oil and gas sector.<sup>21</sup>

In an interesting study, Joel Blit points out that in Canada (as in the United States) recessions have historically played a crucial role in reallocating productive resources.<sup>22</sup> All declines in routine tasks associated with technological change in the past few decades have occurred after recessions. This has led to productivity increases in the medium- to long-term, but has also caused labour market upheaval in the short-run. He posits that the COVID-19 pandemic and its aftermath are likely to have similar effects, and likely larger and faster ones. Further, he argues that government should not waste resources promoting stability by trying to return to pre-COVID norms, but rather that faster change is better. Moreover, he suggests that the opportunity cost of change is lower because of the existing disruption from the pandemic.

A different set of issues involves changes that were largely unforeseen prior to the onset of COVID-19. This includes massive reductions in aviation and tourism, and especially the huge shift to remote working, which has important long-term implications for the labour market.<sup>23</sup> The federal government, for example, is already looking to reduce its real estate portfolio and make telecommuting — a novelty at the outset of the pandemic — permanent.<sup>24</sup> Telecommuting is also viewed as contributing to the climate strategy. Three of Canada's major banks have also announced that staff will continue to work from home until at least April 2021.<sup>25</sup> Although these employers have not yet made any long-term commitments, many firms are evaluating the potential cost reductions associated with shedding office space. This could have substantial impacts, both on the nature of work and on the physical infrastructure of cities.

More broadly, calls to reform employment insurance, human resource (and other) practices in healthcare, and many other initiatives are widespread in light of the COVID-19 experience.<sup>26</sup> Simultaneously, there have also been calls not to undertake major reforms too quickly, but rather more thoughtfully. It is unclear which reforms undertaken during the pandemic will be sustained. The most enduring changes will likely be those originating organically as employers and workers learn the lessons of the pandemic, perhaps especially those not directly related to the crisis, such as the apparent cost-effectiveness of telecommuting.

**20** Kristyn Frank and Marc Frenette, "Automation, Workers and COVID-19," Statistics Canada, June 29, 2020, <https://www150.statcan.gc.ca/n1/pub/45-28-0001/2020001/article/00033-eng.htm>.

**21** See Canada Energy Regulator, *Canada's Energy Future 2020*, <https://www.cer-rec.gc.ca/en/data-analysis/canada-energy-future/2020/canada-energy-futures-2020.pdf>; Gary Mason, "The Trans Mountain Pipeline Could Soon Be Canada's White Elephant," *The Globe and Mail*, Nov. 26, 2020, <https://www.theglobeandmail.com/opinion/article-the-trans-mountain-pipeline-could-soon-be-canadas-white-elephant/>.

**22** Joel Blit, "Automation and Reallocation: Will COVID-19 Usher in the Future of Work?" *Canadian Public Policy* 46, no. S2 (2020): S192–S202, <https://www.utpjournals.press/doi/full/10.3138/cpp.2020-065>.

**23** Guillermo Gallacher and Iqbal Hossain, "Remote Work and Employment Dynamics Under COVID-19: Evidence from Canada," *Canadian Public Policy* 46, no. S1 (2020): S44–S54, <https://doi.org/10.3138/cpp.2020-026>.

**24** John Paul Tasker, "Feds to Keep More Bureaucrats at Home, Overhaul Property Portfolio to Get to 'Net Zero' Emissions," *CBC News*, Nov. 26, 2020, <https://www.cbc.ca/news/politics/feds-greening-government-plan-1.5816747>.

**25** James Bradshaw, "Three Major Banks Push Back Office Return Dates for Workers," *The Globe and Mail*, Nov. 25, 2020, <https://www.theglobeandmail.com/business/article-td-bmo-cibc-push-back-office-return-dates-amid-latest-spike-in-covid/>.

**26** See, for example, Don Drummond and Duncan Sinclair, "COVID-19: A Catalyst for Change in Health and Healthcare?" *CD Howe Institute*, October 15, 2020, <https://www.cdhowe.org/public-policy-research/covid-19-catalyst-change-health-and-healthcare>.

## Next steps and fiscal viability

Like many other countries, Canada is now grappling with the second wave of COVID-19. Much of the policy focus therefore remains on the health and well-being of Canadians, with newly introduced restrictions in several jurisdictions.

In terms of fiscal spending, there has been considerable debate of the federal government's response to date. During the height of the crisis (April through September 2020), monthly federal income support payments averaged \$22 billion<sup>27</sup> and an estimated 14% of GDP was spent over the first six months of the pandemic.<sup>28</sup> Regarding fiscal sustainability, the Parliamentary Budget Officer's (PBO) report of November 6, 2020, suggests "the primary deficit (that is, revenues less program spending) to reach 14.8 percent of GDP in 2020 — the largest on record — and net debt to increase sharply, rising to 48.1 percent of GDP from 30.3 per cent in 2019."<sup>29</sup>

More recently, the economic statement issued on November 30, 2020<sup>30</sup> by the federal government projects the federal debt to gross domestic product (GDP) ratio to be 50.7% in fiscal year 2020–21 and 52.6% in 2021–22. For context, Canada's peak federal non-war-time debt ratio was just over 66% in the mid-1990s, which ushered in an extended period of austerity. By international comparison, in its November 2020 statement the Canadian federal government reported spending a comparable percentage of GDP on direct fiscal support to that spent in Japan and the United States, but more than the United Kingdom, Germany, France and Italy. Canada also reports higher deferred revenue and accelerated spending than all G7 nations except Japan. This contrasts to the mid-summer snapshot, when Canada's total COVID-19 support – i.e., direct fiscal expenditures, tax and fee deferrals, and credit and liquidity support – was reported to have been similar to that of Germany and Japan as a share of GDP, but more generous than all other G7 nations.

It is important to note that much public debt in Canada is carried by provincial governments, so the federal debt does not reflect total public debt. And while the federal government estimates that 80% of COVID costs have been paid by the federal government, in the PBO fiscal sustainability report of November 6, the PBO indicated that for "provincial-territorial, local and Indigenous governments, current fiscal policy is not sustainable over the long term."

While the federal debt-to-GDP ratio is set to spike, it is forecast in the near term to remain around 50% of GDP (rather favourable compared to other OECD countries even after provincial debt is added to this federal debt ratio),<sup>31</sup> supported by a low (even declining) debt service ratio (owing to extremely low interest rates).<sup>32</sup> Yet, this outlook is predicated on a number of factors. The first relates to how the pandemic plays out during this second wave, its impact on overall economic activity and whether additional support measures (new programs or extensions of existing ones) are needed. Clearly a combination

<sup>27</sup> This includes Employment Insurance (and related modifications), CERB, CEWS and CRB. See Parliamentary Budget Office, "Economic and Fiscal Outlook: September 2020," <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-027-S--economic-fiscal-outlook-september-2020--perspectives-economiques-financieres-septembre-2020>.

<sup>28</sup> Including measures related to health, direct support and liquidity support. See details: <https://www.canada.ca/en/department-finance/economic-response-plan/fiscal-summary.html>.

<sup>29</sup> See [https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-033-S/RP-2021-033-S\\_en.pdf](https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-033-S/RP-2021-033-S_en.pdf).

<sup>30</sup> <https://www.canada.ca/en/department-finance/news/2020/11/government-of-canada-releases-supporting-canadians-and-fighting-covid-19-fall-economic-statement-2020.html>

<sup>31</sup> For an international comparison including provincial debt see the IMF's October 2020 Fiscal Monitor, although adjusting the numbers for international comparability also makes them differ from some of those discussed here (<https://www.imf.org/en/Publications/FM>).

<sup>32</sup> However, on its fiscal sustainability report (ibid.), the PBO indicated that for "provincial-territorial, local and Indigenous governments, current fiscal policy is not sustainable over the long term."

of the two (lower revenues and higher expenditures) would further deteriorate Canada's fiscal position. The second risk relates to any noticeable change in debt servicing if interest rates were to climb. While the Bank of Canada is set to keep rates low until 2023, modest increases could have serious implications for Canada's fiscal position with considerable knock-on effects for aggregate growth and individual welfare.

Canada's federal government is developing a plan to "build back better," which may include large-scale, ongoing public spending programs. Indeed, the federal government's November 2020 economic statement cited above promises \$100 billion of recovery spending over the next few years but has not yet provided any details on the nature of that spending. This seems sensible given the uncertainty regarding how the pandemic will unfold. How these proposals will evolve is unclear, as are the potentially substantial increases in healthcare spending both in the medium term to "catch up" from COVID-19 and because of ongoing acute deficiencies, particularly in long-term care homes. This combined with major pre-COVID issues such as population aging and climate change mean that public policy decisions made in the near term will likely have very far-reaching and long-lasting impacts.

## IZA COVID-19 Crisis Response Monitoring France (November 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

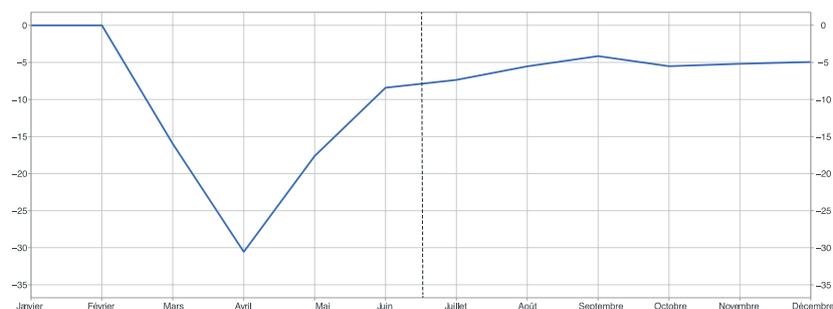
France started a rigorous lockdown on March 17, 2020. Schools, restaurants and all shops except pharmacies and groceries were closed. Mobility was authorized for a limited list of motives explicitly listed by a decree released on 24 March.<sup>1</sup> Those who moved were required to have an authorization 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 remained closed until June 2 and schools until the end of June.

As a consequence of this very stringent lockdown, economic activity has slowed sharply in April. The estimate of the loss of economic activity linked to the health crisis is around 28% in April, as shown by Figure 1. However, the rebound in economic activity was very strong from the start of the deconfinement, in May and then in June. It continued, albeit at a slower pace, during the summer months. Overall, on average over the third quarter, the loss of economic activity compared with the pre-crisis level would have been around 5%.

At the same time, for several weeks and after a lull during the summer, the spread of the virus has intensified, particularly in large cities. The implementation of new measures to limit social interactions started in mid-October with a second lockdown, less stringent than the first one insofar as schools remain open and people can commute for professional reasons. The end of the year is characterized by a twofold uncertainty about the evolution of the epidemic in the coming months, and about the possible tightening of health containment measures. The annual GDP contraction forecast is -11% in the beginning of November 2020.

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



Source: INSEE (2020c) (estimation for dates after the vertical dotted line)

## Employment

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 (Figure 2). It has mainly

<sup>1</sup> 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.

been due to the freeze of hiring. Between the end of December 2019 and the end of June 2020, salaried employment decreased by 715,000 or -2.8%. This decline, which is unprecedented in magnitude, remains much more limited than the decline in activity (-13.8% in the second quarter after -5.9% in the first).

**Figure 2:** Dependent employment (thousand).



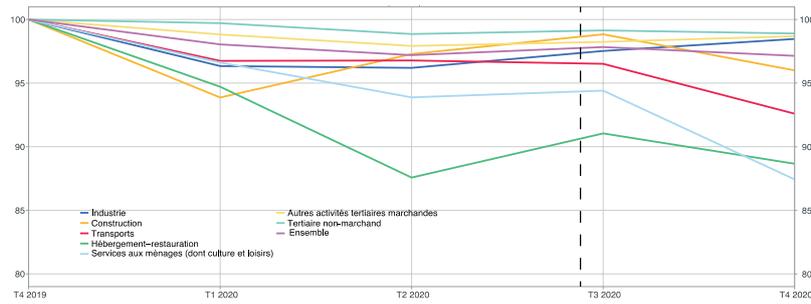
Source: Ministry of Labor.

According to the national statistical institute (INSEE, 2020c), in the second half of the year, salaried employment would increase in the third quarter and then decrease again in the fourth. In the third quarter, the rebound would be mainly due to temporary employment. Monthly data show that the rise in temporary employment, which began in May, continued at a sustained pace in July and August (about +10 per cent per month). The resumption of hiring on fixed-term contracts is also reported to have contributed to the rebound in employment, particularly in industry, accommodation and food services, and construction (Figure 4). Public employment is also expected to increase. In the fourth quarter, salaried employment is expected to decline again, mainly in those sectors that have been lastingly affected by the crisis. This is particularly the case in transportation, accommodation and restaurant services, and household services: companies in these sectors, due to worsened business prospects and/or their financial constraints, would be less able to maintain the level of employment they had maintained until the fall.

### Unemployment

During the period of confinement, a large number of unemployed persons had interrupted their search, leading, despite the decline in employment, to a decline in the number of unemployed persons as defined by the International Labor Office. This effect would largely fade away in the second half of the year. Thus, the unemployment rate would rise sharply in the second half of the year: it would be 9.0% in the third quarter of 2020 and reach 9.7% at the end of the year, 1.6 points higher than a year earlier (Figure 4).

**Figure 3:** Employment level by sector. 100= Q4 2019.



Source: INSEE (2020c).

**Figure 4:** Unemployment rate.



Source: Labor Force Survey.

## 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.

### Workers

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.

## **Firms**

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 compared with the same month in previous year) 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.

## **Youth**

In July 2020, the government launched a “youth plan” which has two main components:

- 1) Hiring subsidies: (i) All firms get hiring subsidies equal to 4,000 euros for any young person below 26, recruited between August 2020 and January 2021; (ii) An exceptional grant of 5,000 euros to recruit a work-study student under 18 years of age (under an apprenticeship or professionalization contract) or 8,000 euros to recruit a work-study student over 18 years of age.
- 2) Funding of more than 400,000 seats in various training programs for low-skilled youth.

## **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. As for corporate failures, contrary to what many feared, the Bank of France indicates that they have fallen by 28.1% over a sliding one-year period. Admittedly, this drop is partly due to the impact of containment on the functioning of commercial jurisdictions and regulatory changes that temporarily modify the dates for declaring insolvencies. But it is also the result of record rates of access to credit by companies in connection with obtaining loans guaranteed by the State. In any event, since in normal times France has around 55,000 corporate insolvencies per year, there is a “backlog” of at least 15,000 defaults that will necessarily be made up in the coming months, not counting defaults due to the slowdown in activity.

## **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, child minders 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). 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 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.<sup>2</sup> Until June 1, there was no residual cost to the company unless it was covered by collective agreements which impose higher replacement income than those provided by law, which is scarce. Since June 1, 10% of the short-time work allowances are paid by employers except in sectors most affected by the crisis (i.e. tourism, hotels and restaurants, sports, culture, air transport, events) and those dependent on them. A further reduction in both the rate of compensation and the rate of the allowance which was expected on October 1 has been postponed.

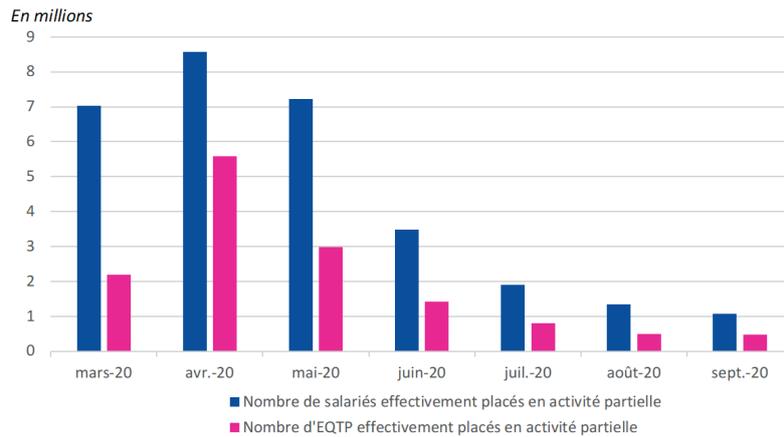
In addition, the law of June 17, 2020 introduced a specific regime for long-term short-time work, aimed at providing long-term support, up to 24 months, to companies whose activity will be permanently reduced. Entry into the scheme is subject either to the conclusion of a company-wide agreement or to the drawing up of a document by the employer in accordance with a branch agreement. This agreement or document will then have to be approved by the administration.

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

Hence, at 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) (Figure 5). 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 number of employees in short-time work fell sharply after May and June: in September 2020, 1.1 million employees would have been partially employed (slightly less than 6% of private sector employees), after 1.3 million in August, 1.9 million in July, 3.5 million in June, 7.2 million in May, 8.6 in April, and 7.0 in March. The expected public expenditure is around 1 percent of GDP. However, the exact figures will not be known before several months to the extent that employers can request reimbursement of the short-time work allowance within one year following the end of the period covered by the authorization.

<sup>2</sup> See details at the Agence de Services et de Paiement: <https://www.asp-public.fr/activite-partielle#06>

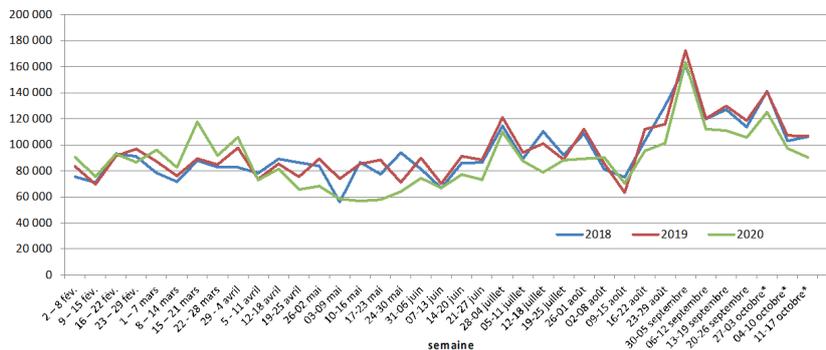
**Figure 5:** Estimated number of employees actually in short-time work, in number of persons and full-time equivalent.



Source: DARES.

The very high short-time work take-up translates into a small increase in the entries into unemployment, which raised by 31% in the week of the start of the lockdown (17 March) compared to 2018 and 2019, but decreased in the following months and become lower than in previous years after the end of April as shown by Figure 6.

**Figure 6:** Number of weekly entries into unemployment.



Source: DARES. Ministry of Labor.

## Working conditions and work organization

During April 2020, about a quarter of employees were 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 so in accommodation and catering (6% of employees), construction (12%), the food industry (12%) and transport (13%).

### Telework

However, apparently telework decreased sharply after the end of the first containment, from May 2020. Although recent statistics about the actual intensity of teleworking are not available, the mobility index published by the Citymapper application suggests that teleworking had only a very marginal impact on mobility after the end of the containment in France: New York City was only 27% of its usual mobility on September, Amsterdam 37%, Copenhagen 41%, but

Paris and Lyon, at the very bottom of the list, were respectively 92% and 100% of their usual mobility. In the first week of November, which is in the second containment, which is less stringent than the first one as teleworking is recommended but not compulsory, Paris is at 51% of its usual mobility, while Tokyo is at 9% and New-York at 27%.

### **Protective measures**

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.

### **Vacations and working time**

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. In July 2020, the government launched a “youth plan” which has two main components: 1/ Hiring subsidies. (i) All firms get hiring subsidies equal to 4,000 euros for any young person recruited between August 2020 and January 2021. (ii) An exceptional grant of 5,000 euros to recruit a work-study student under 18 years of age (under an apprenticeship or professionalization contract) or 8,000 euros to recruit a work-study student over 18 years of age. 2/ Funding of more than 400,000 seats in various training programs for low-skilled youth.

## Policy innovations and labor market trends

The government has decided to postpone 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.

Beside the expansion of short-time work in the start of the crisis, the government has created a long-term short-time work scheme (Activité partielle de longue durée, Decree, 28 July 2020) designed to provide security for employees and business activity, which enables companies faced with a lasting reduction in activity to reduce working hours in return for commitments, particularly in terms of job maintenance. The long-term short-time work scheme can be mobilized by all companies – faced with a lasting reduction in activity – established on the national territory, without any size or sector of activity criteria. It requires a collective agreement, signed within the establishment, the company, the group, or the industry. In the latter case, the employer draws up a document that complies with the stipulations of the industry agreement. The reduction in an employee's working hours may not exceed 40% of the legal working hours per employee, over the total duration of the agreement, which may be set up within the limit of 24 months, consecutive or not, over a period of 36 consecutive months. The employee receives an hourly indemnity for hours non-worked, paid by his employer, corresponding to 70% of his gross salary, up to a limit of 4.5 times the minimum wage. The employer receives an allowance equivalent to 60% of the gross hourly wage limited to 4.5 times the minimum wage.

Moreover, in order to ensure a sustainable recovery of the French economy, the government has implemented an exceptional €100 billion recovery plan based on three main components: ecology, competitiveness and social cohesion. The French stimulus plan weighs 100 billion euros, making it the largest stimulus plan in Europe as a percentage of GDP, weighing in at 9.5%, compared with 6.9% in Germany and 8.6% in the United Kingdom. It weighs about a third of the French government's annual budget the previous year. Of the 100 billion announced, 40% comes from the 2020 European recovery plan, which will be reimbursable until 2058. The plan is intended to be structural, in order to “prepare France for 2030”, and not just cyclical.

## Next steps and fiscal viability

The current period is marked by a very high degree of uncertainty linked to the resurgence of the epidemic, which has triggered a second containment, admittedly less restrictive than the first at the beginning of November 2020, but which could evolve according to the evolution of the epidemic. This second confinement has led to the vote of a fourth draft amending budget. The public deficit will reach 223 billion euros, or 11.3% of GDP in 2020. The French debt at the end of 2020 is revalued at nearly 120% of GDP (it was 98.4% of GDP in 2019).

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

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### ABSTRACT

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Up to the reinstatement of a national (partial) lockdown in early November, unemployment in Germany had increased by 25 percent compared to the previous year. This increase, however, has so far not been accompanied by a similar decline in employment, to which a massive expansion in short-time work certainly contributed. At its peak in April 2020, the number of short-time workers reached almost 6 million or 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. Also the further perspective of short-time workers remains a policy challenge.

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## Labor market impact of COVID-19

Forecasts on the economic impact of COVID-19 released in March 2020 had been rather optimistic, especially concerning the labor market impact (e.g., Michelsen et al. 2020a, Sachverständigenrat 2020a). However, assessments released until June 2020 were significantly more negative: For example, the federal government and the German Council of Economic Experts expected GDP to fall by 6.3 or 6.5 percent in 2020 by that time (Bundesregierung 2020a; Sachverständigenrat 2020b). Forecasts from September and October 2020, which had been released before the reinstatement of a national (partial) lockdown in early November, expect GDP to decline by up to 6 percent in 2020, but these assessments are generally again more optimistic and argue in favor of a V-shaped recession with economic recovery in 2021, involving GDP growth of 4 to 5 percent in that year (Bundesregierung 2020b; Michelsen et al. 2020b; Wollmershäuser 2020).

Table 1 displays selected statistics for the labor market impact of COVID-19 until October 2020 (currently the most recent available data). In that month, the number of registered unemployed stood at 2.75 million persons, an increase by 25 percent compared to October 2019. A decomposition exercise shows that about a quarter of the COVID-19 impact on unemployment 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), an additional quarter is due to increased layoffs, and about one fifth is due to reduced hiring activities (BA 2020a). Employment in Germany, however, has not declined significantly yet; and it appears as if the COVID-19-induced rise in unemployment has been stopped for the time being – there has been practically no additional COVID-19 impact on unemployment since July 2020.

**Table 1:** Labor Market Impact of COVID-19 in Germany.

|                | Unemployment<br>(Stock) | Unemployment<br>(Inflow) | Unemployment<br>(Outflow) | Posted Vacancies<br>(Stock) | Underemployment<br>(Stock; excl. STW) | ALMP Measures<br>(Stock) | Employment<br>(Stock) |
|----------------|-------------------------|--------------------------|---------------------------|-----------------------------|---------------------------------------|--------------------------|-----------------------|
| January 2020   | 0.8%                    | -2.3%                    | -3.6%                     | -11.8%                      | 0.9%                                  | 4.3%                     | 0.5%                  |
| February 2020  | 1.0%                    | -4.0%                    | -4.2%                     | -12.0%                      | 0.8%                                  | 3.3%                     | 0.5%                  |
| March 2020     | 1.5%                    | -0.5%                    | -2.2%                     | -13.3%                      | 1.1%                                  | 2.6%                     | 0.2%                  |
| April 2020     | 18.6%                   | 13.8%                    | -45.5%                    | -21.3%                      | 8.5%                                  | -10.2%                   | -0.5%                 |
| May 2020       | 25.8%                   | -18.3%                   | -46.2%                    | -26.3%                      | 12.0%                                 | -17.4%                   | -1.2%                 |
| June 2020      | 28.7%                   | -25.6%                   | -35.1%                    | -28.5%                      | 13.9%                                 | -15.0%                   | -1.5%                 |
| July 2020      | 27.9%                   | -19.3%                   | -21.0%                    | -28.3%                      | 14.6%                                 | -14.2%                   | -1.4%                 |
| August 2020    | 27.4%                   | -18.5%                   | -20.1%                    | -26.5%                      | 15.5%                                 | -13.2%                   | -1.3%                 |
| September 2020 | 27.4%                   | -16.4%                   | -10.9%                    | -25.0%                      | 14.7%                                 | -17.6%                   | -1.4%                 |
| October 2020   | 25.2%                   | -15.1%                   | -5.7%                     | -21.2%                      | 13.4%                                 | -15.2%                   | n/a                   |

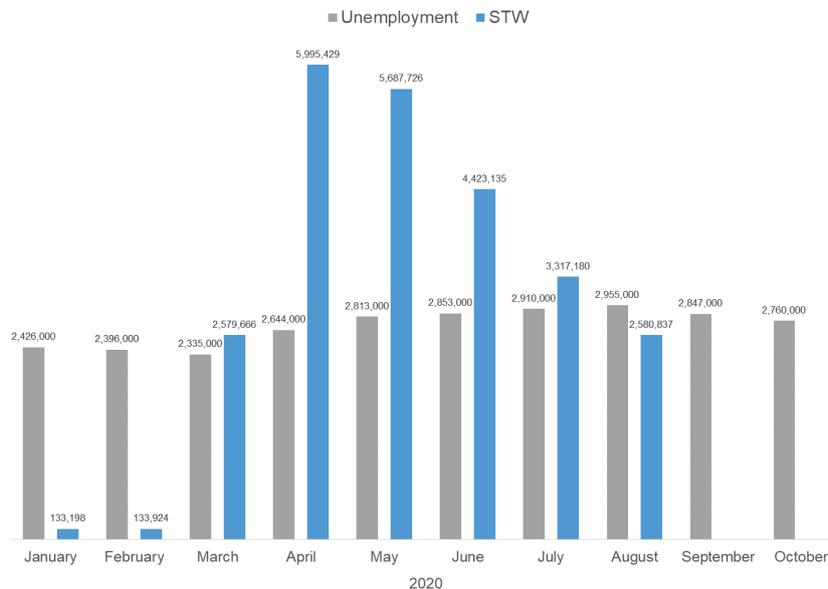
Source: Federal Employment Agency.

Notes: STW: Short-time work. All figures show percentage changes compared to one year before (year-over-year).

However, short-time work (STW) is still extensively used in Germany, and the future employment perspectives of these short-time workers are – at least to a certain extent – unclear. Figure 1 shows that following a peak in April 2020, when the number of short-time workers reached almost 6 million, their number still stood at 5.9 million in May 2020, but decreased to about 2.6 million until August 2020. This also means that STW in the current crisis has reached significantly higher levels than during the Great Recession where the peak was at about 1.5 million short-time workers (Brenke et al. 2013). Although these

numbers still involve a larger degree of uncertainty, are only reported with substantial time lag and may be subject to revisions,<sup>1</sup> also the most recently available updates and forecasts indicate a continuous decline (ifo 2020a), implying that the share of short-time workers among all employees that are subject to social security contributions fell from a peak of 20 percent in April 2020 to about 10 percent in October 2020.

**Figure 1: Unemployment and Short-time Work (STW) in Germany.**



Source: Federal Employment Agency (BA 2020h).

Notes: STW refers to the instrument of cyclical short-time work (STW). Values for STW are still preliminary and may be subject to future revisions. Values for STW in August and September are not yet available from the Federal Employment Agency.

Business confidence stood at a historical low in April 2020. It has been increasing since then until September 2020, when it slightly dropped again in October 2020 (ifo 2020b, ifo 2020c). Yet, unemployment figures not only increased 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 had literally collapsed, especially in April and May 2020, when the number of vacancies declined sharply (BA 2020a; Bossler et al. 2020). Compared to one year before, the stock of posted vacancies is still more than 20 percent lower in October 2020 (Table 1). Labor demand is thus low, but it has stabilized for the time being.

Unemployment risks are particularly high in some sectors, including hotels and restaurants, retail, various other service sectors, and to some extent even health and 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, 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.

<sup>1</sup> Such revisions already happened. For example, the number of short-time workers in May 2020 has been revised from 6.7 million to 5.9 million, and later to 5.7 million (BA 2020b, 2020c, 2020h).

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 only become apparent in early 2021.<sup>2</sup>

From the current perspective, a scenario therefore appears plausible – also when considering other factors and ongoing developments – in which the number of unemployed in Germany continues to rise towards 3.5 million by spring 2021 (starting from 2.75 million in October 2020). The volume of STW is likely to decline further in the course of 2020, but may still correspond to around two million employees by the end of 2020. However, this figure could only gradually decline in the course of 2021 because the maximum period during which STW compensations are paid has been extended to 24 months. Hence, also an increase of hidden unemployment can be expected (on the one hand due to STW, on the other hand due to increased withdrawal from the labor market).

## 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, while STW has again been widely used in export-oriented sectors such as the metal industry, especially in the initial phase of the crisis STW has also been extensively used in service sectors (especially by hotels and restaurants where more than 90 percent of all workers had been included in notifications for STW; BA 2020d). This has recently changed as the number of short-time workers in industrial sectors fell only slightly until October 2020, but declined more strongly in service sectors (ifo 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 stimulus package in summer (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 by way of lump sum payment, credits and guarantees appears

<sup>2</sup> The obligation to file for insolvency had initially 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). This suspension will be extended until December 31, 2020 (the legislative process is currently ongoing).

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 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 often not register as unemployed.

## **Immediate liquidity support to businesses**

To stabilize businesses, the federal government 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 have been directly affected by the shutdown by way of loans and credit guarantees: The state-owned development bank KfW supports 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 self-employed and 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. For example, while around 60 percent of the self-employed report a loss of income as a result of the COVID-19 pandemic, this figure is around 15 percent for dependent employees (Kritikos et al. 2020). 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 and criminal charges have been filed (Deutscher Bundestag 2020c).

Additional support measures for affected businesses and self-employed are also part of new measures that have been introduced during the national (partial) lockdown in November. Notably, these measures are not only intended to cover operating expenses, but to some extent also include an entrepreneurial remuneration. For this purpose, these support measures are based on previous year's turnover in November 2019 (or average turnover in 2019) and cover 75 percent of that amount (BMF 2020). However, the

disbursement of these measures is slow and the application and implementation process is rather bureaucratic.

## Support of dependent workers

Although still only preliminary administrative data are available, it is 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.

Recently, the temporary regulations governing the increased generosity of STW allowances have been prolonged until December 31, 2021 (Bundesregierung 2020c). Also the maximum duration of STW allowances has been extended to 24 months (limited until December 31, 2021; Bundesregierung 2020c). In contrast to other (European) countries and

despite the fact that the number of short-time workers has been declining since spring 2020, Germany is thus still in “crisis mode” with regard to the rules for the use of STW. In Austria or France, for example, the envisaged entry into a “second phase” of STW is characterized by the fact that this instrument is gradually becoming less attractive and less “passive” (e.g., through the integration of further education and training). In Germany, strengthening the incentive to combine STW and further education and training is only taking place gradually: Starting in mid-2021, the full refund of employers’ social insurance contributions will depend on further education and training of workers in STW. This means that during a transition period in the second half of 2021, only 50 percent of the employers’ social insurance contributions will be unconditionally reimbursed during STW, while the remaining 50 percent are only reimbursed if STW is combined with further education and training (vbw 2020).<sup>3</sup>

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.

## Working conditions and work organization

The shutdown period led to an expansion of working from home in Germany. This concerns both the share of workers who started working from home, at least partially, and the intensity of working from home of those who already had experiences before. During March and April 2020, about one in four German employees had been working 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 working from home. 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 absolutely necessary. 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.

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<sup>3</sup> In January 2022, the unconditional refund of employers’ social insurance contributions during STW will end completely. However, 50 percent can still be reimbursed if STW is combined with further education and training (until July 31, 2023).

<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, 2020e).

In the current situation, the latent policy debate about which rules should apply to work from home has re-emerged in Germany. 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 so far. 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, had been relaxed from April 2020 to June 2020 to ensure business continuity in critical situations (BMAS 2020a).

## **New labor market entrants**

It is likely that new labor market entrants in Germany will face particular difficulties this year. Firms' hiring activities are 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 has not proved to be a bottleneck in the current situation. Many firms relatively quickly adapted 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 substantial slowdown of the matching process between applicants and apprenticeship positions can be observed (BA 2020f). Displaying selected statistics for August 2020 (currently the latest available data), Table 2 shows that both supply and demand decreased by about 8 percent compared to August 2019. This ultimately resulted in roughly 11 percent more applicants who had not been placed yet.

**Table 2:** The Apprenticeship Market in Germany (as of August 2020).

|  | August 2020 | YoY*    |
|--|-------------|---------|
| Supply of Apprenticeships (Positions, total)   | 513,704     | - 7.7%  |
| Demand for Apprenticeships (Applicants, total) | 457,544     | - 7.9%  |
| Open Apprenticeship Positions                  | 153,911     | - 2.1%  |
| Applicants Not Yet Placed                      | 99,750      | + 10.6% |

Source: Federal Employment Agency.

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

Against this background, it is increasingly reported that potential young labor market entrants stay longer in education than they would have done otherwise. Either continuing with their school education or enrolling in universities appears to some extent as a rational approach in the current situation, albeit this may result in increased competition after the crisis.

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.

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.

Whether these measures ultimately helped to stabilize the apprenticeship market this year remains to be seen. At least according to preliminary evidence, the negative impacts appear less severe than initially expected (Bellmann et al. 2020).

## 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, working from

home 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 2020g). 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**

After an initial phase of slightly less than two months with a rather strict lockdown, many restrictions had been removed during summer. This approach had followed the general policy 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. Given increasing infections rates and to avoid overloading the healthcare system in Germany, a national (partial) lockdown has been reinstated in early November.

At the same time, the rather controversial debate about the costs of forgone economic activities and governmental spending to mitigate the immediate effects of containment continues. In this context, it seems advisable to avoid too broadly targeted and too generous governmental subsidies.

In certain constellations additional targeted compensations may be necessary if companies and employees are particularly affected by the specific nature of the current COVID-19 crisis. This includes, for example, the cultural and event industry (and possibly the tourism industry) with an unclear time perspective during which economic restrictions to maintain the applicable hygiene and distance regulations need to be in place. In addition,

the situation in “essential” sectors and medical professions with an often greatly increased workload should be closely monitored.

However, sectors and industries that have been significantly affected by the current crisis as well as by long-term structural changes, such as the automotive and retail industries, should be clearly distinguished from these areas. Here, the current COVID-19 crisis acts as a catalyst that unexpectedly accelerates ongoing transformation processes. Although it appears necessary in the short term to cushion the social consequences of these now accelerated processes in a suitable manner – primarily with measures of the welfare state that are already in place – additional measures that aim to preserve existing structures should be avoided.

An open question in the German context concerns the further perspective of short-time workers. In the current crisis, the extension of the period for which short-time work compensations are paid to up to 24 months is generally considered appropriate. However, rising wage replacement rates, which increase with the duration of short-time work, dampen the necessary adjustment reactions to crisis-induced structural change, and declining entry wages during the crisis reinforce this effect. Current data point towards the development of a stock of long-term short-time workers – especially in industrial sectors and in sectors with long-term structural challenges, but also in companies that were already in a rather difficult economic situation before the current crisis. In this way, short-time work compensation granted over a longer period can lead to an excessive stabilization of employment relationships that are no longer sustainable.

Therefore, in a “second phase” of short-time work, it could make sense to combine short-time work more strongly with instruments of active labor market policy. The longer the individual or company short-time work has already been in place, the stronger the combination with elements such as training should be. The core idea is to gradually dissolve the link to the current employer. This should be the case in particular for employees for whom it is increasingly likely that they will not be able to resume their previous employment in their original company after the end of their entitlement period to short-time work compensations.

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 showing solidarity than perceived at first glance.

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## IZA COVID-19 Crisis Response Monitoring **Italy (October 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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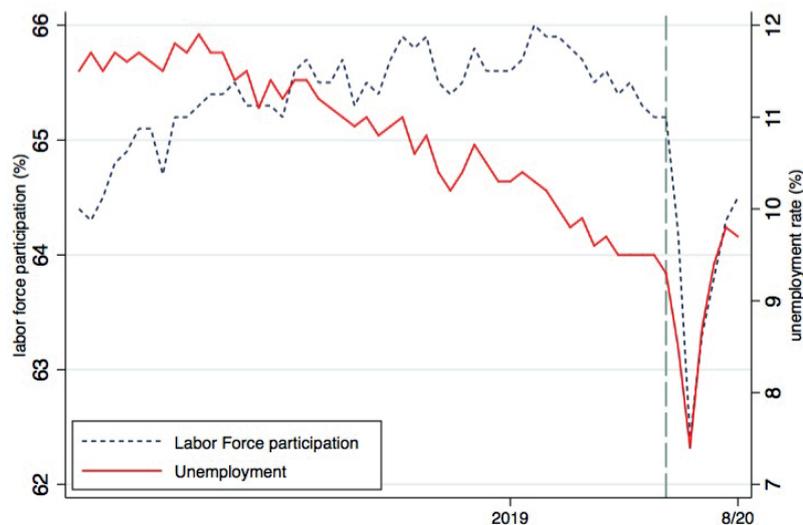
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## Labor market impact of COVID-19

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. Since July 2020, employment has started growing at a constant rate (+0.4% on a monthly basis).<sup>3</sup> However, employment levels in August 2020 are still 1.8% lower than the ones registered in August 2019. The drop in the number of employed is largely due to fixed term contracts not being renewed.<sup>4</sup> Figure 1 further shows that the unemployment rate has increased since June 2020; this is mainly driven by the decline of the number of inactive workers in the third quarter of 2020 (-4.1% relative to Q2 2020).

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



Source: Istat

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>5</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. ISTAT estimated that in the second quarter of 2020 hours worked

<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://www.istat.it/it/files//2020/10/Occupati-e-disoccupati-agosto-2020.pdf>

<sup>4</sup> [https://www.istat.it/it/files/2020/09/Mercato-del-lavoro-II-trim\\_2020.pdf](https://www.istat.it/it/files/2020/09/Mercato-del-lavoro-II-trim_2020.pdf)

<sup>5</sup> <https://voxeu.org/article/covid-19-workers-exposure-risk-and-lockdown>

decreased by about 20% with respect to the 2019. Further, the Italian GDP has registered a quarter-over-quarter decline of 12.8%.<sup>6</sup>

## 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>7</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

<sup>6</sup> <https://www.istat.it/en/archivio/247057>

<sup>7</sup> [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)

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>8</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.

## 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>9</sup> However, this suspension, which has been further extended until December 2020, will not prevent firms from dismissing workers in the future. The measures promoted by the Italian government only mitigated 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>10</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 total salary, while still keeping their job.<sup>11</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>12</sup> The Relaunch Decree should ease and shorten the procedure for unemployment benefits. As of June 2020, out of roughly 3.5 million beneficiaries, 30,342 workers are still waiting for their benefits to be paid.<sup>13</sup>

A recent report produced by INPS and the Bank of Italy (Bovini et al. 2020) found that in March and April 2020 51% of the Italian firms, accounting for 40% of the private sector employment, adopted short time work schemes. On average, this allowed firms to save about 1,100 euros per employee; at the same time, employees saw their hours worked reduced by about 90% and experienced a 27% loss in their gross monthly wage.<sup>14</sup>

<sup>8</sup> <https://www.lavoce.info/archives/66692/garanzie-bancarie-lemergenza-deve-cambiare-le-regole/>

<sup>9</sup> <https://www.istat.it/it/files//2020/04/Occupati-e-disoccupati-marzo-2020.pdf>

<sup>10</sup> <https://www.lavoce.info/archives/65325/mercato-del-lavoro-gia-contagiato-dal-covid-19/>

<sup>11</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>12</sup> <https://www.inps.it/nuovoportaleinps/default.aspx?itemdir=53641>

<sup>13</sup> [https://www.inps.it/docallegatiNP/Mig/AllegatiNews/Notizia\\_int\\_salariali\\_covid\\_11-9-20\\_1.pdf](https://www.inps.it/docallegatiNP/Mig/AllegatiNews/Notizia_int_salariali_covid_11-9-20_1.pdf)

<sup>14</sup> [https://www.inps.it/docallegatiNP/Mig/Dati\\_analisi\\_bilanci/Studi\\_e\\_analisi/Prime\\_evidenze\\_CIG\\_28072020\\_Final.pdf](https://www.inps.it/docallegatiNP/Mig/Dati_analisi_bilanci/Studi_e_analisi/Prime_evidenze_CIG_28072020_Final.pdf)

## 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>15</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>16</sup> According to a study by Corso (2020)<sup>17</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>18</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>19</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>20</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.

<sup>15</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: <http://www.sciencespo.fr/cevipof/attitudesoncovid19>

<sup>16</sup> <https://www.lavoce.info/archives/63816/se-lepidemia-mette-le-ali-allo-smart-working/>

<sup>17</sup> <https://www.som.polimi.it/en/smart-working-during-the-time-of-the-coronavirus/>

<sup>18</sup> <https://www.lavoce.info/archives/64787/il-mercato-del-lavoro-si-scopre-smart/>

<sup>19</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/>

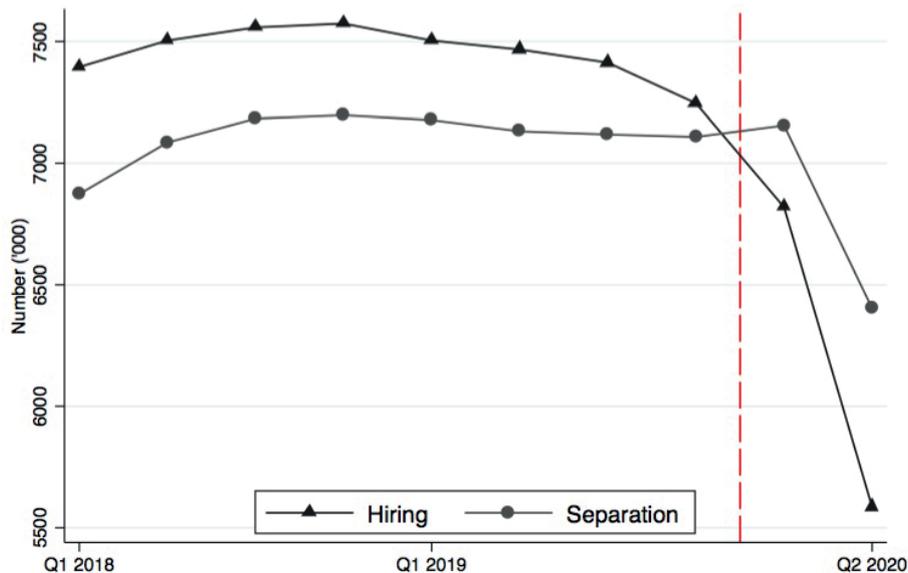
<sup>20</sup> <https://voxeu.org/article/women-s-work-housework-and-childcare-and-during-covid-19/>

## 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>21</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 September 2020, the Italian Social Security Administration presented new figures about labor turnover in the first two quarters of 2020. Relative to 2019, the number of new jobs activated in 2020 decreased by more than 9%,<sup>22</sup> while the number of job separations stayed more or less constant, as shown in Figure 2. The decline in new jobs continued in the second quarter of 2020; at the same time, job separations started decreasing in the second quarter of 2020, as a result of the suspension of layoffs. Relative to the first two quarters of 2019, the Italian labor market experienced a 1.5 million and 988,000 drop in the number of new jobs and job separations, respectively; this resulted into a loss of about 578,000 jobs, mainly fixed term contracts (i.e. 73%).

**Figure 2:** Labor turnover



Source: INPS - Uniemens (Sept 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>23</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>24</sup> However, the employment prospects of new labor market entrants are particularly bleak. Workers between 15-34 years old experienced the largest drop in employment and an increase in both inactivity and unemployment rates. 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.

<sup>21</sup> <https://www.nber.org/digest/nov06/w12159.html>

<sup>22</sup> <https://www.lavoro.gov.it/notizie/Documents/Nota-Trimestrale-Occupazione-II-2020.pdf>

<sup>23</sup> [https://www.venetolavoro.it/documents/10180/1693590/Misure%2095\\_Covid-19](https://www.venetolavoro.it/documents/10180/1693590/Misure%2095_Covid-19)

<sup>24</sup> <https://voxeu.org/article/transition-steps-stop-covid-19-without-killing-world-economy>

## 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>25</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>26</sup> Still, the proportion of safe jobs in Italy remains below 50%.

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>27</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>25</sup> <https://voxeu.org/article/mitigating-work-security-trade>

<sup>26</sup> <https://voxeu.org/article/covid-19-workerss-exposure-risk-and-lockdown>

<sup>27</sup> <https://www.lavoce.info/archives/66863/disoccupazione-un-contagio-annunciato/>

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

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### ABSTRACT

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The Netherlands witnessed an unprecedented drop in the number of hours worked per worker during the first wave, up to -18% in May according to the LISS panel. During the months May-September hours worked have recovered to some extent. The drop in employment in persons was more modest, -2.2% by May, which has since rebounded to -1.2% in October. The massive expansion of short-time work is likely to have played an important role in keeping employment in persons up, peaking at 36% of employees in March-May and dropping back to 18% of employees in June-August. Initially, speed was of the essence, and the targeting of the policies was limited. After the Summer, policies have become more targeted, and incentives for output and reallocation have been improved.

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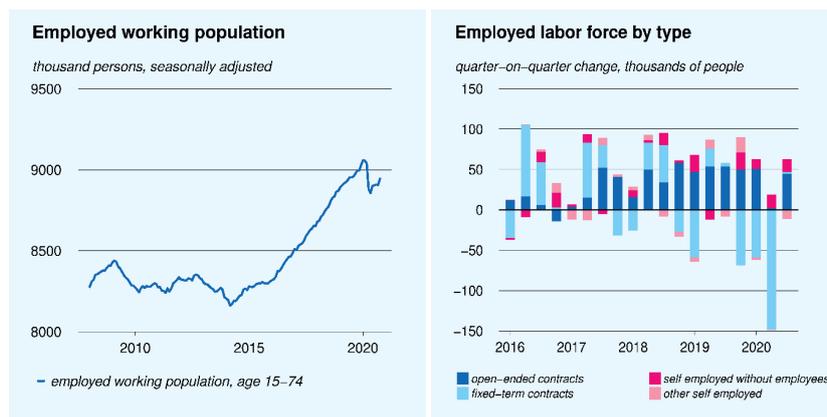
Jongen, Verstraten (2020): IZA COVID-19 Crisis Response Monitoring: Netherlands (November 2020).

## Labor market impact of COVID-19

The latest data from Statistics Netherlands shows a partial recovery after an initial substantial drop in employed persons (Figure 1 left). During the first wave, the 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. After the gradual lifting of restrictive measures, the number of employed persons recovered partially in June (+45 thousand persons) and in July and August (both +4 thousand persons). Since the start of the second wave, the number of employed persons first dropped by 3 thousand persons in September, followed by a somewhat surprising increase of 40 thousand persons in October. So far the crisis has led to a cumulative reduction of -111 thousand persons since the start of COVID-19 pandemic (-1.2%), particularly among workers with a fixed-term contract (Figure 1 right).

Until May, the increase in unemployment was moderate, up to 56 thousand persons between February and May, due in part to a reduction in the labor force participation rate, from 71.4% in February to 70.2% in May.<sup>1</sup> By now, though, the labor force participation rate has almost fully recovered (71.3%) and the number of unemployed persons has increased substantially: from 274 thousand persons in February to 406 thousand in October (+48%).<sup>2</sup>

**Figure 1:** Employment in persons by type of employment



Source: Statistics Netherlands.

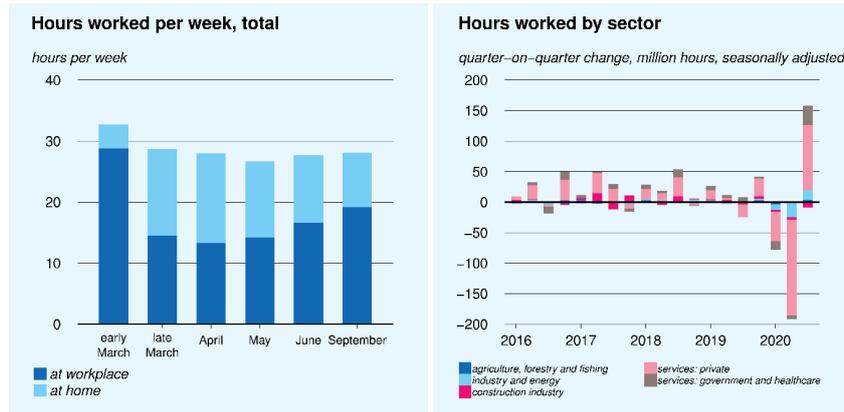
The large drop in employed persons during April and May was preceded by an unprecedented drop in hours worked per week, which we already observed in March. After the lockdown mid-March, hours worked per week dropped by 12% (-4 hours), and dropped a little further by 2% in April (-0.7 hours) (Figure 2 left). In May the number of hours worked continued to fall by another 4% (-1.3 hour).<sup>3</sup> The drop in the total number of hours worked was especially large in private services (Figure 2 right). After the first wave, we saw a slight recovery in hours worked equal to 3% in June (1 hour). This is no coincidence because June marked the beginning of some substantial alleviations of the lockdown. The number of hours worked remained at approximately the same level in September.<sup>4</sup> The figures also show a substantial return of working from home towards working at the workplace. The Dutch government therefore made an urgent appeal to everyone to work from home as much as possible at the beginning of October.

<sup>1</sup> For other labor market developments in the Netherlands, see CPB (2020a) and CPB (2020b).

<sup>2</sup> The unemployment rate increased from 2.9% in February to 4.3% in October. In between, the unemployment rate peaked at 4.6% in August.

<sup>3</sup> The figures in the left panel of Figure 2 are slightly different from the September country report. This is because the sample of persons who completed the survey for the months March-September is somewhat different from the sample of persons who completed the survey for the months March-June.

<sup>4</sup> No survey was conducted for the months July and August.

**Figure 2:** Hours worked per week and total hours by sector

Source: Von Gaudecker et al. (2020) (left) and Statistics Netherlands (right).

## Orientation and targeting of adopted measures

In March–May, 139 thousand firms with in total 2.7 million employees (36% of all employees in the Netherlands) claimed short-time work subsidies (NOW, *Tijdelijke Noodmaatregel Overbrugging voor Werkgelegenheid*).<sup>5</sup> In June–August this figure dropped to 63 thousand firms with in total 1.3 million employees (18% of all employees).<sup>6</sup> 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 with an amount of 9.9 billion euro in March–May and 5.3 billion euro in June–August. 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 in March–May (*Tozo, Tijdelijke overbruggingsregeling zelfstandig ondernemers*), which dropped to 103 thousand in June–August (7% of all self-employed).<sup>7</sup> The first part (March–May) of this special form of welfare did not depend on partner income or wealth, whereas the second part (June–August) did involve a partner income test. Additionally, the government has granted firms tax deferrals (for a total of 13 billion euro by the end of August<sup>8</sup>) and provided a lump sum transfer for ‘flexible’ workers that lost a substantial part of their income but did not have access to unemployment insurance or welfare (*TOFA, Tijdelijke overbruggingsregeling voor flexibele arbeidskrachten*). The use of this latter scheme was however rather limited (10 thousand persons receiving 17 million euro).

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>9</sup> At the end of August both schemes (NOW and Tozo) have been renewed for another 3 quarters until July 1st 2021, although the terms have changed somewhat: the NOW–subsidy

<sup>5</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>6</sup> Source: Ministry of Social Affairs and Employment (2020).

<sup>7</sup> These figures are identical from those in the September report because the Ministry of Social Affairs has not provided any update since then.

<sup>8</sup> See: <https://www.rijksoverheid.nl/actueel/nieuws/2020/08/28/belastinguitstel-tot-1-januari-ruime-terugbetalingsregeling-voor-ondernemers>

<sup>9</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.

on the wage bill will be gradually reduced from 90% to 60% while the minimum required loss in turnover will be increased from 20% to 30% as of January 1, 2021. The Tozo was intended to become subject to a wealth test as of October 1, but this is postponed to April 2021 due to the second partial lockdown. The adjustments to the original schemes are aimed to make the support more targeted, and to mitigate adverse incentives for reallocation and working hours.<sup>10</sup> The government has also made a budget available to support retraining and job-to-job transitions for individuals in affected sectors.

## Immediate liquidity support to businesses

As noted above, at the peak of the crisis 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 July 1st 2021, though this renewed scheme is now subject to a partner income test and will be subject to a wealth test as of April 2021.

Small firms can also use the NOW for their employees, see also above. In addition, in selected sectors that are hit particularly hard, firms could get a one-time subsidy of 4 thousand euro (TOGS) to cover the fixed costs. In early June, about 200 thousand firms received the TOGS. This amounts to a total financial support of 800 million euro (Ministry of Economic Affairs and Climate Policy, 2020). Again, speed was considered to be of the essence.<sup>11</sup> The TOGS was succeeded by the TVL in June, which also provides financial support for small to medium sized firms (<250 employees) in hard-hit sectors. The size of the TVL subsidy depends on the individual turnover loss as well as the share fixed costs of the sector. 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) was quite limited compared to other western countries (CPB, 2020b), and has even recovered somewhat in the last months. This is generally considered to be related to the special policy measures taken, including financial support for short-time work<sup>12</sup>, which initially also contained a penalty on dismissals, and financial support for the self-employed. This is typically not being complemented by sectoral or firm-level agreements, although specific support for specific firms is sometimes conditional on wage cuts (the support for Air France – KLM for example).

<sup>10</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>11</sup> This policy measure has since been closed.

<sup>12</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.

## 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 was 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 the May country report for the Netherlands). 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>13</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 the May country report for the Netherlands). Several sectors have witnessed a large increase in demand, like supermarkets, online shops and delivery services.

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 hand, 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>14</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>15</sup> Given the social distancing measures and overall decline in labor demand (vacancies have plummeted after the lockdown<sup>16</sup>), things look pretty dim for new labor market entrants. To the best of our knowledge there are no (sizeable) policy innovations and initiatives related to hiring of new labor market entrants or the provision of apprenticeships (these have been largely postponed for vocational education in sectors that significantly reduced their activities due to the COVID-19 pandemic and the resulting social distancing rules).<sup>17</sup> There has been some relaxation of study progress requirements, where students in lower- and higher vocational training do not have to fulfill the requirement to obtain a particular number of study points.<sup>18</sup> However, the rules for university students remain unchanged, motivated by the observation that they often do not have to do an internship to meet the study requirements.

<sup>13</sup> See the May country report for the Netherlands for worked hours at the workplace and at home by sector.

<sup>14</sup> See: <https://nos.nl/artikel/2334580-vleesindustrie-blijkt-coronahaard-bonden-en-werkgevers-willen-testen-en-controles.html>.

<sup>15</sup> See: Van den Berge (2018).

<sup>16</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>17</sup> Information for students is available here (<https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/ouders-scholieren-en-studenten-kinderopvang-en-onderwijs>).

<sup>18</sup> See: <https://www.nu.nl/coronavirus/6089771/hogeschole-geven-eerstejaars-ook-dit-jaar-geen-bindend-studieadvies.html>

## 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 and also given the steep drop in production. This could be considered remarkable. We are still in the midst of the pandemic, so it remains hard to speculate about 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>19</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>20</sup>

## 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 49% of GDP in 2019 to 60% in 2020 and 62% 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 is expected to remain sustainable, at a debt level of 72% of GDP in 2021.

However, it is now clear that this is not a V-shaped recession, but more likely to be a 'Nike-swoosh' or W-shaped recession. This is because at least part of the social distancing policies will remain in effect until a vaccine or cure arrives, and a second wave is gaining momentum in Europe. Hence, a reallocation of workers from firms and sectors that are shrinking to other firms and sectors seems 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>21, 22</sup>

<sup>19</sup> See: <https://www.cnn.com/2020/03/26/chinas-2002-2003-sars-outbreak-helped-alibaba-become-e-commerce-giant.html>.

<sup>20</sup> See: Krugman (2020).

<sup>21</sup> See also Blanchard et al. (2020) and Jongen and Koning (2020).

<sup>22</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 (November 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

### Between March and May 2020

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.

### Between June and September 2020

Regarding Panel B of Table 1, in September 2020 the number of registered unemployed in mainland Portugal increased by 0.1% comparing to August and by 37.4% comparing to September 2019. This increase is mainly due to the increase of registered short-term unemployed (55.7% compared to September 2019). However, while in May homologous variation in long-term unemployment was nearly zero, the same variation in September was just over 13%. This confirms that as the labour market stagnates long-term unemployment may become more prevalent.

Workers without a higher education degree continue to be the most affected by the crisis. In particular, in September 2020 university graduates accounted for 15% of the stock in unemployment, and workers High School (ISCED 3) represented the largest share of registered unemployed (32%).

In September 2020, the distribution of unemployment across the three main sectors of economic activity was as follows: 73% in the tertiary sector, 21% in secondary sector and 3.8% in the primary sector. Yet again, these averages conceal differences across the activities that compose the sectors. Workers from activities related to Real estate, administrative work and support services account for 29% of total unemployment; those coming from services related to Lodging, restaurants and hotels and Gross and retail trade account for another 22% of total unemployment (11% each). In the secondary sector, the most relevant groups are: Construction (6.2% of total unemployment) and Textile, clothing and leather industries (4.3%).

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

| Panel A                          | May-20  | Apr-20  | Mar-20  | May-19  | Change<br>May-20 vs. May-19 |       |
|----------------------------------|---------|---------|---------|---------|-----------------------------|-------|
|                                  |         |         |         |         | Abs.                        | %     |
| Registered unemployment (stock)  | 384 504 | 368 925 | 321 164 | 282 292 | +102 212                    | +36,2 |
| < 12 months                      | 258 368 | 244 142 | 200 082 | 157 146 | +101 222                    | +64,4 |
| >= 12 months                     | 126 136 | 124 783 | 121 082 | 125 146 | + 990                       | +0,8  |
| Registered unemployment (inflow) | 44 718  | 63 643  | 51 432  | 36 209  | +8 509                      | +23,5 |
| Employed job seekers             | 36 056  | 37 729  | 37 390  | 42 104  | -6 048                      | -14,4 |
| Job offers (stock)               | 11 235  | 10 668  | 12 000  | 18 434  | -7 199                      | -39,1 |
| Job offers (inflow)              | 6 761   | 3 040   | 7 356   | 12 984  | -6 223                      | -47,9 |
| Job placements                   | 4 287   | 2 233   | 5 773   | 7 496   | -3 209                      | -42,8 |

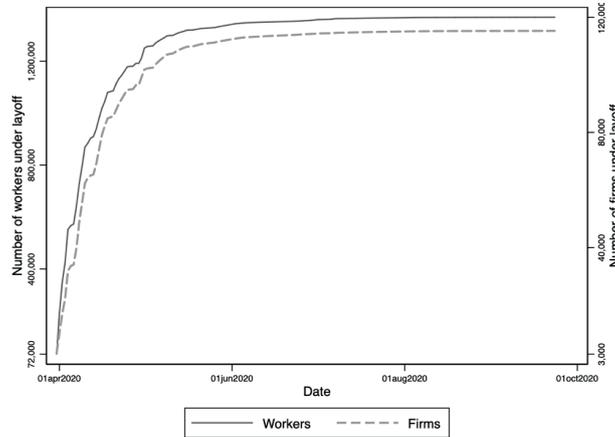
| Panel B                          | Sep-20  | Aug-20  | Jul-20  | Jun-20  | Change<br>Sep-20 vs. Sep-19 |       |
|----------------------------------|---------|---------|---------|---------|-----------------------------|-------|
|                                  |         |         |         |         | Abs.                        | %     |
| Registered unemployment (stock)  | 383 894 | 383 482 | 382 019 | 381 629 | +104 506                    | +37,4 |
| < 12 months                      | 248 098 | 251 411 | 252 753 | 256 452 | +88 792                     | +55,7 |
| >= 12 months                     | 135 796 | 132 071 | 125 177 | 120 729 | +15 714                     | +13,1 |
| Registered unemployment (inflow) | 52 001  | 40 754  | 44 281  | 40 813  | +3 738                      | +7,7  |
| Employed job seekers             | 42 341  | 40 445  | 39 261  | 37 582  | +3 292                      | +8,4  |
| Job offers (stock)               | 14 163  | 13 335  | 12 418  | 11 679  | -4 371                      | -23,6 |
| Job offers (inflow)              | 11 472  | 8 946   | 9 060   | 10 060  | - 468                       | -3,9  |
| Job placements                   | 7 984   | 6 503   | 6 466   | 7 513   | - 639                       | -7,4  |

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

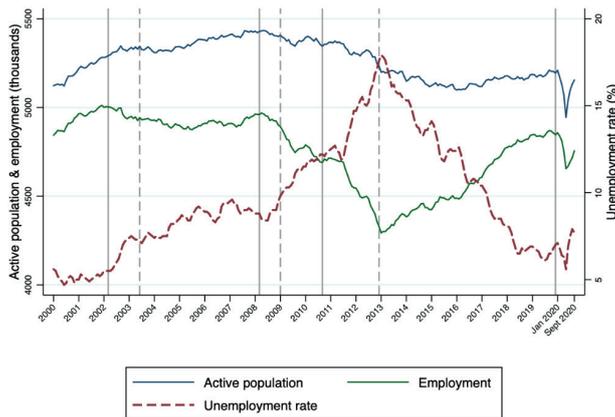
The State of Emergency was replaced by a State of Calamity on May the 3rd. However, despite expectations and incentives for the economy to parsimoniously get back to business, labour market conditions continued to deteriorate during May, albeit at a slower rate. On May 27th 1,332,114 workers worked in 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 (MTSSS, 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). The State of Calamity continued through June 2020 and was replaced by a State of Alert which remained in place between July and mid-September in most of the country. On September 15 the

Government declared a State of Contingency – which is still ongoing. In the last three months the number of workers in layoff remained high, nearly 1.4 million workers and just over 115 thousand firms were covered by the layoff scheme (see Figure 1). This may help explain why the unemployment rate has not soared (see Figure 2).

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



**Figure 2:** Employment, Unemployment and Active Population



Note: Own calculations. Source: INE, Monthly Labour Market Statistics (October 2020)

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.

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>

Following the budget revision approved on the 23rd of July, the government implemented the “Extraordinary support for progressive recovery” to take effect from the 1st of August to the 31st December. This is a financial support for companies facing a strong decrease in turnover associated and a temporary reduction of the normal working period, with the aim to keep jobs and support economic recovery and workers' pay. This support has differentiated solutions depending on the business crisis scenarios. Table 2 summarizes these measures.

<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)

<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/>

**Table 2:** Extraordinary support for progressive recovery – Summary

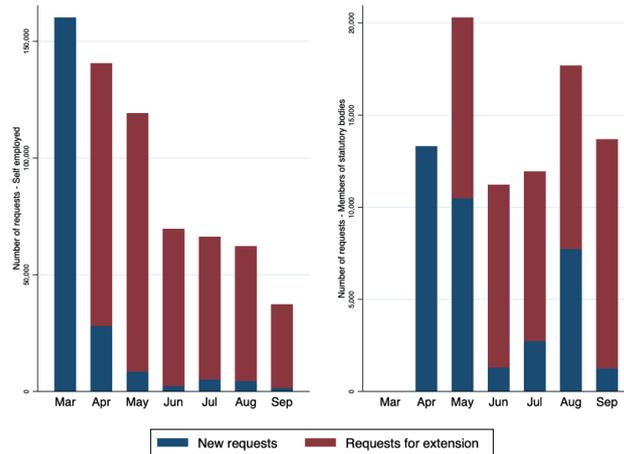
|   | August – September |        | October – December    |       |        |        |
|---|--------------------|--------|-----------------------|-------|--------|--------|
| <b>Eligible firms</b>                     |                    |        |                       |       |        |        |
| Decrease in turnover                      | => 40%             | => 60% | =>25%                 | =>40% | => 60% | => 75% |
| Decrease in normal working hours          | <=50%              | <=70%  | <=33%                 | <=40% | <=60%  | <=100% |
| <b>Wage compensation</b>                  |                    |        |                       |       |        |        |
| Working hours                             | 100%               |        | 100%                  |       |        |        |
| Non-working hours paid                    | 66,7% normal wage  |        | 80% – 88% normal wage |       |        |        |
| <b>Remuneration due to the worker</b>     |                    |        |                       |       |        |        |
| Gross normal monthly wage*                | =>83%              | =>77%  | =>88%                 |       |        |        |
| <b>Social Security support</b>            |                    |        |                       |       |        |        |
| Working hours                             | 0%                 |        | 0%                    |       |        | 35%    |
| Non-working hours                         | 70%                |        | 70%                   |       |        | 100%   |
| <b>Employer Social Security tax rates</b> |                    |        |                       |       |        |        |
| Micro and SME                             | total exemption    |        | 50% exemption         |       |        |        |
| Large firms                               | 50% exemption      |        | 50% exemption         |       |        |        |

\* at least 1 National Minimum Wage

## 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.

**Figure 3:** 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>

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).

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

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.

## 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

<sup>5</sup> “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/>

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. In September 2020, however, the number of employed job seekers increased by 8.4% (see Table 1) when compared to September 2019. This increase may be due to emerging fears of job-loss in the near future by workers (who may be, e.g., in layoff).

## 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 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.

<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)

As of the second trimester of 2020, 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.

In the third quarter of 2020, exports and imports of goods decreased by 3.3% and 13.8% respectively compared to the same quarter in 2019. Food and beverage products was the only major category which recorded, from January to September 2020, an increase compared to the same period in previous year.<sup>7</sup>

## Next steps and fiscal viability

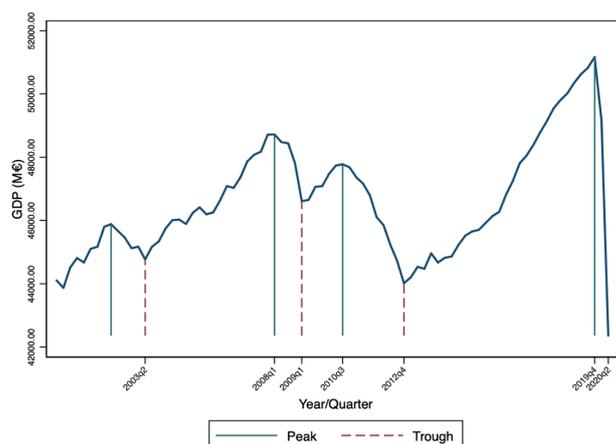
The strict lockdown measures and support from the government are not a long run equilibrium and cannot be sustained for a long period of time. This becomes apparent when we consider that most initiatives have an exceptional and temporary nature.

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 will 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.

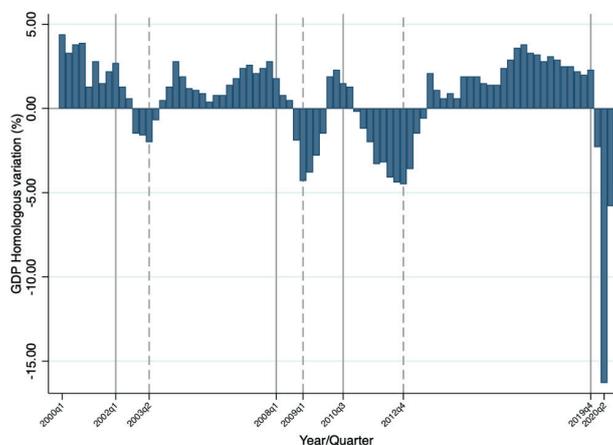
## GDP evolution and forecasts

Forecasts by the European Commission (June, 2020) 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 projections also 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), in Figure 3 we plot the quarterly GDP series (chained volume series, in million Euros, reference year 2016) and date the phases of the cycle. We can identify a sharp decrease in GDP level during the first two quarters of 2020. The future will tell the shape of this business cycle.

<sup>7</sup> [https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine\\_destaquas&DESTAQUESdest\\_oui=415205646&DESTAQUESmodo=2](https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_destaquas&DESTAQUESdest_oui=415205646&DESTAQUESmodo=2)

**Figure 4:** Portuguese GDP

In Figure 5 we plot the quarterly homologous variation of GDP. During the first quarter of 2020 Portuguese GDP fell by 2.3% compared to the same quarter in 2019. The second quarter of 2020 was mostly spent under strict lockdown measures and GDP fell by 16.3% compared to the second quarter of 2019. In the third quarter of 2020 measures intended to slow down the spread of the virus were eased and GDP fell by -5.8% compared to the third quarter of 2019 (and increased, chain variation, by 13.2% compared to previous quarter). This improvement was mainly due to internal demand which was driven by the less negative behavior of private consumption (INEc, 2020), exports of goods have also improved during the third quarter and were the main factor that contributed to the reduction of the fall in net external demand.

**Figure 5:** GDP quarterly homologous variation

### Key policy macro responses as of November 5<sup>8</sup>

The recent intensification of the virus outbreak has led to progressive reinforcement of social distancing rules and limitations on economic activity. Social distancing measures and the use of masks on public transport are mandatory. The State of Calamity was reactivated throughout mainland Portugal as of October 14, which tightens limitations on gatherings, such as in commercial and catering establishments.

The government has responded to the decline in output and employment with a range of measures to support the economy and jobs, and facilitate progressive resumption of economic activity. Recent key fiscal measures include: i) additional resources for virus-related health and education spending; ii) over €600 million per month (0.3% GDP) in

<sup>8</sup> <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#P>

financial support for those in temporary leave by their employer, which has been phased out in favour of financial incentives to support progressive reopening and to normalize business activity (about €1.3 billion equivalent to 0.6% GDP); iii) up to €13 billion (6.8% GDP) of state-guaranteed credit lines for medium, small and micro enterprises in affected sectors, operated mainly through the banking system; and iii) €7.9 billion (3.7% GDP) of tax and social security contribution deferrals for companies and employees. Additional financial support is also provided for the self-employed affected by the virus, the unemployed, people forced to stay home to care for children, the national airline and those sick or in isolation due to the virus. On November 5, the Council of Ministers approved additional measures to support the economy, such as €0.8 bn (0.4% GDP) in grants to micro and small companies, and €0.8 bn in credit line guarantees, and expanded eligibility for affected companies to financial support for progressive recovery.

The Portuguese government has approved a moratorium on bank loan repayments for families and companies affected by the coronavirus outbreak and a recent extension until end-September 2021. The Banco de Portugal (BdP) has relaxed some aspects of its macro prudential measures for consumer credit and postponed the phase-in period of the capital buffers for 'Other Systemically Important Institutions'. In addition, the BdP has announced a series of measures directed to less significant banks under its supervision, in line with the initiatives undertaken by the ECB and the EBA. These include the possibility to temporarily operate below selected capital and liquidity requirements; a recommendation to restrict dividend distributions until January 1, 2021; an extension of deadlines of some reporting obligations; and rescheduling of on-site inspections and the stress test exercise.

### **Fiscal viability and the European response**

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>9</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.

According to the IMF projections<sup>10</sup>, Portugal is the fourth country out of 38 advanced economies with a lower immediate budgetary impact due to the measures taken to fight the pandemic and its impact on the economy. The measures taken so far by Portugal represent a deficit of 3.2% of GDP, a number that is well below the average of 7.3% for 38 advanced economies. However combining these forms of support with granting of loans and guarantees, or the postponement of the collection of taxes or social security contributions, the measures adopted in Portugal correspond to a value equivalent to 10.8% of GDP, one of the largest among advanced economies.

Therefore, the state's financial effort to combat the crisis has been relatively low with regard to measures with an impact on the deficit and only higher in liquidity support measures. 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,

<sup>9</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)

<sup>10</sup> <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#P>

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

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### ABSTRACT

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Spain is one of the countries that was hit hardest by COVID-19 during the first half of 2020. For this reason, the lockdown was stricter and longer than in other European countries in order to flatten the curve. However, the second wave of the pandemic has already heavily impacted and new restrictions have been adopted. Around 6 million workers are now unemployed or covered by temporary employment adjustment schemes (ERTEs - Expedientes de Regulación Temporal de Empleo), which have been recently extended. 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 much longer than expected, and it will take time to come back to a sustainable path.

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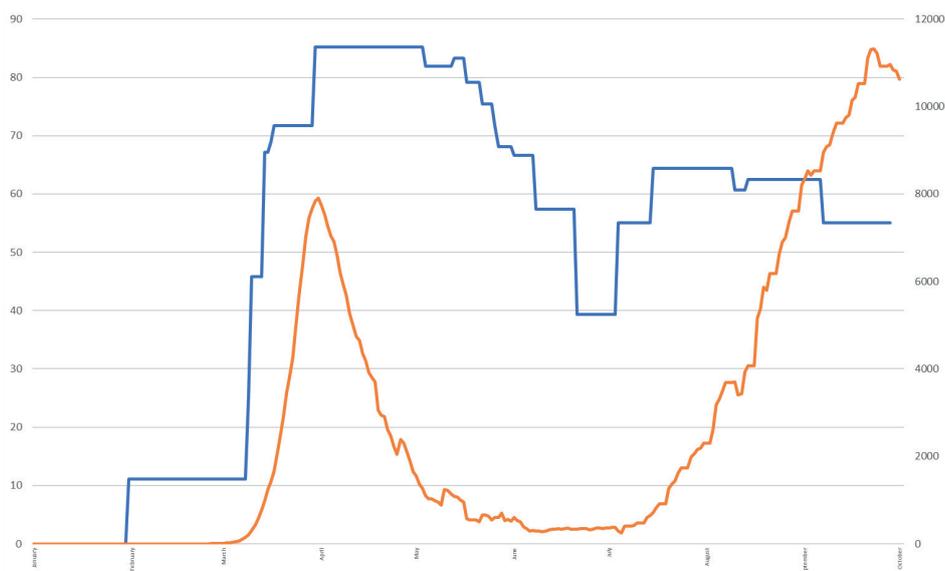
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## Labor market impact of COVID-19

Spain is one of the countries that was hit hardest by COVID-19 during the first half of 2020. The magnitude of the health crisis also explains why the lockdown was stricter and longer than in other European countries with notable exceptions such as Italy and France. Due to the positive evolution of the pandemic, several restrictions were relaxed between May and July, but the change in the trend in new COVID-19 cases made necessary to reintroduce some of them during the summer. 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 pandemics. 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 were effective during the first half of 2020 as it was possible to flatten the curve and to significantly reduce the number of new COVID-19 cases. However, as previously mentioned, the situation has dramatically changed in recent months in terms of contagions achieving new records during September, while the number of deaths has not followed the same path (probably due to the medical knowledge acquired during the first half of the year and improved capacity and technical equipment in the public health system). The dramatic increase in the number of new positive cases has required the adoption of new restrictive measures at the beginning of October, particularly in highly dense urban areas with high levels of contagions.

**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.<br><br>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<br><br>Phase 0 (preparatory): People can go out for short walks and individual sports in their municipality of residence<br><br>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. |
| June 2020          | Phases 2 and 3 are achieved during May and June in all regions. The “new normality” involves opening of nearly all sectors and activities although with several restrictions.   |
| September 2020     | Primary and secondary schools and universities restart educational activities under strict prevention measures.   |
| October 2020       | Internal restrictions to mobility adopted in urban areas with high levels of contagions.  |

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

Recent forecasts for the Spanish economy by the Bank of Spain<sup>1</sup> expect GDP to contract by 10–13 percent during 2020 due to the negative impact on activity of COVID19, while the recovery of economic activity during 2021 will be less intense than initially expected<sup>2</sup>. Employment would decrease less than GDP (thanks to the adoption of short-time work schemes, ERTes) while unemployment rate would go up from the 14% at the end of 2019 to 19%–22% depending on whether an early or gradual recovery is expected compared to a more risky scenario.

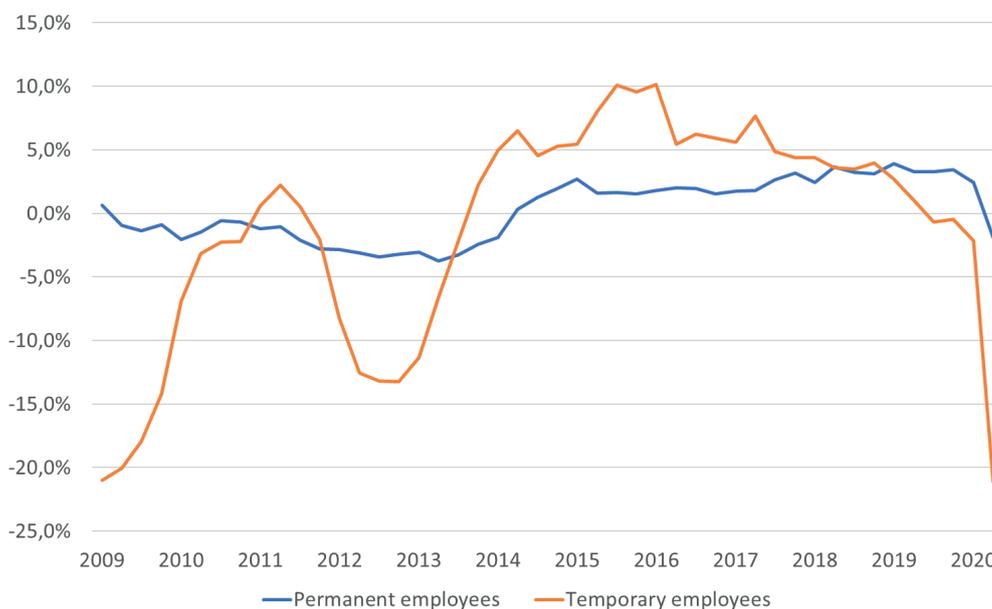
Taking into account the chronology of the restrictive measures adopted in Spain, Labour Force Survey data for the first and second quarter of 2020 is not very helpful to assess the potential recovery in the labour market due to the reactivation of most activities. LFS data shows that during the first quarter of 2020 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

<sup>1</sup> <https://www.bde.es/ff/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/20/T3/descargar/Fich/be2003-it-Rec1.pdf>

<sup>2</sup> <https://www.bde.es/ff/webbde/SES/AnalisisEconomico/AnalisisEconomico/ProyeccionesMacroeconomicas/ficheros/be08062020-proye.pdf>

to the first quarter of 2019, but the fall in temporary jobs was much more intense during the second quarter of 2020 with a decrease of  $-21,1\%$  representing more than 900,000 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%).

**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>3</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 full lockdown, and only partially recovered during the partial recovery of activity between May and June.

**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))

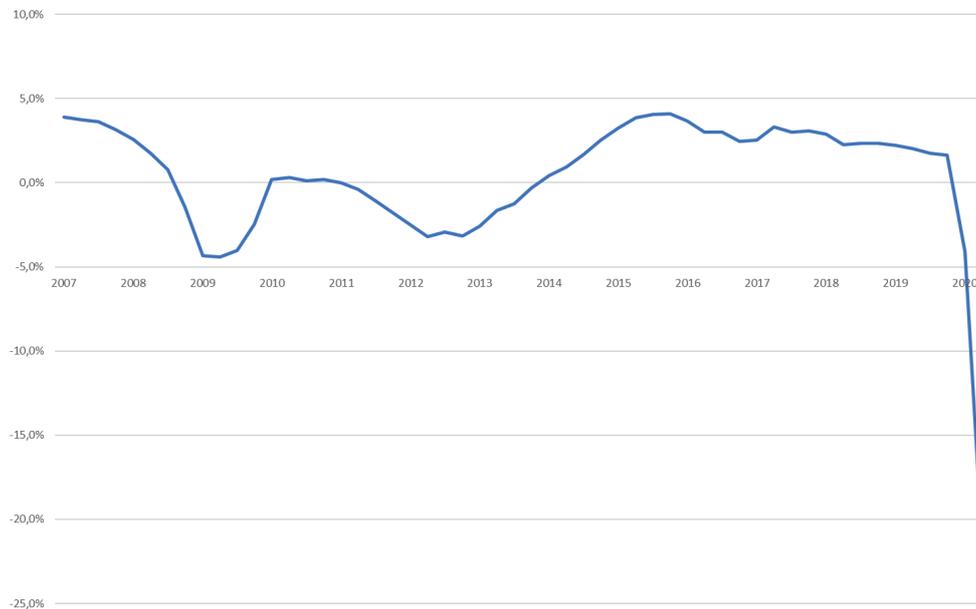
As shown in Figure 3, data for GDP for the first quarter of 2020 compared to the same period of the previous year shows a decrease in  $-4,1\%$  for the first quarter of 2020 and  $-21,5\%$  for the second quarter (after adjusting for calendar and seasonal effects). According to Eurostat<sup>4</sup>, seasonally adjusted GDP decreased by 3.2% during the first quarter of 2020

<sup>3</sup> Anghel, B., Cozzolino, M., Lacuesta, A. (2020), El teletrabajo en España, Artículos Analíticos, Boletín Económico 2/2020.

<sup>4</sup> <https://ec.europa.eu/eurostat/documents/2995521/10294864/2-15052020-AP-EN.pdf/5a7ea909-e708-f3d3-8375-e2510298e1b8>

and by 15% during the second in the euro area and by 2.6% and 14.4% in the European Union compared with the same quarter in the previous year, respectively. The size of the shock on activity during the first half of 2020 has been much more intense in Spain than in most European countries.

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

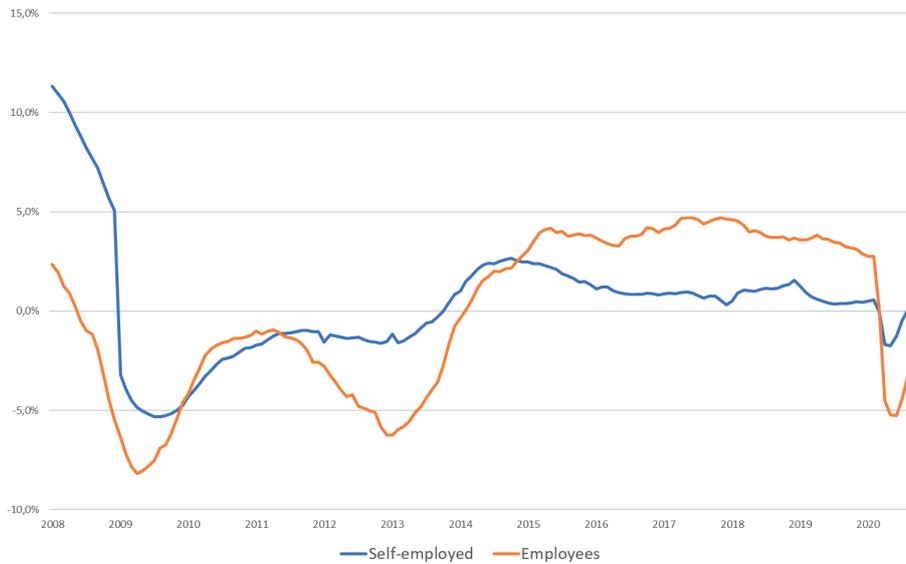


Source: Own elaboration using data from Eurostat.

Available information from Social Security records allows to analyze the monthly evolution of registered employment until September 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. During May and June, employment experienced substantial changes compared to the previous year, but the trend has clearly reverted, although 2019 levels have not been achieved yet (except for permanent workers that have been covered by short-term work schemes during the whole period). 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 stabilization and recovery 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 fell 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, -18.0% in April and -19.2% in May compared to the same months of the previous year. According to latest data corresponding to September 2020, overall employment is still 2.3% below September 2019, while temporary employment is -10.5% than it was in the same month of the previous year. However, the trend has clearly reverted as nearly all productive activities have been reactivated during the third quarter of the year. However, it is also important to mention that there are relevant 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 pandemic-related indicators.<sup>5</sup>

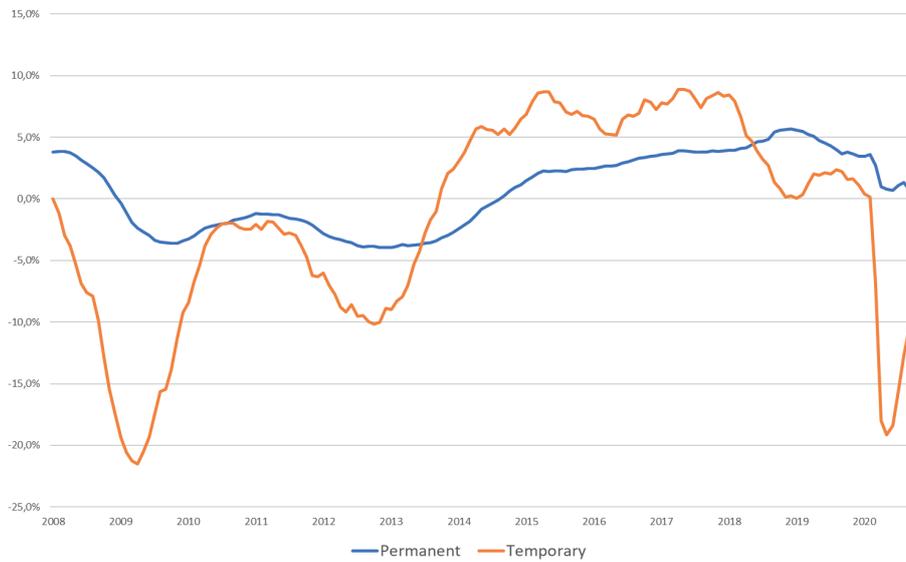
<sup>5</sup> <https://nadaesgratis.es/admin/impacto-economico-regional-de-la-pandemia-que-sabiamos-hasta-ahora-de-lo-que-podia-ocurrir>

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



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.

Figure 6 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 not accelerated during the summer and, as previously mentioned, it has slightly slowed during August.

Figure 7 compares the evolution of the Stringency Index with daily electricity demand showing a clear association between economic activity and the different phases of the pandemic and policies adopted to fight against it.

**Table 3:** Registered Employment

|               | Monthly averages 2020                  |        |        |        |        |        |        |                              |        |      |       |       |       |       |
|---------------|--|--------|--------|--------|--------|--------|--------|------------------------------|--------|------|-------|-------|-------|-------|
|               | % Change from same month previous year |        |        |        |        |        |        | % Change from previous month |        |      |       |       |       |       |
|               | Mar                                    | Apr    | May    | Jun    | Jul    | Aug    | Sep    | Mar                          | Apr    | May  | Jun   | Jul   | Aug   | Sep   |
| Total         | -0.2%                                  | -4.0%  | -4.6%  | -4.6%  | -3.8%  | -2.7%  | -2.3%  | -1.3%                        | -2.9%  | 0.5% | 0.4%  | 0.9%  | 0.0%  | 0.4%  |
| Self-employed | 0.0%                                   | -1.7%  | -1.8%  | -1.3%  | -0.5%  | 0.0%   | -0.1%  | -0.2%                        | -1.3%  | 0.3% | 0.8%  | 0.5%  | 0.0%  | 0.0%  |
| Employees     | 0.0%                                   | -4.5%  | -5.2%  | -5.3%  | -4.4%  | -3.3%  | -2.8%  | -1.6%                        | -3.5%  | 0.4% | 0.6%  | 1.4%  | 0.1%  | 0.3%  |
| Permanent     | 2.7%                                   | 1.0%   | 0.8%   | 0.7%   | 1.1%   | 1.3%   | 0.7%   | -0.2%                        | -0.9%  | 0.3% | -0.3% | -0.8% | -0.1% | 1.3%  |
| Temporary     | -6.9%                                  | -18.0% | -19.2% | -18.4% | -15.6% | -12.7% | -10.5% | -5.2%                        | -10.0% | 1.3% | 3.4%  | 7.7%  | 0.9%  | -1.8% |

Source: Own elaboration from Social Security records.

**Figure 6:** Spain – Registered employment (Social Security records – in thousands)



Source: Own elaboration from Social Security records.

**Figure 7:** Daily electricity demand and stringency index for Spain



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

Figure 8 shows the evolution of registered unemployment using administrative data from Public Employment Services records. Registered unemployment increased by 21.1% in April 2020 by 25.3% in May and by 28.1% in June 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 847 thousand individuals compared to June 2019. The increase has affected all sectors

with a similar intensity. Since then, unemployment has increased when compared to the same month of the previous year, but the trend has clearly changed and between June and September the number of registered unemployed has reduced in nearly 90 thousand individuals.

However, as previously mentioned, it is important to highlight 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 8:** Registered unemployment (Public Employment Services – last day of month – year-on-year changes)



Source: Own elaboration from Public Employment Services records.

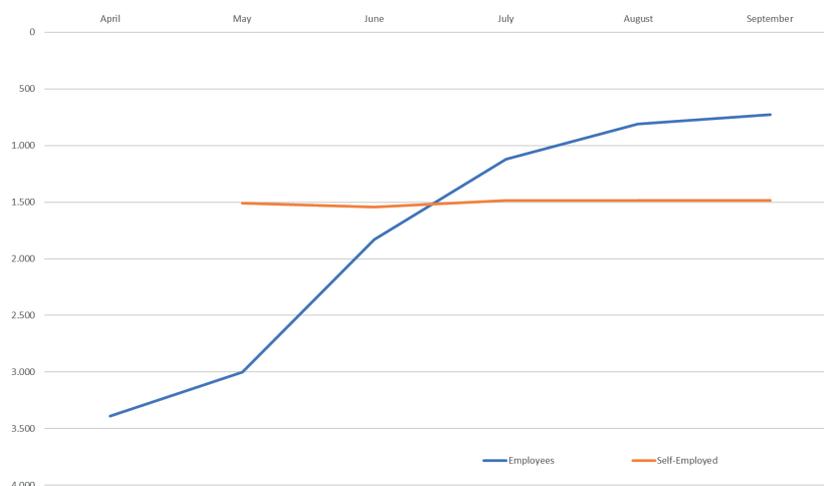
As shown in Table 4, the number of workers covered by ERTEs at the beginning of May were 3.3 million representing a 20% of registered employment in all sectors. However, these shares vary substantially across sectors with values above 50% for activities related to tourism and leisure activities. Similar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

**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>6</sup>

Figure 9 shows the evolution of the number of employees and self-employed workers covered by short-term work schemes (ERTEs and extraordinary subsidy for self-employed) during the second and third quarter of 2020. As we can see from the figure, in May 2020 the number of workers covered by these schemes arrived to 4.5 million (including employees and self-employed). In June, this figure already reduced in a -25% and in July in a -42%, but the reduction has not been so intense during August and September. On September 30th there were still 2.2 million workers covered by short-term work schemes (around half of workers covered in May). A report by the Spanish Ministry of Labour<sup>7</sup> shows that by mid-June, more than 90% of workers covered by ERTEs had come back to their jobs although it is important to recognize that the evolution of self-employed has not been so positive. Moreover, and due to the fact that the evolution of the pandemic has worsened, and new restriction measures have been adopted, it is difficult to assess if the labor market situation will keep improving during Autumn.

**Figure 9:** Spain – Workers covered by short-work schemes (in thousands)

Source: Own elaboration from Ministry of Labour monthly reports.

<sup>6</sup> <http://prensa.mitramiss.gob.es/WebPrensa/noticias/ministro/detalle/3800>

<sup>7</sup> <http://prensa.mitramiss.gob.es/WebPrensa/downloadFile.do?tipo=documento&id=3.839&idContenido=3.814>

## 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>8</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 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 was reformed after an agreement with firm associations and trade unions. ERTEs were initially designed to cover the situation of workers until the end of the state of the alarm, but they were extended until June 30th and prorogued again until September 30th. A new extension until January 31st 2021 has been recently approved and legislation has been changed to allow new entries into the system due to restrictive measures recently approved.

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

8 [https://www.msccbs.gob.es/ssi/portada/docs/Ampliar\\_el\\_Escudo\\_Social\\_para\\_no\\_dejar\\_a\\_nadie\\_atras.pdf](https://www.msccbs.gob.es/ssi/portada/docs/Ampliar_el_Escudo_Social_para_no_dejar_a_nadie_atras.pdf)

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 on June 15th 2020. 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, 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>9</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 during the second quarter of 2020, 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. However, the situation has recently improved as since September 2020, primary and secondary schools have reopened with the beginning of the academic year.

## 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.

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<sup>9</sup> Dingel I. J., Neiman, B. (2020), How many jobs can be done at home?, NBER Working Paper, n.º 36948.

## 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 11-12% of GDP and a level of public debt of 117-120% of GDP in 2020. For 2021, GDP is expected to grow between 4% and 7% from previous year while the unemployment rate will remain at higher levels than in 2020. As recently highlighted by the IMF,<sup>10</sup> 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. Moreover, once the economy is on a sustainable growth path, it will be important to carefully plan structural reforms to support growth, facilitate debt reduction and guarantee pension sustainability.

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<sup>10</sup> <https://www.imf.org/en/News/Articles/2020/09/29/mcs092920-spain-imf-staff-concluding-statement-of-the-2020-article-iv-mission>

## IZA COVID-19 Crisis Response Monitoring **Slovakia (November 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 occupied the last place among European states<sup>1</sup>
- This remarkable performance in terms of containing the first wave of 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 numbers of daily new cases started to pick up already in July 2020, and on August 21 (123 new cases) it surpassed the maximum from April 16 (114 new cases). The psychological threshold of 1,000 daily cases was surpassed on October 8, 2,000 on October 16, and 3,000 on October 25, 2020. As of November 1, the second wave of the COVID-19 pandemic is in full swing in Slovakia. In response, as the first country in the world, in late October and early November Slovakia is testing its entire population (excluding minors below 10 years of age) using antibody tests.
- The overall economic impact of the COVID-19 pandemic in Slovakia in Q1 and Q2 2020 has been severe. Primarily due to meager foreign demand, in Q1 and Q2 2020 Slovak GDP shrank by 3.9% and 12.1% y-o-y, respectively, which were slightly larger drops than the Euro Area averages. 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.
- Given the strong growth in the Euro Area in Q3, 2020, a strong recovery can be expected in that quarter in Slovakia as well.
- Following a slight increase of the registered 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.
- The unemployment rate peaked in July 2020, at 7.65%. Since then, it declined to 7.43% in September 2020.

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

**Table 1:** Unemployment rate in 2020

|                                | Jan  | Feb  | Mar  | Apr  | May  | Jun  | Jul  | Aug  | Sep  |
|--------------------------------|------|------|------|------|------|------|------|------|------|
| Registered unemployment (in %) | 4.98 | 5.05 | 5.19 | 6.57 | 7.20 | 7.40 | 7.65 | 7.60 | 7.43 |

Source: COLSAF

- Remarkably and surprisingly, whereas employers announced 2,242 mass layoffs in March 2020 and the number increased to 3,142 in April, May witnessed just 1116 mass layoff announcements. Another positive signal from the labor market was that in May 9,665 people registered as unemployed found jobs, which was by 3,744 (63%) people more than in April. The labor market strengthened by September 2020, when 21,988 registered unemployed found jobs.
- While there were 180,756 unemployed in April and 198,256 in May 2020, COLSAF also registered 67,950 thousand vacancies in May 2020 (92,106 in May 2019), circa 4 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> The labor market improved by September 2020, when COLSAF reported 76,673 thousand vacancies (97,589 in September 2019).
- 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.

<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)

<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.

## 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>
- As of October 30, 2020, the total amount of support targeted on employees, employers and self-employed increased to 636 million EUR and supported 1.825 million employees (135.4 thousand employers) and 274.9 thousand self-employed workers.<sup>8</sup>
- Of the total state compensation programs targeting the labor market, the largest support went to the manufacturing 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>9</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>10</sup>
- As of October 1, 2020, the manufacturing sector received 48% of the financial support, whereas the wholesale and retail services sector received 11.9%. The largest average support per employee went to the public sector and defense (411 EUR), distribution of gas and electricity (392 EUR) and construction (383 EUR), whereas the corresponding amount in the manufacturing sector was 257.7 EUR.
- 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>11</sup> They mostly criticized complicated administration of the measures adopted to alleviate the economic impact

<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)

<sup>8</sup> [https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp\\_2020\\_prva\\_pomoc\\_update5\\_final.pdf](https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp_2020_prva_pomoc_update5_final.pdf)

<sup>9</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>10</sup> <https://slovensko.hnonline.sk/2143320-stovky-restauracii-krizu-neprezili-namiesto-restartu-krach>

<sup>11</sup> AZZZ statement before the tripartite meeting on May 18th, 2020: <https://hsr.rokovania.sk/2020/>

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>12</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. Slovakia indeed implemented various measures to limit social contact in October 2020, and implemented, as the first country in the world, a mass testing of its entire population with COVID-19 antibody tests on October 31 and November 1, 2020. Pilot testing in four districts took place one week before the national testing.
- Some of the groups that may be less well covered by the first-aid measures 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), and employers and employees in the culture, sports and the HORECA sector. 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.
- The support has been increased and broadened as of October 1, 2020. The main changes were that self-employed with contemporaneous employment contracts could receive first-aid financial support (helping especially the culture and sports sectors), the maximum support to employees increased from 880 EUR to 1,100 EUR, and the support to self-employed increased by 50%. A specific instrument was introduced for the HORECA sector (support 1.4% to 10% of revenues, depending on the decrease of revenues (compared to 2019), if the decrease is at least 40%)
- No impact studies about the effectiveness and efficiency of the adopted measures are available as of November 2, 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.
- 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

<sup>12</sup> <https://www.cvp.sk/content/suhrnna-sprava-covid.pdf>

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>13</sup> As of October 1, 2020, all the respective amounts were increased by 50%.<sup>14</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 24th 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. The measure was extended also in May. The last extension was adopted in July; however, this last extension also stipulated the end date of the extension, August 31, 2020.
- No new specific support to unemployed nor new ALMPs have been announced as of November 2, 2020.
- Kurzarbeit was introduced in Slovakia as a temporary measure, but there was discussion about the possibility to implement it as a systematic measure also for the future.<sup>15</sup> There also was 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.
- The Government approved a permanent Kurzarbeit scheme on October 21, 2020, which however still needs to be approved by the Parliament.
- The distribution of the support among firms of different size during the first wave (March–April, 2020) is reported in Table 2.

<sup>13</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>14</sup> <https://www.employment.gov.sk/sk/informacie-media/aktuality/z-prvej-pomoci-rezort-vyplati-viac-penazi-vacsiemu-poctu-ziadatelov.html>

<sup>15</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 calculations)

## 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 restarted 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 was further liberalizing the border regime in June 2020 and effectively removed most restrictions during the Summer 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>16</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 and telework related to lock-down, most of the employees who worked on homeoffice

<sup>16</sup> Kahanec, M., L. Laff ers and J.S. Marcus (2020) 'The impact of COVID-19 restrictions on individual mobility', Bruegel Blog, 5 May

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.<sup>17</sup> 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. Even if the market improved mid-2020, the second wave that hit Slovakia and most of its key trade partners in the autumn will severely limit labor market opportunities for new entrants. The Economic Crisis Council proposed internship schemes for graduates to support their school-to-job transition; however, no progress has been done on this measure as of October 2020.
- 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, temporary Kurzarbeit has been introduced as a novel instrument. The legislative process has been started to enact it as a permanent measure; on October 21, 2020, it was approved by the government and it is now going to be proposed to the Parliament.
- 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.
- The second wave hit Slovakia and its main trading partners in Autumn 2020. Slovakia gradually restricted social contact in September and October, and implemented, as the first country in the world, a mass testing of its entire population with antibody tests on October 31 and November 1, 2020.

<sup>17</sup> - Arrangement of determined weekly working time, continuous daily rest, continuous weekly rest and on stoppage of work do not apply to such employee (§ 52a of Labour Code).

- In cases of substantive personal obstacles to work, the employee is not entitled to wage compensation from the employer (§ 52b of Labour Code).

- Employee is also not entitled to wage for overtime work, to wage surcharge for a period of work on a public holiday, to wage surcharge for the period of night work and to wage compensation for work in constrained working environments, unless the employee agrees otherwise with the employer (§ 52c of Labour Code).

## Next steps and fiscal viability

- Slovakia could sustain the current policy stance for several more months, although its fiscal space is rather limited. As Slovakia has spent relatively limited amounts on COVID-19 financial aid during the first wave, this remains true as of November 2020. The second wave, which started in Autumn 2020, will however hit the economy hard, when it already has been weakened by the first wave. This will further affect the fiscal capacities of Slovakia.
- 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 was vigorously reopening its economy in May and June 2020. After a strong third quarter of 2020, the Slovak economy will inevitably slow down in the fourth quarter, as the second wave has hit it and its main trading partners in Autumn, 2020.
- As Slovakia has been upgrading its anti-COVID-19 aid package, the hope was that with the reopening the economy it would rebound and the policy measures would not be needed for too long. Although the Summer indeed provided for a strong economic performance, with the second wave that hit Slovakia and its key trading partners in Autumn 2020 the situation has dramatically worsened.
- A large share of Slovakia's GDP 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 was nearly fully reopened as of June 2020, the key measures that were recommended: 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.
- Slovakia is discussing the use of EU Recovery and Resilience Fund, involving its governmental analytical units and about a 100 leading experts.
- However, as most of Europe, including Slovakia, could not prevent the second wave of COVID in Autumn 2020, the key challenge is the containment of the pandemic with medical and non-medical instruments. Slovakia implemented a mass testing with antibody tests in Autumn 2020, and is discussing strategies of targeted testing to prevent full lock-downs. The key challenge is developing a sustainable strategy of PCR testing, antibody testing, tracing, and social distancing to contain the pandemic until a vaccine or treatment becomes readily available.

## IZA COVID-19 Crisis Response Monitoring **Sweden (October 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 make them sustainable in the short to medium run.

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## 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.

The Swedish restrictions and recommendations were designed to be durable over an extended period of time. As a consequence, there have been few changes in the restrictions over time. Recommendations against domestic travels were, however, removed in early June. High schools and universities were allowed to open for on-site teaching at the start of the fall semesters. But teaching at universities appears to remain online in many cases, in particular in metropolitan areas where students need to travel to classes with public transport.

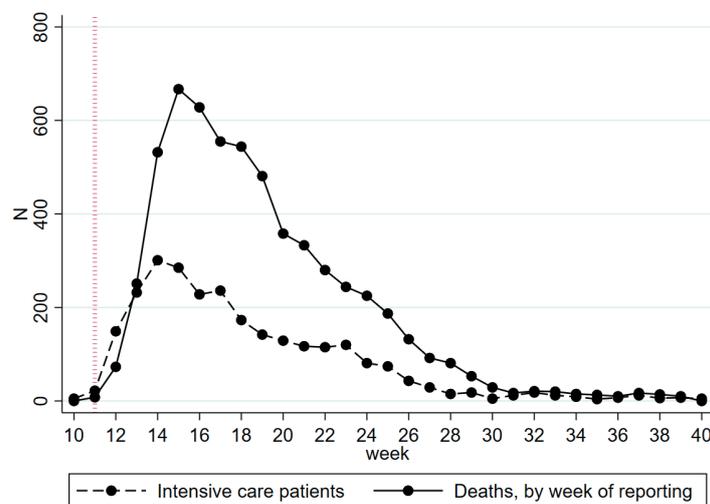
Some descriptive indicators of the timeline of the spread of the Covid-19 virus in Sweden are collected in figure 1. With the well-known caveats associated with each such indicator, they jointly suggest a rapid spread with many new severe cases around weeks 11 to 14 followed by a levelling out and a gradual fall in new severe cases starting between week 15 and 17 depending on indicator. Starting mid-September (around week 38), there is a gradual but steady increase in the number of reported cases.

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 early on.<sup>1</sup> The recommendations 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> Over time, there has been a very clear gradual reduction in the adherence to the restrictions and an increase in mobility (as we display below). As a consequence, the consumption of goods and services in some sectors that were hit hard initially has gradually started to recover. It appears as if the opening of the Swedish economy has been more gradual and “organic” than in other countries where the removal of specific temporary laws and restrictions appear to have been more instrumental.

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



Source: Swedish Public Health Agency.

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 per-cent). 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

<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.

<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.

how stark the early labor market impact was. This is, most likely, a consequence of high early 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, primarily in the early phase of the crisis: The number of workers registered as unemployed at the PES increased by more than 100,000 people in just 3 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 most workers who receive a notice do not end up in unemployment at all.<sup>6</sup>

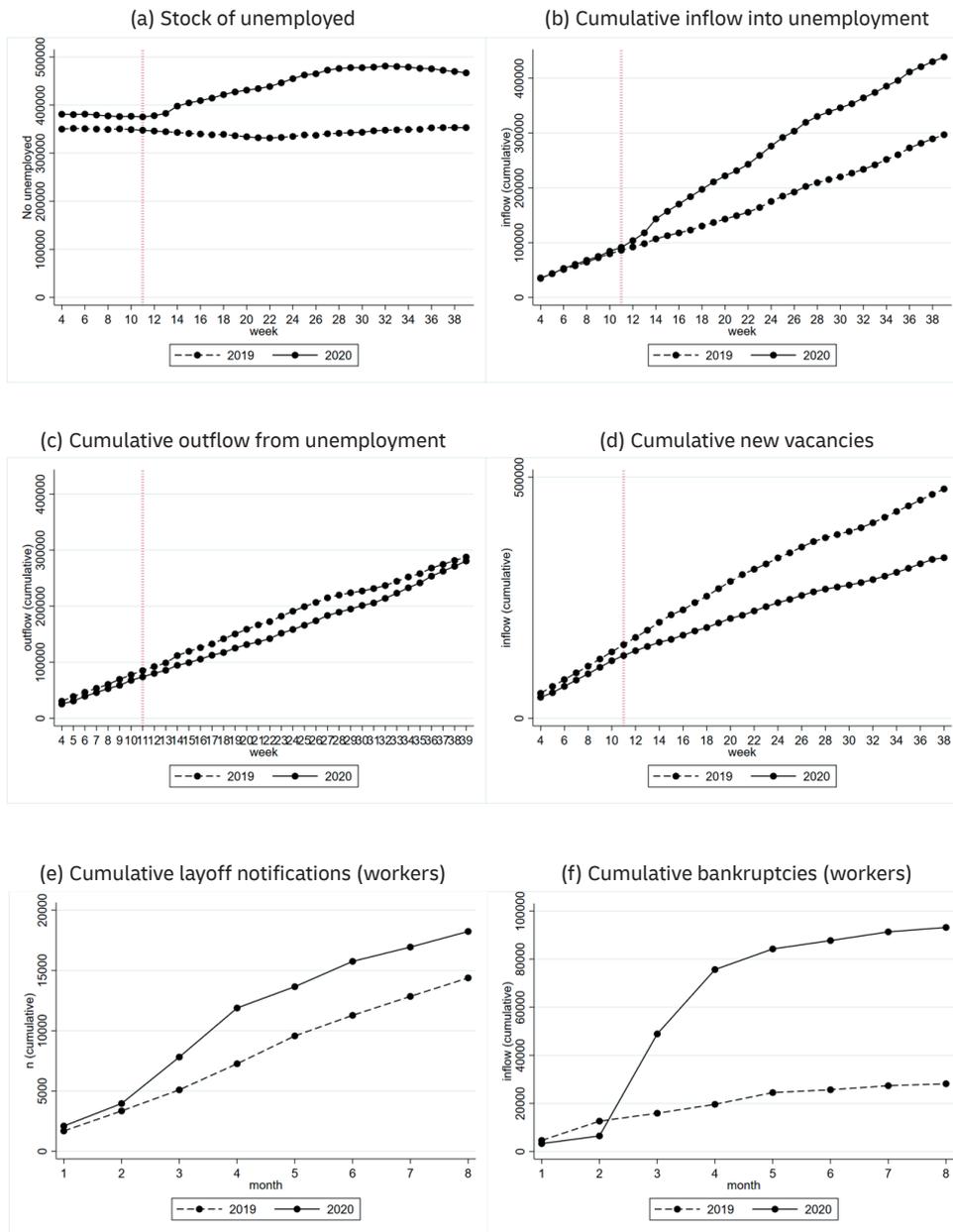
Panel B of Table suggests that the labor market has recovered slightly since the spring although numbers are still well below 2019-levels. The rebound is particularly strong in terms of job-finding rates of the unemployed. The gap in accumulated layoffs and bankruptcies has remained almost constant after the initial shock. At the same time, we see that the inflow of new vacancies to the Swedish Public Employment Service continues to decrease. By September, the accumulated number of vacancies is 42 percent lower than in 2019. One possible explanation for the full set of results is that the crisis has resulted in a more positively selected pool of unemployed workers, which could result in higher share of posted vacancies being filled.

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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> Slightly more than half of advance notices from the spring 2020 resulted in layoffs and one quarter became unemployed at some point. The share ending up in unemployment is marginally higher than during the financial crisis. Unemployment after a notice is most prevalent in the hardest hit sectors of restaurants and hotels. 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:** Cumulative impacts of the Covid-19 crisis

| <b>Panel A</b>              |                 |                 |                |
|-----------------------------|-----------------|-----------------|----------------|
| 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         | -              |

| <b>Panel B</b>               |                 |                 |                |
|------------------------------|-----------------|-----------------|----------------|
| Measure                      | By week 39 2019 | By week 39 2020 | Percent change |
| Registered unemployed        | 353,145         | 466,946         | 32.2           |
| New registrations            | 296,898         | 438,760         | 47.8           |
| Outflow to employment        | 287,562         | 280,472         | -.03           |
| New vacancies                | 475,572         | 333,023         | -42.8          |
| Noticed workers*             | 28,182          | 93,191          | 230.6          |
| Bankruptcies*                | 14,379          | 18,232          | 26.8           |
| Short-time work (employers)* | 0               | 69,933          | -              |
| Short-time work (workers)*   | 0               | 577,658         | -              |

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.

\*Because of data availability these figures report the numbers by week 35.

## 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, 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 temporarily covered 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. These measures have been prolonged until the end of 2020.

<sup>7</sup> These measures were originally set to end in September but have been prolonged until the end of 2020.

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

*Protecting jobs and firms:* A number of policy measures aimed at protecting firms and jobs were put in place during the 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”. The scheme is announced to be prolonged for an additional 3 months, but the formal decision has not yet been taken. The system will also be complemented with targeted support replacing 75 percent of earnings-losses among unincorporated self-employed (if losing at least 40 percent relative to the same period in 2019) during March to July. This group was not eligible to apply for support within the initial system.

Payroll taxes for the first 30 employees were 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. A reduction of payroll taxes of workers below age 24 from April 2021 has been announced. Financial support were 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. A prolongation has been announced, but details are not yet released.

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 could be combined with the payroll tax reduction which implies that firms with less than 30 (low-wage) employees essentially had all their wage costs covered if workers were on 80 percent short-time work during the most intense part of the crisis. Applications for short-time work covered more than 500,000 workers (10 percent of the labor force). However, there is still some uncertainty as to how large share of workers have been covered by the scheme, for which periods, and by what intensity (percent of full time). Employers are required to report ex post on the actual intensity by which they used the scheme, but details from this back-reporting have not been released at the time of writing this text. At the moment, it appears as if the training component of the short-time work is mostly absent, but the government has announced in the current budget proposal that there should be more training going forward; exactly how this will play out in practice remains to be seen.

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. The changes in benefit levels have been announced to be prolonged until the end of 2022. In addition, the Swedish financial supervisory authority have granted banks the right to provide general exemptions from rules regarding amortization of mortgages. 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 as to what will happen with firms in the hardest hit sectors (e.g. event organizers) that still are prevented from operating, after the end of the year when their participation in short-time work will need to end.

**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 March to December 2020.

\*80 % reduction is only available during May to July.

Source: The Swedish Agency for Economic and Regional Growth.

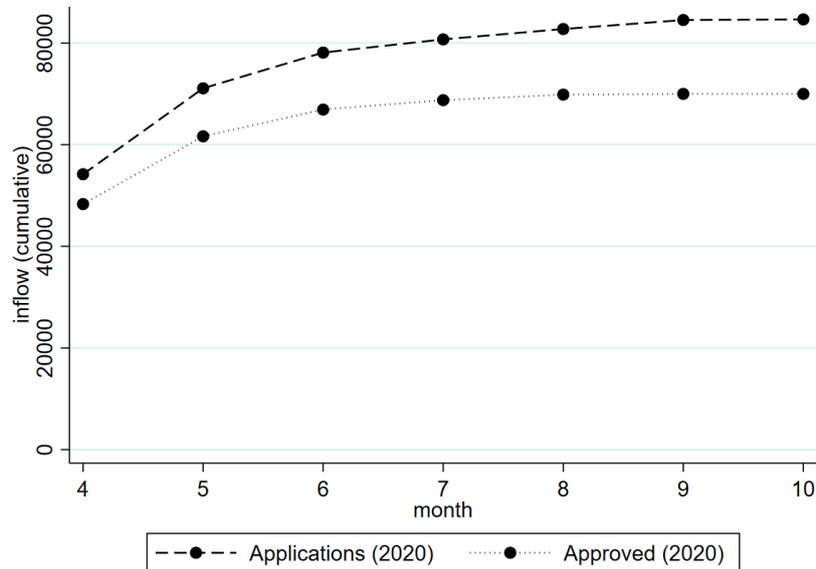
## Immediate liquidity support to businesses

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

<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.

period. The applications covered 490,000 workers.<sup>10</sup> Application numbers corresponded to 15% of all firms and 9% of all workers in Sweden, suggesting that many small firms applied.<sup>11</sup> Applications continued to increase during the spring and then leveled off. By early October, 70,000 applications were approved, covering 560,000 workers (i.e. 10 % of all workers) according to the responsible agency.

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



Source: The Swedish Agency for Economic and Regional Growth

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 seems as acceptable costs, at least at the 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.

<sup>10</sup> The numbers are from the 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.

<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.

## 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>

Job search monitoring was temporarily halted during the spring, but has since been resumed. Otherwise, we have not been able to document how various aspects of Swedish active labor market policies have changed in response to the crisis. According to forecasts in the 2021 budget, the Public Employment Service will only spend 80 percent of budgeted funds for active labor market policies despite of the large increase in unemployment. But the situation was very turbulent already before the Corona crisis. Funding was cut dramatically because of political turmoil in the budget for 2019. At the same time, there was a political push to privatize more of the services. The agency responded by announcing large layoffs and closure of local offices. Some of these decisions were later overturned, but the whole process created a set of practical disturbances to the general functioning of the agency. This makes it difficult to assess how much of the contraction in spending on active labor market policies is due to Corona and how much is due to other problems within the agency.

Going forward, funding for active labor market policies will increase by 17 percent during 2021, but this is far from the forecasted increase in the number of unemployed workers (up 40 percent relative to 2019). This is somewhat concerning considering the increase in UI-benefit levels, which would have called for more activation measures and monitoring of job search behavior.

## 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, at least early on during the crisis. 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

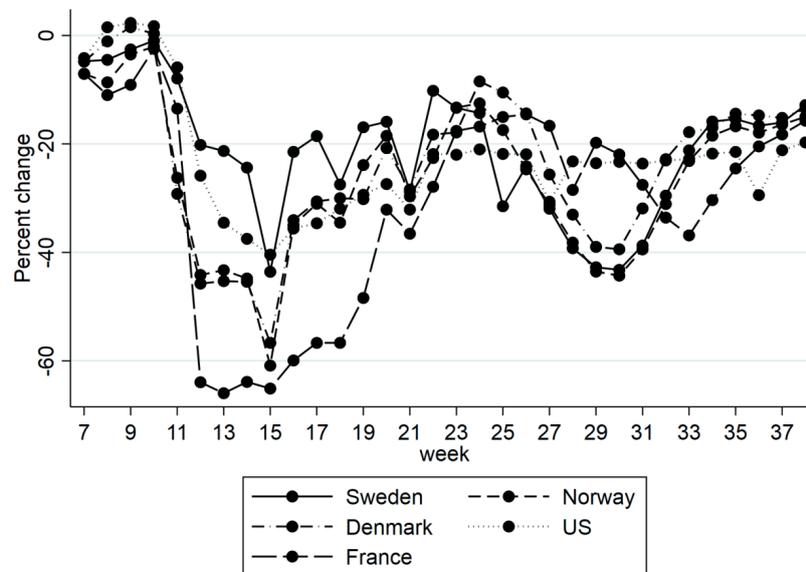
<sup>13</sup> The background description in this paragraph draws heavily on Nordström Skans et al. (2017), for a summary in English of that source, see <https://www.sns.se/en/articles/sns-economic-policy-council-report-2017-policies-for-an-inclusive-swedish-labor-market/>. For a description of the Swedish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

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” was offered in return on top of existing pay (yielding a 220% pay increase). The agreement was activated for a subset of ICU medics in the worst affected area of Stockholm during the most affected period.

**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, Panel A shows that the early impact on the inflow into unemployment during the first few week of the current crisis. The adverse effects

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

appear to be strongest among workers aged 25-29 and this pattern remains if we look at the current situation (in Panel B).

Figure 5 shows that the number of posted summer-job vacancies has decreased by 18 percent 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>

So far, there are no major specific policies or initiatives targeting the labor market entrants, although the number of slots at Universities for the fall has been increased. Universities have also been given incentives to offer summer courses, a measure that has been used during previous Swedish recessions as well.

**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           |

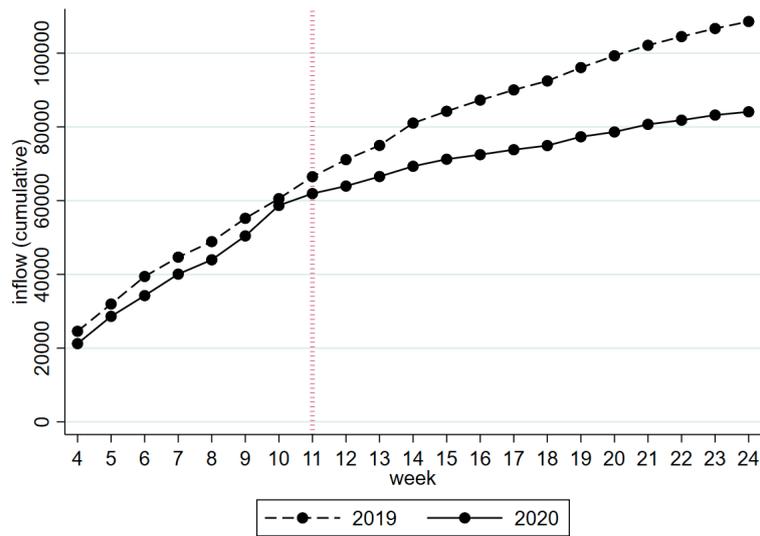
  

| Measure           | By week 39 2019 | By week 39 2020 | Percent change |
|-------------------|-----------------|-----------------|----------------|
| <b>By age:</b>    |                 |                 |                |
| - 24              | 81,346          | 125,268         | 54.0           |
| 25-29             | 47,573          | 73,623          | 54.8           |
| 30-39             | 70,891          | 103,363         | 45.8           |
| 40-49             | 47,964          | 67,750          | 41.3           |
| 50-59             | 37,797          | 53,128          | 40.6           |
| 60+               | 11,327          | 15,628          | 38.0           |
| <b>By gender:</b> |                 |                 |                |
| women             | 146,791         | 213,576         | 45.5           |
| men               | 150,107         | 225,184         | 50.0           |

Source: Public Employment Service

<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 noticed workers and workers covered by the short-time work program were distributed across industries during the early onset of the crisis. The patterns are, however, very similar if we extend the study period. 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 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

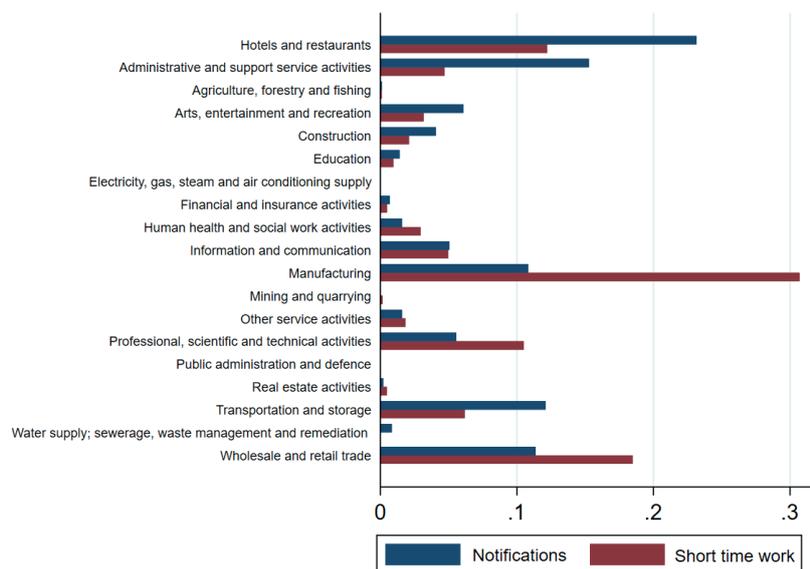
<sup>18</sup> See e.g. Riksbank (2020).

in overall employment trends, at least within broad industry 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.

It should also be noted that it is likely that several of other service-industries (personal services, tourism industry, etc.) that are hit very hard may be the jobs of the future for low skilled workers. The reason is that many of these jobs involve close human interactions, which makes them harder to automate, but also more sensitive to recommendations about social distancing.

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 was estimated to be 240 billion SEK,<sup>22</sup> i.e. 4.8 percent of GDP during the spring. The most expensive measure was the short-time work scheme (95 billion SEK). However, several of the measures have cost much less than anticipated and the current estimate for idiosyncratic measures is 193 billion SEK instead. Spending on short-time work is at the moment at 29 billion SEK and the full year estimate is only 43 billion SEK now.

On top of this, there is of course a substantial additional financial burden incurred from lost tax revenues and payments related to the automatic stabilizers. The most recent figure from the Government's fall budget for 2020 suggests a total estimated public sector deficit of 268 billion SEK, i.e. 5.5 percent of GDP during 2020.

On the positive side, Sweden benefits from reasonably sound public finances, and in particular, low public debt (35 per- cent 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 was hit very hard initially, and the effects linger on. 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 was covered by the short-time work scheme. The crisis led to a rapid increase in registered unemployment by 1 percent of the labor force and the growth continued to accumulate thereafter. Over time, however, the situation appears to have stabilized but at a higher level of unemployment. Layoff notices increased dramatically early on, but stabilized fairly rapidly. Second, the negative impact has arisen even though economic 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 the support for struggling firms may need to be prolonged. Strong public finances ensure 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.

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

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 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 appear to be mitigated as restrictions are lifted across multiple countries at the same time.

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## IZA COVID-19 Crisis Response Monitoring **Switzerland (November 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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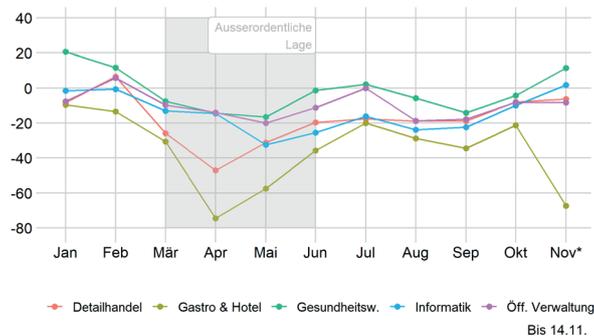
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The extent of the labor demand drop differs substantially between sectors. Figure 2 tracks the 5 sectors with the largest amount of job postings (which cover more than 35% of the newly published job ads). Whereas the catering industry postings dropped by about 75% compared to the pre-year period, and retail by about 50%, the postings in the health and public sectors were much less affected (only about 20%) by the shock wave of the first lock-down [Novalytica/x28 2020a]. Subsequently, the most substantial recoveries in the demand drop are seen in the retail and the catering sector, which most obviously benefitted from the stepwise re-openings in May and in June. However, the recovery in the catering industry did not last for long, it has also been badly hit by the second wave of the pandemic which came up towards end of October [Novalytica/x28 2020b]. The drop is of the same dimension as in the first wave, as Figure 2 shows, even though the Swiss government decided not to go into a full lock-down and restaurants remained open in some areas of the country. This substantial drop documents the rapidly worsened expectations in the catering sector, in view of an upcoming winter season and even half-year that will see continued heavy restrictions as well as fears to meet and travel.

**Figure 2:** Newly published vacancies in Switzerland, by top 5 sectors and week, % changes compared to corresponding pre-year week



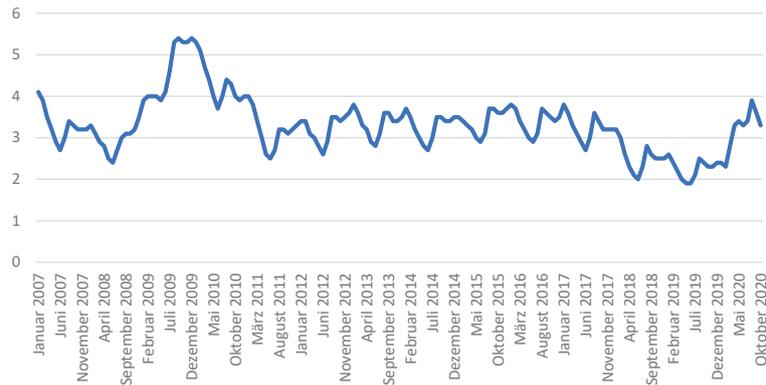
Source: x28/Novalytica

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, reaching a rate of 3.4%<sup>2</sup> [SECO 2020a]. The youth unemployment rate continued to rise to 3.9% in August, undoing the improvements over the last two years. By October, the rate declined a bit to 3.3% -- thus, currently it seems to stabilize at a level which was common for the years 2012 to 2016, as Figure 3 documents. The youth unemployment rate by ILO definition amounts in Q3-2020 to 11.6% (EU: 17.9% as comparison) [BFS 2020b]. So far, youth unemployment did not reach the peak level of the financial crisis (5.4% by SECO definition, see Figure 3). One reason that prevented the youth unemployment rate from going higher so far is the stability on the apprenticeship market: in spite of the crisis, the firms did not significantly reduce the offer of apprenticeships (see also further below).

The impact of the Covid crisis on rising unemployment is broadly spread across industries and jobs. Massively affected is the gastronomy and hospitality 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, to about the same relative extent.

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

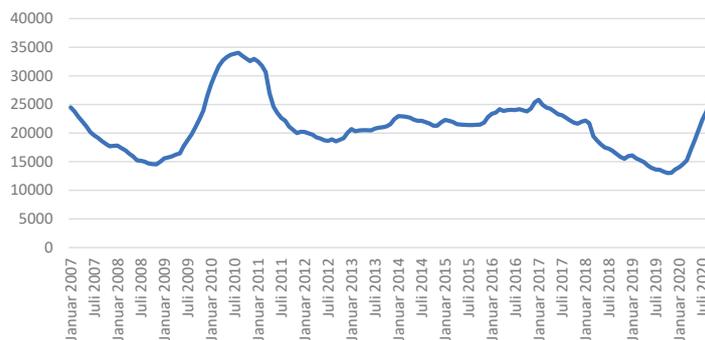
**Figure 3:** Rate of registered youth unemployment (ages 15 to < 25), by month



Source: SECO

Long-term unemployment started to rise substantially in the last months since March 2020. This is not unexpected because, as mentioned earlier, the relatively persistent drop in labor demand makes success in job search more difficult. As Figure 4 shows, already by the end of October the level of long-term unemployment reached the level of the last peak, dating back to February 2017. A further increase is to be expected. The duration of the continued health crisis and the reduced labor demand will crucially determine whether long-term unemployment will soon reach the levels of the Financial Crisis or not.

**Figure 4:** Rate of long-term unemployment (>1 year), 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, the 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.

### 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. For this purpose, 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 40 billion have been made available as loan guarantees by the Swiss Confederation. Additionally, CHF 1.3 billion are available for airlines and CHF 0.1 billion for startups [EFV]. In practice, CHF 17 billion of bridging loans have finally been granted by banks to the firms. So far, only CHF 2 billion of these potential loans have been pre-booked as losses (due to defaulted loans) by the Confederation, whereby 1 billion will go on next year’s account [EFV]. 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. As expenditures for income compensation (EO) related to the first Covid wave an amount of CHF 5.3 billion has been booked by the Confederation, 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 primarily focused on directly affected self-employed<sup>3</sup> during the lock-down periods. In reaction to the strong incidence of the second wave, the Confederation has granted another CHF 2.2 billion for income compensation.

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 was adjusted mid of April, through allowing these groups as well access to the Income Compensation scheme (EO) [BSV 2020a]. Originally, the coverage was restricted to a maximum duration of two months and was supposed to terminate with the end of the Covid restrictions. Due to the wake of the second Covid wave, finally both the income compensation for the directly affected and for the indirectly affected have been prolonged [Bundesrat 2020d,e]. Thus, the application of these schemes did not stop by September 16, as originally implemented, but will continue to be available (the related ordinance is in effect until end of June 2021).

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]. These measures ran out by end of August. However, within autumn, the new Covid-19 law and related ordinances granted the government the competence to re-activate most extensions if necessary. By mid of November, some important extensions have been re-established in view of the second wave and the coming winter period. Notably employees on fixed-term contracts as well as on-call workers on a permanent contract are currently eligible for STW [Bundesrat 2020f,g].

In the course of May, some further complements were added to the financial support measures. A support scheme for start-up firms was established by May 7 and was open for applications until end of August. Start-ups in liquidity problems could apply for government-backed loans of up to CHF 1 million [SECO 2020b]. Furthermore, it was decided that the Cantons are obliged to 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].

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 indebted themselves and currently

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<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.

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 extension of the maximum duration of STW coverage.

Some of these points have been implemented recently. By September, the maximum duration of STW coverage has been extended from 12 to 18 months [Bundesrat 2020h]. As a new additional key element of the catalogue of support measures, government and parliament introduced the “hardship support program” by December 2020. This program is implemented by the Cantons but two thirds of the funding, currently amounting to CHF 1 billion, is borne by the Confederation. This support scheme for firms can take different forms: loans, guarantees “à-fonds-perdu” contributions (non-repayable grants). The program is focused on firms whose economic activity is heavily affected by the pandemic crisis, particularly enterprises related to the event and entertainment industry as well as the tourism and travel industry. It is up to the discretion of the Cantons to decide on form and size of the support. [Bundesrat 2020g,i] As a further complement of the support measures, the government assigned targeted financial support, in the form of subsidies or loans, to a few specific industries and activities – notably amateur and professional sports, culture, public transport, air travel industry and print media [EFV].

All in all, the support set seems relatively comprehensive, addressing the needs of a broad range of employees and firms. However, notably longer-run impacts of the crisis may require further measures or interventions in the closer future. In view of the second and potential further pandemic waves the government currently works on the legal base for a successor program of the “Covid bridging loans” which were launched with the first wave and ended by 31st of July [Bundesrat 2020g]. Beyond this, it will be necessary to be ready to deal with a larger wave of layoffs and of bankruptcies, particularly if a third wave cannot be avoided and the crisis continues to loom for a longer period. Some data on the evolution of bankruptcies are discussed in the following section “Immediate liquidity support to businesses”.

## **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 discussed, there is a substantial gap between the amount of credit support that firms and self-employed apply for and the amount they really claim. This 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 hard to quantify.

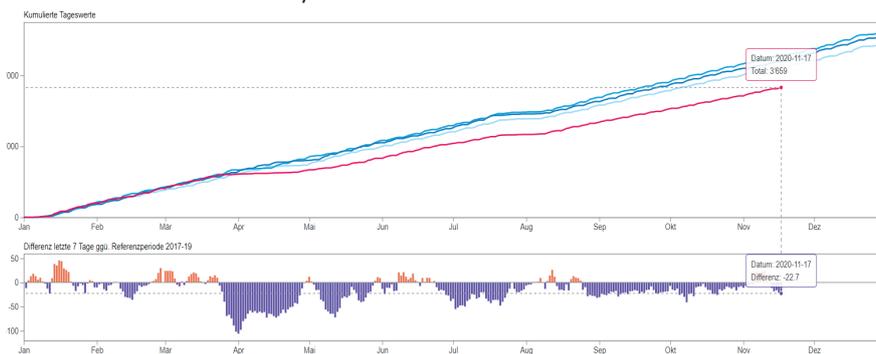
Given the reluctance of firms to claim the loans, the issue of credit misallocation should be rather minor. There is a certain risk of deadweight losses and abuse of the credit scheme – it is argued, however, that screening should be at a good level due to the fact that it is the ‘home bank’ of the firm 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.

As documented in the last section “Orientation and targeting of adopted measures”, a large part of the extensions in the STW scheme and in income compensation have been re-enacted in view of the second wave of the Covid pandemic. Also, the government declared to prepare the legal base for a successor scheme similar to the Covid bridging loan guarantees and set up a “hardship support program” to support firms in industries that were heavily hit by the crisis (see last section). However, given the extended duration of the crisis fueled by the second wave and expectations of a difficult winter and spring time, it is not clear that this set of liquidity support measures is sufficient to avoid a larger wave of insolvencies in the next half year or so.

**Figure 5:** Number of registered insolvency cases in Switzerland, accumulated from January to mid of November 2020



Source: Statistical Office of the Canton of Zurich, data extracted from SHAB via Moneyhouse API

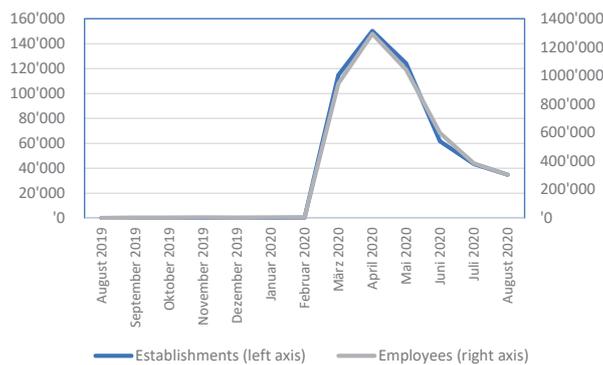
Data on insolvency incidence in Switzerland shows that the number of bankruptcies is in fact located below the normal levels as observed in the last years. Figure 5 documents that with the start of the crisis, the curve of insolvency cases follows a flatter trend than normal. The main reason for this lower incidence of bankruptcies is the backing through the mentioned set of Covid support measures for firms. Moreover, the Covid measures that came with the first wave included initially a temporary moratorium on debt enforcement which was later replaced by a prolonged duration of the debt enforcement process. The total of these measures has reduced insolvency incidence so far. However, this could change over the course of the crisis and with the stepwise termination of these extraordinary support measures. It is well possible that there will be a catch-up wave re-accelerating the incidence of bankruptcies in the close future. There are already first indications that in some areas and industries the number of insolvency cases started increasing substantially in October [KOF-ETH 2020b]. The next couple of months will show to which degree the set of Covid support measures only delayed the insolvency of less resilient firms and to which degree they really avoided crisis-driven bankruptcies. Depending on how big the share of each of these two outcomes is, we will observe a larger or smaller increase in the insolvency rate in the coming months.

## Support of dependent workers

I assess the effectiveness notably of the short-time work (STW) scheme to avoid additional unemployment in the short and medium run as being high. During the peak times of the crisis between mid of March (start of lock-down) to mid of May, about 190,000 firms covering about 1.94 million employees 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.

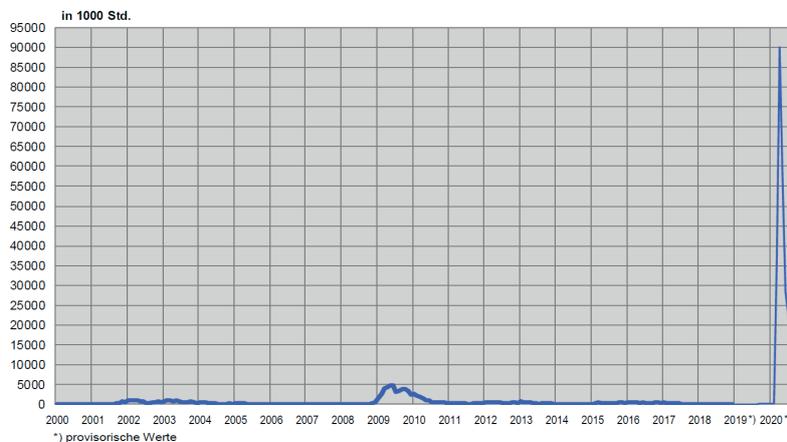
Data on effectively claimed STW coverage are released with a time lag. In March 2020, the effective claim of STW jumped up to covering 0.944 million employees, 0.939 million more than in February. The peak of STW claims was reached by end of April, as Figure 6 documents, covering 1.3 million employees. By August 2020 this level reduced to 0.3 million employees. The evolution of affected establishments (firms) is highly parallel and peaked at 150,000 by end of April. The enormous leap in claimed working hours is visible in Figure 7. It reached unprecedented levels, as the comparison with the increase during the Financial Crisis in 2009 documents.

**Figure 6:** STW: Number of affected establishments and employees



Source: SECO

**Figure 7:** STW: Number of claimed cancelled working hours (in 1000 hours)



Source: SECO 2020f

From an economic policy point of view, a key question is to which degree the extension of the STW time limit and coverage has an impact on mitigating additional unemployment. The extension of the STW scheme to persons in an “employer-like status”, in apprenticeship

and to co-working spouses has been in effect for the first wave until 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 on-call has been carried over as a measure for the second wave and is still operative (see also section “Orientation and targeting of adopted measures “). So far, the unemployment rate could indeed be kept at relatively low levels (see first section “Labor market impact of COVID-19”) – thus, the heavy investment into the STW scheme during these times has been a success story for the first part of this crisis’ duration. However, the ultimate test to which degree the STW scheme finally contributes to avoid the crisis-driven collapse of firms which are otherwise “fit for the future” is yet to come. The second wave and subsequent phases of the crisis will put the longer-term impact of the STW to a test. As an input to improve the longevity of the STW impact, the government extended the maximum duration of STW coverage from 12 to 18 months by September [Bundesrat 2020h]. This provides businesses struggling with the second wave additional leeway to economically survive the ongoing times of restricted activity. Furthermore, the government and parliament seem to be willing to support the funding of STW also beyond the approved additional CHF 20.2 billion for the UI fund (see also section “Orientation and targeting of adopted measures “), thus the political will to cover the accumulating cost of extended STW and UI also for second and subsequent waves of the crisis is present.

However, firms on STW permanently need 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. Moreover, issues of financial stability and survival will become more and more salient as the crisis continues. As discussed in section “Immediate liquidity support to businesses”, this could lead to a substantial increase in firm insolvencies. Such more fundamental changes could lead to an additional increase in unemployment in the coming year – particularly if it turns out that the dip of the international economic crises is of a longer nature and that it is possibly related to some structural change within the economies.

The support delivered to job seekers was marked by a shift of weights from active to passive labor market policy measures during the first wave of the crisis. To avoid larger peaks of benefit exhaustion, the Swiss unemployment insurance (UI) extended the maximum entitlement to benefits for all types of job seekers by 120 additional daily allowances. This brought potential benefit duration for a prime-age individual up to 520 work days (about 2 years). Additionally, the submission of proof of job search efforts was waived. Job seekers were, however, still obliged to search for jobs [Bundesrat 2020c]. Since June, the monitoring of job search effort was gradually being re-established. It was at the discretion of the Cantons to define the practical monitoring intensity, the job seekers and Public Employment Service (PES) counselors remained “in dialogue” about the proof of regular job search effort. The extraordinary extension of the potential benefit duration as well as the waiving of the proof of job search effort were terminated by the end of August 2020. Accordingly, the temporary zero level of benefit exhaustions (since March) ended in August [SECO 2020f]. There is no political intention so far to re-instate these extraordinary measures for the second and subsequent waves; the hope is to pass these waves without needing to resort to a full lock-down again. The current level of labor demand reduction (see statistics of job vacancies in section “Labor market impact of COVID-19”) is, with exception of a few industries, much lower than it has been during the first wave. Thus, the job market is in a better – albeit not normal – condition.

During the first wave 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 broadly inexistent in this period. Since June 8th, the PES in most Cantons went back to running the important first meeting between job seeker

and counselor (initial assessment and strategy definition) as face-to-face again (unless the job seeker belongs to a risk group). Further interactions are mostly by telephone, but face-to-face meetings are allowed. The SECO and the PES in the Cantons are working on improving the technical base to enable online counseling meetings. Currently, the mixture of different forms of counseling meetings is flexible, to allow for dynamic adjustments to the pandemic situation.

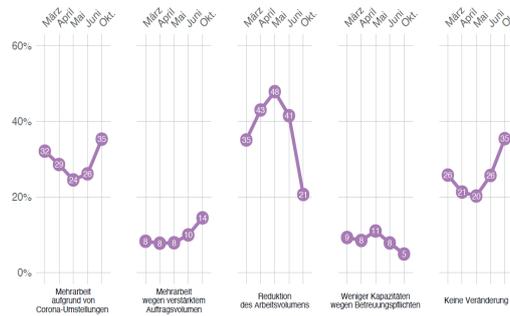
Interestingly, the participation rates in different types of ALMP measures showed different evolutions during the first wave. Training programs essentially came to a full stop in the course of the lock-down, as figures by end of May show [SECO 2020a]. Compared to the level by end of October 2019 [SECO 2020g], participation levels in public employment programs dropped down to a half. The number of participants in the temporary subsidized employment scheme during UI (“Zwischenverdienst”), however, did not reduce; it was even 13% higher than in October 2019. By October 2020, public employment programs reached the same level of participants as a year ago, training participation is 12% higher, and participation in the temporary subsidized employment scheme during UI is even 31% higher [SECO 2020f]. Given the higher unemployment rates, an increase in ALMP participation is not surprising. In fact, the year-to-year increase in unemployment is substantially higher than the relative increases in participation in some of the ALMP. In that sense, ALMP use is probably still below “normal” levels. Moreover, in practice, a large part of training programs is run online. In the other two program types, participation/working hours may possibly be reduced according to the respective infection situation.

For the closer future, it is to be expected that for some services – like meetings, training and some of the monitoring tasks – the use of telephone and online channels will remain to be more common than before the crisis. The current focus of the PES is, however, 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 were, though, temporary exceptions for the first wave. 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 of the first wave (but weren't on STW either) criticized that some employers would require them to compensate the forgone working time by working overtime in the period after the first wave.

**Figure 8:** Change in employee’s workload compared to February: (i) increase due to Covid, (ii) increase due to additional demand, (iii) reduction, (iv) less capacity due to care responsibilities, (v) no change



Source: SRG/sotomo

How realized workloads of employees in Switzerland have been affected by the Covid crisis is clearly heterogenous. About one third of the survey respondents of the SRG Corona-Monitor (with n=30,000 approx. by wave; 5th wave in October/early November n=42,425) declare an increase of their workload due to adjustments and additional work caused by the pandemic, as depicted in Figure 8. These values peak in the steep upward slope of the first wave and again in the steep upward slope of the second wave. An increase in their workload due to additional demand on the market is observed by 8 to 14% of the respondents. Interestingly, this figure is highest in the wake of the second wave in October 2020. A different pattern is visible for those among the workers who declared a reduction of their workload; this was the case for 48% of the respondents, peaking in May. The start of the second wave did not lead to similar levels of workload reduction, which could be related to the fact that Switzerland did not go into a second lock-down but allowed work life to continue except from gastronomy, hospitality and events. The shares of survey participants who experienced reduced work capacity due to care responsibilities ranges between 9 and 5% between March and October, the share of individuals who didn’t experience a change in workload floats between 26 and 35%.

**Figure 9:** Insecure employment condition: insecure employment and expected/announced layoff for (i) total, (ii) full-time employed (80-100%), (iii) part-time employed (< 80%), (iii) on short-time work



«Wie ist Ihre aktuelle Situation am Arbeitsplatz?» Dargestellt ist der Anteil derer, die angeben, in einem ungesicherten Anstellungsverhältnis zu sein oder bei denen eine Entlassung erwartet/ausgesprochen ist.

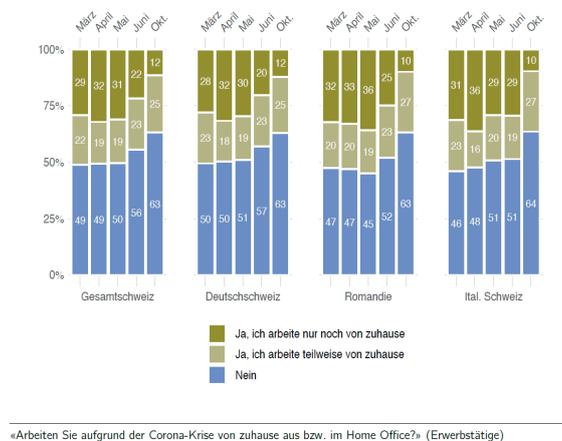
Source: SRG/sotomo

The fear of job loss has remarkably increased in autumn in certain groups of employees. Figure 9 documents the shares of individuals declaring insecure employment conditions, by different groups of employees. Among the employees on short-time work (STW scheme), a striking increase of these shares is visible between April and October. In the last survey in October, a majority of 61% of STW participants feels that their employment is insecure (39%) or expects a layoff or is already in the process of being laid off (22%). It has to be noted, however, that the number of employees on STW is substantially lower in October

than in April, maybe a fourth of the level in April (see also section “Support of dependent workers”, STW figures for October not yet available). Thus, those who remain on STW recently experience a much larger fear (and realization) of job loss. A similar pattern – at lower shares however – is visible for part-time workers. Counted as share of the total of the (surveyed) workforce however, the proportion of individuals fearing job loss is in October not higher than it had been in May.

The business situation for the self-employed is still very adverse for a majority in October. As the figures of the SRG Corona-Monitor [SRG/sotomo] show, 48% of the surveyed self-employed experience reduced business, 11% even zero activity. In April, the shares being confronted with reduced business were at 37%, those suffering from a complete stop of the business activity amounted to 33%.

**Figure 10:** Share of employed individuals working from home: only from home, partially from home, no



«Arbeiten Sie aufgrund der Corona-Krise von zuhause aus bzw. im Home Office?» (Erwerbstätige)

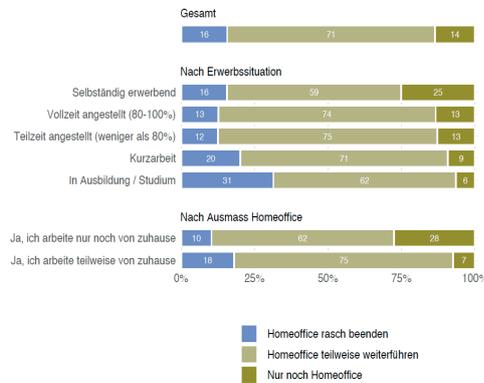
Source: SRG/sotomo

Survey evidence clearly documents the fundamental change of working practice towards working from home. A smaller survey (n=1500) run by [Deloitte] in April reveals that 48% of the Swiss employees worked during the first wave lock-down in “home office” arrangements; before the crisis only about 25% of the employees worked at least once a week from home. Of course, during the lock-down period, the proportion of those among the home office workers who worked 100% from home has increased substantively. A share of 41% of the survey participants declared that they are more productive when working from home, 31% do not see a difference and only 25% feel that they are less productive. It will be interesting to see in future survey evidence whether the share of individuals who declare to be more productive when working from home remains that high. Was this high share driven by a boost of initial motivation when working from home and the pandemic were novel, or are these higher rates of perceived productivity at home a more permanent expression of changed working practices?

The repeated and larger-scale survey data from the SRG Corona-Monitor [SRG/sotomo] confirm and specify the picture about the new working from home practice. Figure 10 reveals that the proportion of those solely working from home peaked at 32% in April, going along with 19% working partially from home. In October, at the wake of the second wave, the share of individuals in full “home office” is substantially lower at 12%, whereas the proportion of persons in a partial “home office” arrangement went up to 25%. Thus, the share of individuals who work at least partially from home was in October clearly below half, while it was above from March to May. It has to be noted, however, that restrictions in public life due to the second wave, including a recommendation to work from home, came in effect only at the very end of October and are thus not yet reflected here. It is also striking

to observe that the proportions of individuals working fully or partially from home, or not at all, are almost identical across the three language regions.

**Figure 11:** Continue to work from home beyond the pandemic? (i) total, (ii) by employment situation (self-employed, full-time employee, part-time employee, on STW, in education/studies, (iii) by degree of working from home (fully, partially); answers: swiftly terminate work from home, partially continue to work from home, only work from home



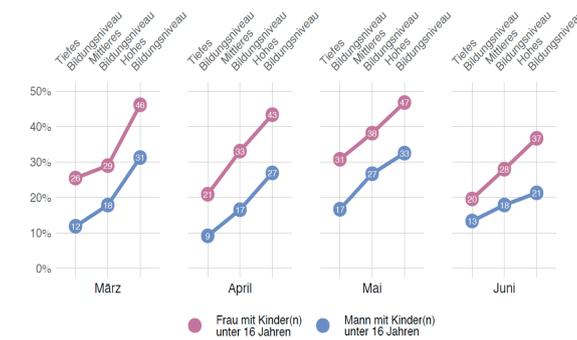
«Sie arbeiten zurzeit im Homeoffice. Wie sind Ihre Bedürfnisse (unabhängig von der Corona-Pandemie)?» (Nur im Homeoffice Arbeitende)

Source: SRG/sotomo

It is remarkable to see that a vast majority of surveyed individuals working from home, 85%, declare that they would like to continue, at least partially (71%), to work from home. Figure 11 documents that this is quite consistently the case across different groups of employees, including the self-employed and individuals on STW. A somewhat different feedback comes from individuals who are in education and studies. Among them, 31% would like to terminate working from home arrangements swiftly. Probably they miss social interactions with colleagues and teachers as part of their learning experience.

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 12:** Reduced capacity for gainful employment due to child care and home schooling, by education level (low, medium, high) and women/men with children below age 16



«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.

Source: sotomo

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 and the first wave, with no clear expectation at that time on when (and if) they will be relaunched. This difficult situation particularly affected – and still 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 were 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 were held where possible but not the theoretical ones. Whether high school (Gymnasium) final exams were held or not was heterogenous, as it was decided regionally (by Canton). In both cases the partially missing exam outcomes did 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 is, depends crucially on the firms' reactions in adjusting their hiring procedures and decisions to the post-lock-down situation. This needs to be further monitored through the upcoming months of crisis and recovery. On the side of the young individuals who had to decide on which way to choose for their professional education, about 19% indicated that the current Covid crisis impeded their choice, as a survey on behalf of the responsible ministry (SBFI) revealed in August [Nahtstellenbarometer 2020b]. Among them

however, three quarters received sufficient support to make their choice, and a stable 84% could finally find their preferred educational choice, in spite of the impediments.

A positive sign of stability in the apprenticeship market is that traditionally the majority of all offered apprenticeship positions are already filled in spring (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 2020a]. By end of August, 90% of all the offered apprenticeship positions could be filled – a result at the levels of previous years [Nahtstellenbarometer 2020b]. By end of September, the Cantons reported that 76.5K apprenticeship contracts have been signed. This is even slightly more than in the previous year [SBFI 2020b]. 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 this year been substantially delayed due to the situation. However, finally these areas have caught up to a large degree by end of September, as the figures above show. This catch-up could be further completed due to the extension of the deadline for concluding apprenticeship contracts to end of October. Luckily, only very few cancellations of new apprenticeship contracts have been reported across Switzerland. [SBFI 2020a, b]

The Cantons addressed 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 offered “last minute apprenticeship markets” in cooperation with the local economy to improve the matching on the market, or they allowed 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 2020a] Furthermore, the short-time work (STW) scheme has been complemented in March by some supportive measures: firms claiming STW are allowed to hire new apprentices (and to fully continue existing apprenticeship loads); vocational educators who are short of work but should still support apprentices are eligible for STW [SBFI 2020b].

Thus, all in all, it turns out that the apprenticeship market and hiring could largely be stabilized in spite of the crisis, reaching similar levels to the previous years. Flexibility on the side of the firms and the regulators as well as initiatives to support the functioning of the market seem to have helped handle the crisis-related uncertainties. 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. One way to take this up is however the use of existing instruments within the set of active labor market policies in unemployment insurance: particularly intensified use of mentoring as well as professional practical training.

## **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 air 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. One of the arising promising covid vaccines (by Moderna) will go into large-scale production (and export) in Switzerland in a new dedicated production facility in the Canton of Valais. 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 after the first-wave lock-down in essentially 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 from home has been discontinued. A remaining restriction was that large gatherings and events (beyond 1,000 people) were 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. In view of the steep increase of the infection rates in the second wave, the Swiss government has tightened the rules by end of October – like more systematic wearing of masks in public realms, no gatherings above 15 people and events above 50 people, recommendation to work from home – but did not go for a second national lock-down. However, unlike in the first wave, a lot of regulatory competence has been handed back to the Cantons, which resulted in a heterogeneous picture. Cantons which were more heavily hit so far in the second wave additionally strengthened the measures, up to temporary local lock-downs. Over the next months, a continuation of such Canton-specific policies is expected, with dynamic tightening and weakening of the restrictions following the levels of infection exposure.

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 36 billion (whereby 4.7 billion will go onto the accounts for 2021) on Covid-related measures as well as of CHF 4.2 billion on loan guarantees and loans for “hardship support” measures [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 deficits – accumulated across all three tax levels and social insurance – of CHF 18.2 billion (=2.6% of the GDP) this year, CHF 12.2 billion (1.7% GDP) in 2021 and CHF 2.4 billion (0.3% GDP) in 2022. With this, the total level of debt will rise to about 30% of the GDP in 2021. Projections predict that the average rate of registered unemployment reaches 3.2% for 2020 and will increase to 3.6% (5.5% by ILO definition) for 2021. It is predicted that the (seasonally adjusted) unemployment rate will peak in the second quarter of 2021. [KOF-ETH 2020c] The prediction of the rise in the unemployment rate has been substantially reduced since May; at that time, it amounted to 4.3% (6.0%) for 2021 [KOF-ETH 2020a]. In a historic comparison, the currently predicted unemployment rates are high for Switzerland. The peak rate in this crisis could reach similar levels than in the financial crisis 2009/10. In case predictions will worsen again due to a prolonged crisis, the peak could also reach a level above 2009/10.

To sustain the financial stability notably of the social insurance system, political decisions on additional support will be required next year. Most of the initial emergency ordinances introduced by the Swiss government have run out by end of August. Following up, government and parliament transferred most of the measures onto a real legal basis (covid-19 law) and have been working continuously on updating the related ordinances since then. SECO [2020c] estimates that the unemployment insurance (UI) fund will

accumulate debts of about CHF 16 billion by end of 2020, predominantly because of the short-time work (STW) scheme. So far, government and parliament have approved extraordinary injections into the UI fund of CHF 20.2 billion in total (see more on this in section “Orientation and targeting of adopted measures”). Through this act it could be avoided that the UI contributions which employers and employees pay on the wage bill need to be increased. This is an important help to keep labor cost low. However, depending on the continuation of the crisis, it is possible that this extraordinary injection was not yet sufficient. Thus, the parliament could be confronted with a further request in 2021. Given the substantial success of STW so far in avoiding higher unemployment levels, it is very well conceivable that a further injection would be politically approved.

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 some loan guarantees into cash grants for such targeted groups of small businesses in need (subject to a sustainable business plan). A first move into this direction was visible in the autumn months which saw the introduction of some direct help schemes for heavily affected industries, notably as well the “hardship support measures” (see section “Orientation and targeting of adopted measures”). Parts of this direct help is already designed as “à-fonds-perdu” (non-repayable) contributions.

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 intensify 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 (November 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 21.5% 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 along with an unprecedented fall in hours worked and a big drop in vacancies. These effects have been most pronounced among young workers and have shown little recovery in the recent months. Although the government's job retention scheme for employees and income support scheme for the self-employed helped maintaining unemployment rates stable until the middle of Summer, an increase is clearly visible in the recent months. How to ensure affected individuals are not on a trajectory heading towards long-term unemployment remains the top priority for economic recovery.

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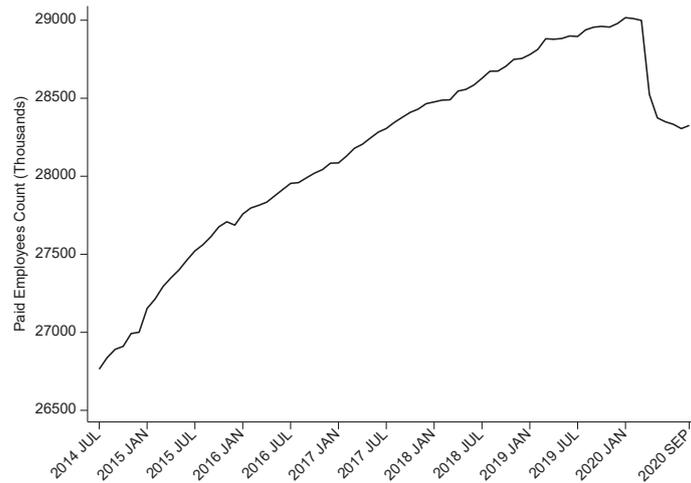
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## Labor market impact of COVID-19

According to the latest official figures released by the Office for National Statistics (ONS), the UK labour market has been hit hard by the COVID-19 crisis. Between March and September 2020, there was a 673,000 fall in employee jobs<sup>1</sup> (Figure 1), and an unprecedentedly large increase in unemployment claims of 1.5 million, representing a 115% increase from March to July (Figure 2). For both employment and the claimant count most of the change occurred during April and May.

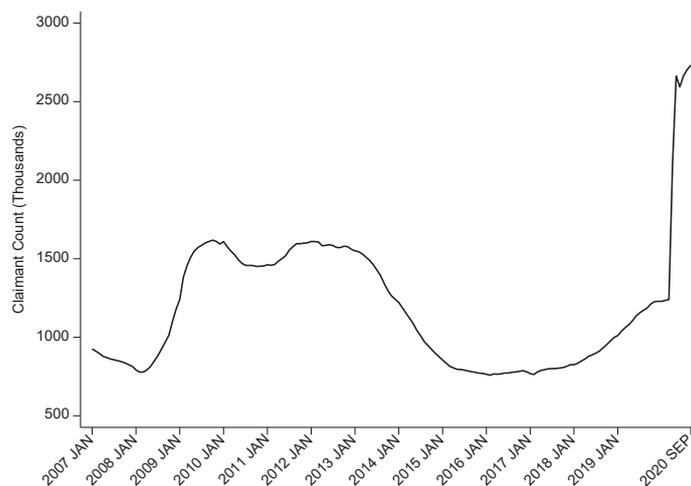
**Figure 1:** UK Employment Count of Paid Employees



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: October 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”.

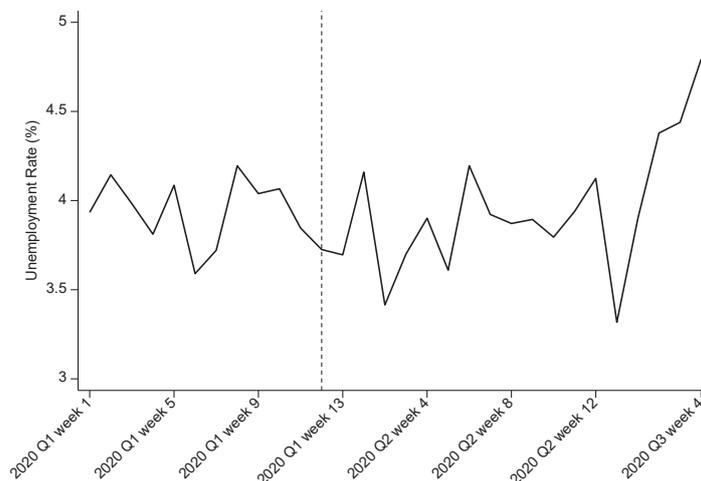
Source: ONS

The unemployment rate measured using data from the Quarterly Labour Force Survey (QLFS) remained relatively stable until the beginning of July (Quarter 3 Week 1 – Figure 3). Subsequent to this, an upward trend starts to be visible – according to the latest ONS statistics the average unemployment rate from June to August was 4.5%. Table 1 shows

<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.

how different age groups and gender experienced a change in their probability of becoming unemployed relative to the pre-lockdown months of 2020 until the end of June<sup>2</sup>. Younger workers (16 to 24 years of age) have seen a statistically significant increase in their unemployment probability of 0.8 percentage points, with other older workers showing insignificant changes during this period<sup>3</sup>. The change in the probability of unemployment was similar and statistically indistinguishable across genders.

**Figure 3:** Unemployment Rate, July 2020



Source: Quarterly Labour Force Surveys January to July 2020

**Table 1:** Changes in Unemployment Probability Pre-Post Lockdown, January to June 2020

| Δ Probability of Being Unemployed Rate Pre-Post Lockdown (January to June) |                       |
|--|-----------------------|
| All  | -0.002<br>(0.002)     |
| <b>Ages</b>  |                       |
| 16–24  | 0.008 **<br>(0.004)   |
| 25–34  | 0.001<br>(0.003)      |
| 35–44  | -0.005<br>(0.003)     |
| 45–54  | -0.003<br>(0.003)     |
| 55–64  | -0.010 ***<br>(0.004) |
| <b>Female</b>  |                       |
|  | 0.002<br>(0.003)      |

Notes: Sample restricted to ages 16 to 64 in labour force. Estimates weighted using person weights.

Source: Quarterly Labour Force Surveys January to June 2020.

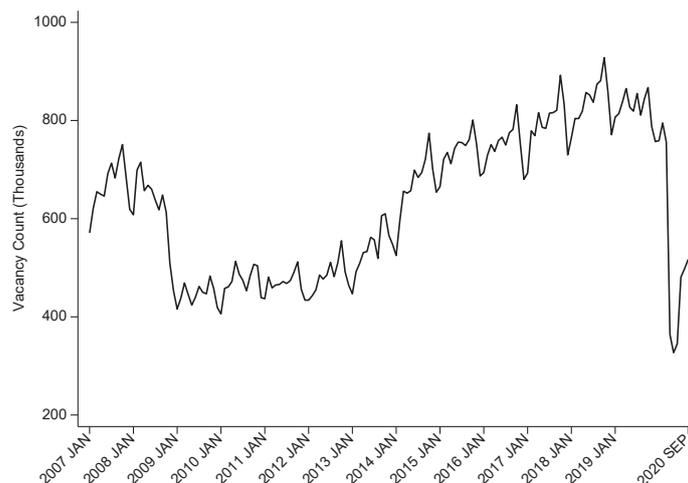
Both employment counts and unemployment rates are very likely to be misleading with respect to the real impact of the COVID-19 crisis on the UK labour market. As pointed in work by Bell et al (2020), these statistics do not account for the substantial drop in hours worked in the economy and the government job protection assistance that largely shielded workers from losing their jobs during the period of analysis.

<sup>2</sup> Unfortunately the microdata referring to the month of July is not available at this point in time, although main aggregate statistics such as unemployment rate have been already produced by ONS.

<sup>3</sup> Exception to the significant decrease among older workers (55–64) of 1 percentage points.

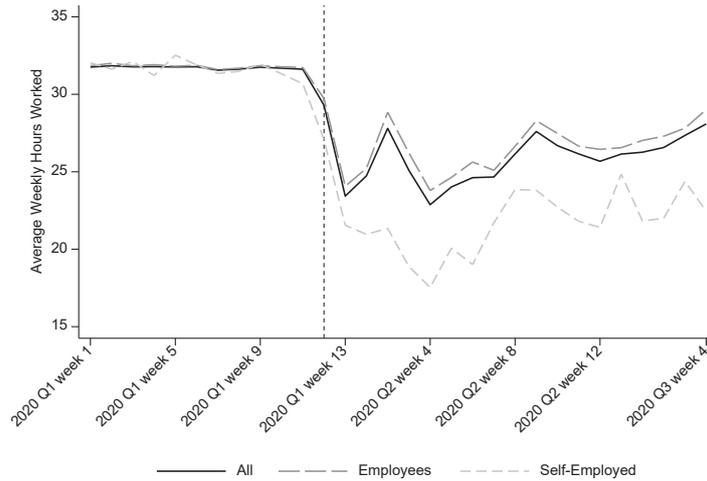
After a pronounced drop between March and June of 56%, vacancies increased during July and August, but at 517,000 still remain 32% below March levels (Figure 4). Similarly, in Figure 5 one can observe that after the largest annual decrease in average weekly hours of the past 10 years occurred (falling by 6.9 hours), average hours have slowly recovered until the end July (but still remaining 3.6 hours lower). Table 2 offers the breakdown across age groups and gender with respect to total hours worked. All age groups have seen their hours drop significantly and in comparable absolute terms, however when adjusted to their pre-lockdown mean we find that a similar detrimental pattern towards younger workers with significantly lower percentage drops (27.6%) relative to older workers (17.5% to 23.2%). The differential impact between male and female workers is significantly different in absolute magnitudes with women seeing a lower reduction in hours of 1.4 hours on average compared to their male counterpart, however this gap disappears when adjusted to the pre-lockdown mean of the groups (0.2%). Not surprisingly the abrupt drop in hours worked was caused primarily by a very significant increase in workers temporarily away from paid work as seen in Figure 6. This increase was steep and almost immediate following the lockdown announcement, two weeks after lockdown the count of workers declaring to be temporarily away from work had increase by 3 times the pre-lockdown level to 7.7 million. Once again younger worker experienced a shaper increase in their probability of being temporarily away of 22.5 percentage points when compared to older workers (13.2 to 17 percentage points), without no significant gender differentials (Table 3). Figure 7 presents the evolution of workers declaring to have worked fewer hours than usual by cause: hours vary, sickness or injury, economic conditions (laid off/short time/work interrupted), personal reasons (emergencies, family and/or personal reasons) or others (bank holiday, maternity/paternity leave...). A striking pattern emerges post-lockdown with a sharp increase among those declaring economic conditions and others as causes of their decrease in hours. Looking at the probability of declaring lay off/short time as the reason behind the hour shrinkage among employed workers, Table 4 shows that this has increased by 13.3 percentage points post-lockdown with stronger effects among the young and a significant although small gender differential in detriment of women.

**Figure 4:** Vacancies Count, September 2020



Source: ONS

**Figure 5:** Average Weekly Hours Worker UK by Employment Type, January to July 2020



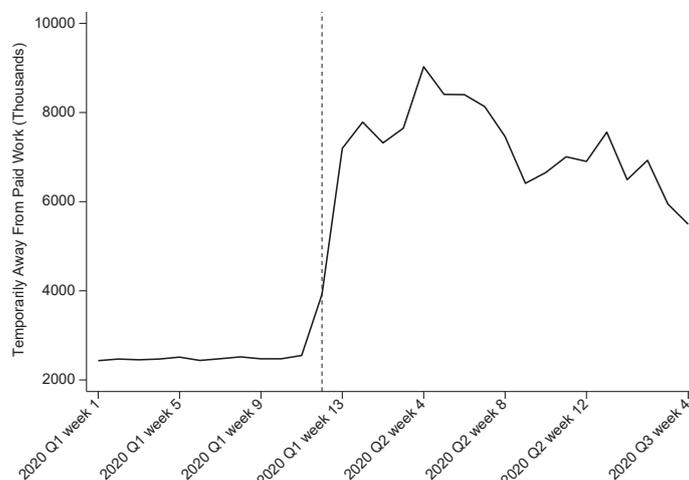
Notes: Average weekly hours worked calculated as total hours worked in the reference week including overtime and 2nd jobs. The dashed vertical line identifies the week prior to lockdown on the 23rd of March.  
Source: ONS

**Table 2:** Changes in Total Hours Worked Pre-Post Lockdown, January to June 2020

|             | $\Delta$ Total Hours  | $\Delta$ Total Hours as % of Pre-Lockdown Mean |
|-------------|-----------------------|--|
| All         | -6.567 ***<br>(0.140) | -0.201 ***<br>(0.004)                          |
| <b>Ages</b> |                       |  |
| 16-24       | -7.633 ***<br>(0.407) | -0.276 ***<br>(0.013)                          |
| 25-34       | -6.468 ***<br>(0.282) | -0.192 ***<br>(0.009)                          |
| 35-44       | -5.883 ***<br>(0.289) | -0.175 ***<br>(0.009)                          |
| 45-54       | -6.400 ***<br>(0.284) | -0.185 ***<br>(0.009)                          |
| 55-64       | -7.131 ***<br>(0.333) | -0.232 ***<br>(0.010)                          |
| Female      | 1.468 ***<br>(0.277)  | -0.002<br>(0.009)                              |

Notes: Sample restricted to ages 16 to 64 in labour force. Estimates weighted using person weights.  
Source: Quarterly Labour Force Surveys January to June 2020.

**Figure 6:** Worker Temporarily Away From Paid Work, January to July 2020



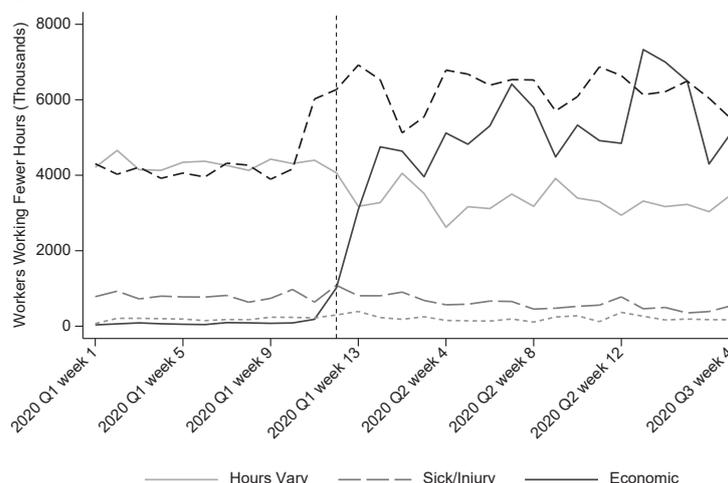
Notes: The dashed vertical line identifies the week prior to lockdown on the 23rd of March.  
Source: ONS.

**Table 3:** Changes in Probability of Being Temporarily Away Pre-Post Lockdown, January to June 2020

| Δ Probability of Being Temporarily Away From Paid Work (January to June) |                      |
|--|----------------------|
| All  | 0.150 ***<br>(0.003) |
| <b>Ages</b>  |                      |
| 16–24  | 0.225 ***<br>(0.008) |
| 25–34  | 0.132 ***<br>(0.006) |
| 35–44  | 0.120 ***<br>(0.006) |
| 45–54  | 0.132 ***<br>(0.006) |
| 55–64  | 0.170 ***<br>(0.007) |
| <b>Female</b>  | 0.006<br>(0.005)     |

Notes: Sample restricted to ages 16 to 64 in labour force. Estimates weighted using person weights.

Source: Quarterly Labour Force Surveys January to June 2020.

**Figure 7:** Changes in Total Hours Worked Pre-Post Lockdown, January to July 2020

Notes: The dashed vertical line identifies the week prior to lockdown on the 23rd of March.

Source: ONS.

**Table 4:** Changes in Probability of Being Laid Off/Short Time Pre-Post Lockdown, January to June 2020

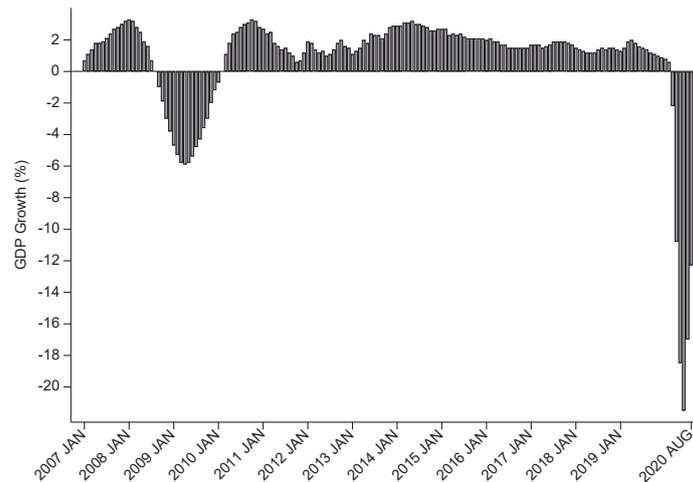
| Δ Probability Working Fewer Hours Due to Lay Off/Short Time (January to June) |                      |
|---|----------------------|
| All   | 0.133 ***<br>(0.002) |
| <b>Ages</b>   |                      |
| 16–24   | 0.165 ***<br>(0.006) |
| 25–34   | 0.112 ***<br>(0.004) |
| 35–44   | 0.111 ***<br>(0.005) |
| 45–54   | 0.125 ***<br>(0.005) |
| 55–64   | 0.154 ***<br>(0.005) |
| <b>Female</b>   | 0.010 **<br>(0.004)  |

Notes: Sample restricted to ages 16 to 64 in labour force. Estimates weighted using person weights.

Source: Quarterly Labour Force Surveys January to June 2020.

Between the months of April to July average earnings growth has been falling accumulatively -3.9% for total pay (August showing a recovery of 1.9%) and median pay after a fall until June has recovered to March levels in August for payrolled employees. The most recently available monthly GDP growth statistic points to an unprecedented contraction of the economy beginning in March with a 1.8 % fall (compared to the three months prior) followed by sustained falls ranging from 10.4 % (April) to 21.7 % (June) with latest available estimate of 12.3% in August. This contraction of the economy vastly surpasses that experienced at the peak of the 2008 financial crisis (Figure 8).

**Figure 8:** Gross Domestic Product Growth UK, 2007 Jan-2020 August



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

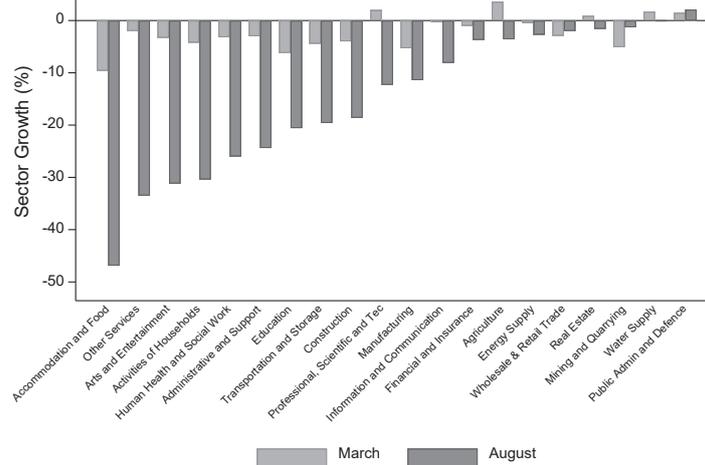
Source: ONS

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 large contractions in output with gross valued added growth since March on negative ground of 19.6%, and as high as a staggering 46.9% for accommodation and food service activities (Figure 9). According to the latest ONS survey figures<sup>4</sup>, with the relaxing of lockdown restrictions the sectors that previously reported higher percentages of temporary cease of trading, accommodation and food service activities (74%) and arts, entertainment and recreation (75%), show as of late August percentages of currently trading of 85.1% and 67.2% respectively.<sup>5</sup> Despite the shy recovery in overall vacancies, drops remain significant in these sectors (49% and 79% respectively) with Figure 10 showing that not all sectors have been equally hit.

<sup>4</sup> Business Impact of COVID-19 Survey, 24 August - 6 September, ONS.

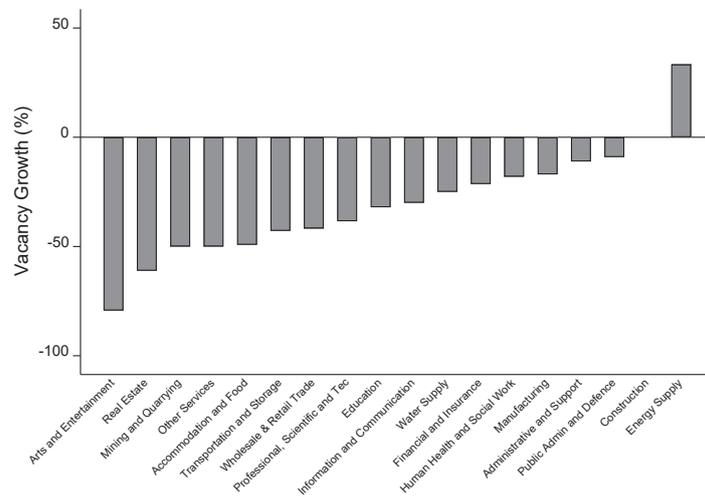
<sup>5</sup> The May figures show a slight improvement relative to the temporary cease of trading experienced in the April by the same sector (80% and 81%).

**Figure 9:** Gross Domestic Product Growth UK by Sector, March and August 2020



Source: ONS

**Figure 10:** Vacancies Growth UK by Sector, March to September 2020



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

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), gender biased (women are 33% more likely to work in sector in lockdown)<sup>6</sup>, self-employed intensive (22% of self-employed work in affected sectors). According to the latest QLFS data and as shown in Figure 5 the loss in weekly hours worked has been particularly pronounced among the self-employed with a drop of 8.7 hours on average comparing the periods pre- and post-lockdown until the end of July. 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 27% drop in hours relative to 10% felt by employees. The sharper fall in hours of self-employed does not exhibit significant differential patterns across ages or gender<sup>7</sup>. Further analysis of QLFS data shows that, adding to the steeper reduction in hours, self-employed workers have seen a sustained drop in their employment count, 200,000 since March to July (5.8% reduction) significantly more noticeable than employee workers.

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

<sup>7</sup> Authors' calculations.

## Orientation and targeting of adopted measures

The 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 are now coming to an end. Although SEISS will be extended. After reduction in the generosity of the schemes to 70% of wage/earnings instead of the initial 80% in September, the future of the supporting schemes will be considerably different. As announced on the 24th of September by the Chancellor, the CJRS will end in October and to be replaced by the Job Support Scheme (JSS) which targets “viable” jobs by subsidizing wages of unworked hours of employees working at least a third of their usual hours. JSS will only apply to small and medium size businesses facing lower demand over the winter months. SEISS was extended but under considerably less generous conditions. Liquidity measures such as loan guarantees, tax deferrals and VAT cuts have been extended in their maturity. Completing these extensions and replacements two relevant policies have been announced in the Summer: Job Retention Bonus (JRB) and Kickstart Scheme (KS). The Job Retention Bonus offers an incentive for keeping previously furloughed workers in employment through a one-off taxable payment to employers for each eligible employee that has been furloughed under CJRS and was kept continuously employed until 31 January 2021. Targeting youth employment is the purposed aim of the Kickstart Scheme which covers a substantial part of the wage and employer contributions for new 6-month job placements for young workers (16 to 24 years old) currently receiving Universal Credit or at risk of long-term unemployment. In light of the most recent struggle to control the rise of infections in parts of the UK, a 3 tier system of local monitoring and phased lockdown has been announced on 12th of October. Complementing this announcement, the Chancellor has announced an extension of the CJRS with a lower generosity of 2/3 of wages supported by the government for businesses forced to close due to health restrictions.

The stable unemployment and employment rates until July are evidence of the relative success at preserving firm-worker matches and employment through different policies enacted by the UK government (particularly CJRS and SEISS), however this levels are unlikely to hold in the coming months even with the extensions and complements announced.

After initial labour market policies were introduced to provide the businesses with liquidity and to shield workers with permanent contracts and later self-employed, the new wave of policies is considerably less generous and aimed at what government describes as “viable” jobs as result of the structural change in the economy. Sectors most affected by lockdown are likely to suffer renewed considerable strain in winter months as health measures become more strictive without the same level of support. The subliminal notion that job seekers either new to the job market or transitioning after a job loss will successfully move to sectors facing higher demand under the new economic paradigm is somehow idyllical without a significant investment in human capital through training and most importantly re-training.

The cost of the measures in place as of July 21 is not negligible, the Office for Budget Responsibility estimates that CJRS and SEISS will represent an expenditure of 49.3 and 12.4 billion pounds respectively accruing to the equivalent to 3% of UK GDP in 2019 (Table 5).<sup>8</sup> The most significant policies with respect to estimated cost are CJRS, SEISS, the Business Grant Schemes and Bounce Back Loan Schemes as presented in Table 5. All measures combined amount to cost equivalent to 9.6 % of UK GDP in 2019.

**Table 5:** Estimated Cost of COVID-19 Support Measures UK, July 2020

| <b>COVID-19 Support Measures</b>  | <b>Net Cost in £ billion<br/>(2020-21)</b> |
|---|--|
| <b>Public services spending</b>   |  |
| 1 Health services   | -6.6                                       |
| 2 Clinically vulnerable people  | -0.9                                       |
| 3 Devolved administrations  | -2.4                                       |
| 4 Local authorities   | -3.7                                       |
| 5 Rail franchise suspension   | -3.9                                       |
| 6 Transport for London  | -1.0                                       |
| 7 Cycling and walkways  | -2.0                                       |
| <b>Employment support</b>   |  |
| 8 Coronavirus job retention scheme  | -49.3                                      |
| 9 Self-employed income support scheme   | -12.4                                      |
| <b>Costings for welfare spending measures</b>                                 |  |
| 10 Increase weekly universal credit by £20                                    | -5.5                                       |
| 11 Increase weekly working tax credit by £20                                  | -1.5                                       |
| 12 Other welfare measures   | -5.9                                       |
| <b>Business support: tax and spending measures</b>                            |  |
| 13 Business grant schemes   | -14.8                                      |
| 14 Business rates relief  | -11.8                                      |
| 15 VAT payment deferral   | -1.9                                       |
| 16 Self-assessment tax payment deferral                                       | -1.2                                       |
| 17 Statutory sick pay support   | -0.2                                       |
| <b>Business support: loans and guarantees</b>                                 |  |
| 18 Bounce back loan scheme  | -17.3                                      |
| 19 Coronavirus business interruption loan scheme                              | -0.6                                       |
| 20 Coronavirus large business interruption loan scheme                        | -0.1                                       |
| 21 Covid corporate financing facility   | 0.0  |
| 22 Future fund  | -0.1                                       |
| 23 Trade credit insurance   | -1.7                                       |
| <b>Other tax measures</b>   |  |
| 24 Off-payroll working: one-year delay to the extension to the private sector | -0.9                                       |
| 25 VAT: earlier introduction of the zero rate on e-publications               | -0.1                                       |
| 26 Import duty: exemption for medical products                                | -0.1                                       |
| 27 VAT: zero rate on personal protective equipment                            | -0.1                                       |
| 28 VAT reverse charge in the construction sector: 5-month delay               | 0.0  |
| <b>Sub-Total (1)</b>  | <b>-147.6</b>                              |
| <b>Summer Update Measures</b>   |  |
| <b>Jobs Measures</b>  |  |
| Job retention bonus   | -6.1                                       |
| Kickstart scheme  | -2.1                                       |
| Boosting worksearch, skills and apprenticeships                               | -1.6                                       |
| Reduced rate of VAT for hospitality, accommodation and attractions            | -2.5                                       |
| Eat out to help out   | -0.5                                       |
| Infrastructure package  | -1.5                                       |
| Public sector and social housing decarbonisation                              | -1.1                                       |
| Green homes grant   | -2.0                                       |
| Stamp Duty Land Tax temporary cut   | -2.5                                       |
| <b>Other Measures</b>   |  |
| Additional health spending  | -25.3                                      |
| Local Government  | -1.5                                       |
| Additional funding for schools  | -0.2                                       |
| Additional public transport spending  | -0.9                                       |
| Other public services   | -2.2                                       |
| Cultural recovery fund  | -1.3                                       |
| Extension of VAT: zero rate on personal protective equipment                  | -0.1                                       |
| <b>Sub-Total (2)</b>  | <b>-51.4</b>                               |
| <b>TOTAL (1) + (2)</b>  | <b>-199.0</b>                              |

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

Until the end of August, HMRC declared that 1.2 million firms had claimed support of the Coronavirus Job Retention Scheme (CJRS), representing 9.6 million jobs furloughed (Figure 11). According to the latest release from HMRC<sup>9</sup>, firms with less than 50 employees represented 95% of all firms claiming support and 47% of the jobs covered. As of August, considering the official count of the population of firms as of 2019 by employment size, it is estimated that 38% of firms with less than 50 employees have asked support of CJRS and the same statistic climbs to 61% for larger firms. The furlough scheme has started phase out from the end of May and more significantly thereafter as shown by the furloughed worker count in Figure 12. Corroborating these numbers, since end of May ONS survey figures have consistently found businesses declaring that shares of their workforce had returned from furlough in the past 2 weeks (4.3% of workforce in the end of May and 5.1% in the latest figures covering 24th August to 6th of September)<sup>10</sup>. The speed of return from furlough has been slightly faster for larger firms with 47% of furloughed workers having returned compared to 41% in smaller size businesses at the end of July. The March to September differences in vacancies growth for businesses employing less than 50 employees compared to larger firms of 11% and 40% respectively, shows that the recovery in vacancies has been stronger for smaller firms since July. According to the latest figures from ONS, in the beginning of September, 10.6% of businesses have responded to be at severe or moderate risk of insolvency, 47.9% at low risk and only 30.1% at no risk<sup>11</sup>. Out of those answering to be at any risk of insolvency 40.1% have declared that the COVID crisis had contributed to the increase in their risk.

According to HMRC, the official number of applications received for the Coronavirus Self-Employed Income Support Scheme (SEISS) was 2.7 million as of July 19 (Figure 13), corresponding to a value claimed of 7.8 billion pounds.<sup>12</sup> The take up of the scheme has been high, as of August 31 it is estimated that 60% of the eligible population had taken part in the support scheme<sup>13</sup>. Conditional of eligibility, men shown a higher take up than women 62% compared to 54%, and the take up among younger workers was as well higher (63%) than that of older workers (59%).

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

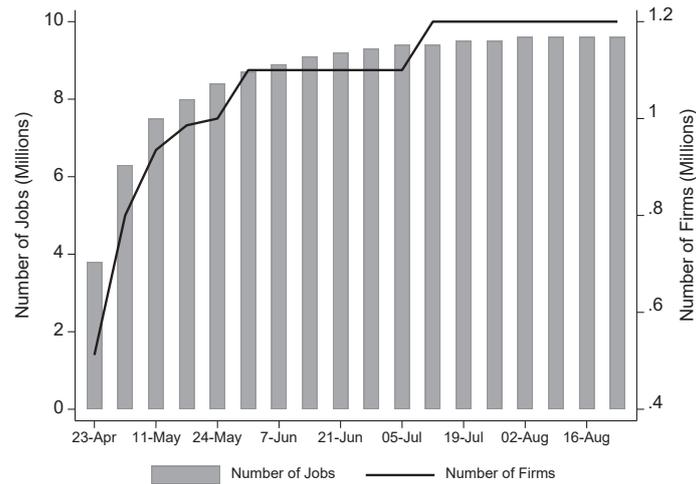
<sup>10</sup> Business Impact of COVID-19 Survey, 24 August - 6 September, ONS

<sup>11</sup> Business Impact of COVID-19 Survey, 24 August - 6 September, ONS. 11.4% of businesses interview were not sure about their insolvency risk.

<sup>12</sup> The SEISS had two tranches, the numbers reported represent the 1st tranche. The 2nd tranche started in the end of August and by September 24 had 2.2 million claims made.

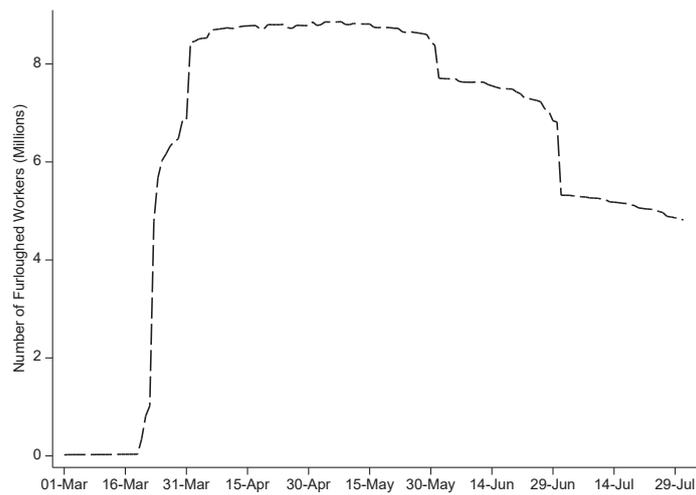
<sup>13</sup> Self-Employment Income Support Scheme (SEISS) Statistics: September 2020, HMRC

**Figure 11: Coronavirus Job Retention Scheme Take Up**



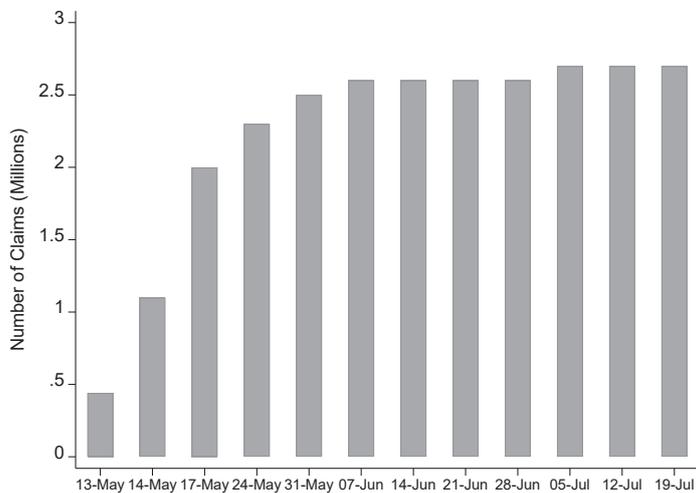
Notes: Number of jobs is calculated as the sum of the maximum number of employees furloughed by each PAYE scheme that has made a claim. Number of firms is calculated as the number of distinct PAYE schemes that have made a claim.  
Source: HMRC.

**Figure 12: Number of Employments Furloughed Per Day**



Source: HMRC.

**Figure 13: Coronavirus Self-Employed Income Support Scheme Take Up**



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. Universal Credit generosity has been temporarily increased as a response to crisis: for single claimants aged 25 or over the monthly benefits have increase from 317 £ to 410 £ (similar adjustments to couples) accompanied by more flexible pay back times and reduced deduction rates against outstanding debts. These measures are likely to become ever more relevant with the phasing out of the main job supporting schemes CJRS and SEISS, and the already noticeable up tick in inflows to unemployment. As previously discuss the nature of the new policies proposed by the government start to give more focus more on supporting jobs that show viability. Despite some glances of policies that can help job transition, the government has still to announce a comprehensive strategy on how it will help workers who, falling under the “non-viable” category, are and will experience job loss to find a new job likely in a new industry.

## 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. Although some of these stricter guidelines have been relaxed over Summer, a significant amount of measures in being reinstate a mist the new wave of infections. According to ONS survey calculations, 14% of workers in Great Britain responded that they have been working longer hours with no or reduced breaks in the past seven days.<sup>14</sup> Furthermore, when asked about if they are worried about their health and safety at work 16% responded positively. Early in the crisis, Blundell and Machin (2020) found 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, experienced an exposure to health risk similar to that of key workers when surveyed by ONS in May<sup>15</sup>. Homeworking has seen a pronounced increase; in the month of June it is estimated that 33% of employed workers were always working from home compared to the reporting by the same workers in January and February of 6%<sup>16</sup>. The gender gap in working from home relative to the month of June was small but statistically significant, 2% in favour of men. Furthermore, education seems to play an important role in being able to perform work remotely from home, with 44.1% of graduates reporting being continuously working from home in June, whereas only 25% 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 labour shock resulting from the lockdown and mobility restrictions in place. Looking at the sectoral difference in remote work arrangements, in the early September, one can see considerable variation with sector like Information and Communication, Education and Professional, Scientific and Technical Activities reporting

<sup>14</sup> Coronavirus and the social impacts on Great Britain: 2 October 2020, ONS

<sup>15</sup> Coronavirus and the social impacts on Great Britain: 7 May 2020, ONS

<sup>16</sup> Understanding Society COVID-19, July 2020, Institute for Social and Economic Research

a proportion of workforce working remotely considerably above 40%<sup>17</sup>. In contrast sectors such as Accommodation and Food and Transport show only approximately 3% and 9% of their workforce being able to work from their homes respectively. When considering care responsibilities facing workers, it is estimated the COVID is directly affecting the degree of caring arrangements for 9% of those in working age with sharp gender differential: 7% of men compared to 11% of women.<sup>18</sup>

## New labor market entrants

Considering the recent figures on the performance of the UK labour 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 labour market entrants. Furthermore, these sectors seem more likely to be labelled as “non-viable” and hence not the target of the new support policies. Despite particular extensions of the CRJS to the hospitality sector, the accumulated strain on the liquidity of the businesses in this sector coupled with the re-imposition of social distancing measures push several in the sector to insolvency. The most recent extension of the CRJS scheme to meet the demands of the new 3 tier lockdown system will provide some support to the sectors affected albeit limited considering that most of businesses will only be forced to close if at the highest tier of lockdown and hence benefit from this extension. While at tier 1 or 2, businesses in the hospitality sectors are not mandated to close and hence not eligible to the CJRS extension and hence left with the less generous schemes such as the Job Retention Bonus (JRB) and Job Support Scheme (JSS).

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 labour market, targeted job guarantee schemes such as the announced Job Retention and Kickstart Schemes and prioritising of apprenticeships for younger people will be sensible policies to reduce the detrimental impacts of crisis for new labour market entrants.<sup>19</sup> On September 28 Boris Johnson PM announced the initiatives Right to Retrain and National Skills Fund aimed at investing in training and retraining through investments focusing in adult further education sector, however these initiatives will only start to be implemented in mid-2021 at best which may be far too late to attenuate the scarring effects of the crisis.

Several key higher education institutions, including University of Cambridge and University of Manchester, have started their teaching online for at least the next academic term. Other major universities, such as Oxford University and London School of Economics, decided for a “blended” approach mixing online and face-to-face tuition next year. The recent several outbreaks at university campus across the UK forced institutions to lockdown students in university accommodation is an effort to control the spread of infections. The recent developments jeopardize the possible feasibility of the “blended” approach, having forced universities to pay compensations to the students affected adding to the already considerable financial effort by higher education institutions in offering online teaching and adapt their campus to the health and social distancing guidelines in place.

<sup>17</sup> Business Impact of COVID-19 Survey, 24 August - 6 September, ONS

<sup>18</sup> Coronavirus and the social impacts on Great Britain: 2 October 2020, ONS

<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).

## 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>20</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>21</sup>. This shock can push firms to decrease dependency on single geographic-centric suppliers, which in turn can have the potential to benefit labour market effects for domestic workers and closer trade partnering economies. The shifts in global value chains will likely to prioritise resilience and responsiveness over low-cost, centralised 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 -199.5 billion pounds, 9.6% 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. On October 5, the UK Chancellor Rishi Sunak reiterated that the fiscal sustainability is part of the agenda of the government warning the "hard choices" regarding public finances are likely to come soon as to balance the sharp rise in borrowing and debt levels since the beginning of the crisis.

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

<sup>20</sup> Importing business is defined as having imported in the last 12 months

<sup>21</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.

out of the job retention schemes coupled with a sustained policy of investment in human capital and reskilling. As employers start to bear more of the costs there would seem to be two groups to 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.

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## IZA COVID-19 Crisis Response Monitoring **United States (November 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 considerably since May, employment among low-educated women continues to be especially depressed, owing in part to closures of daycare facilities and schools. Moreover, a new wave of Covid-19 cases threatens the fragile economic recovery. The initial federal government's response to the economic crisis included extended and more generous benefits for the unemployed, measures to encourage businesses to retain workers, and government loans and purchases of corporate bonds to increase liquidity for businesses. Most of these programs have expired or are about to expire however, and an election year political stalemate has thus far prevented agreement on new measures. A new round of government measures to support unemployed workers and businesses is needed.

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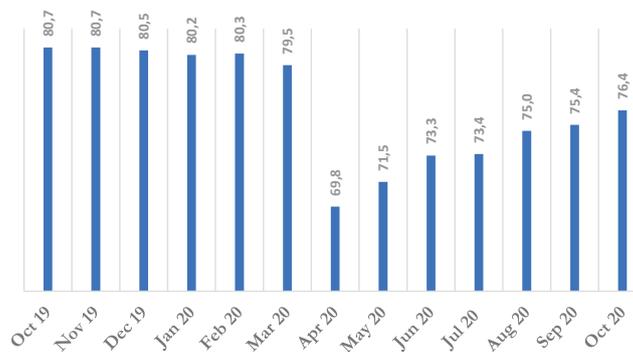
## Labor market impact of COVID-19

Official unemployment statistics for the United States are based on a monthly household survey, the Current Population Survey (CPS). 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.

Widespread mandatory business closures and social distancing practices led to an unprecedented fall in employment and rise in unemployment in the United States in the spring. According to the U.S. Bureau of Labor Statistics<sup>1</sup> (BLS), 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, also known as the employment rate, was 51.3 percent, 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 has improved considerably since April. By October, the unemployment rate had fallen to 6.9 percent, though it was still nearly double the rate prior to the start of the crisis. Similarly, the seasonally adjusted employment rate for those age 16 and older had risen to 57.4 percent but remained well below the pre-crisis level. Figure 1 depicts monthly estimates of the employment rate for “prime-age workers”—those age 25–54 who generally have completed their schooling and have not yet retired. The employment rate for this group plummeted by over 10 percentage points from 80.3 percent in February 2020 to 69.8 in April. Since then, it has steadily risen and by October was 76.4 percent, though still 4.3 percentage points below its level in October 2019.

**Figure 1:** Percent of Population Age 25–54 Employed



Source: Current Population Survey, U.S. Bureau of Labor Statistics, not seasonally adjusted.

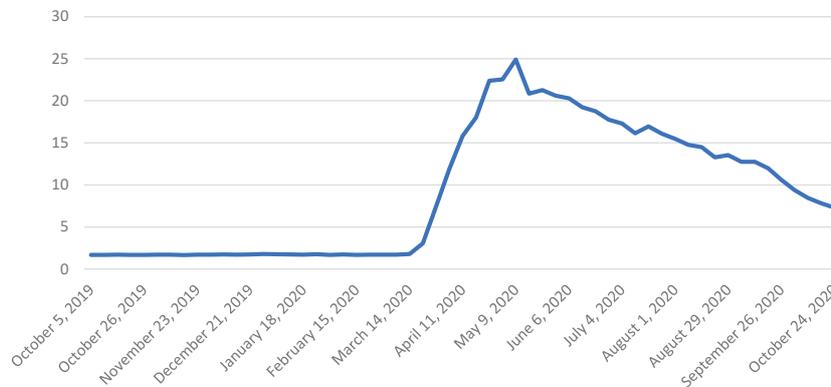
Administrative data on the number receiving unemployment insurance<sup>2</sup>, which are published weekly, similarly depict a surge in unemployment during the crisis. Figure 2 displays trends in the number of people previously in wage and salary jobs receiving regular state unemployment benefits from October 2019 to October 2020. That number started rising sharply in mid-March and peaked at 25.9 million in early May. Since then the number receiving unemployment insurance has steadily fallen and in late October was 7.3 million. Because this figure does not count those who are unemployed but do not normally qualify for unemployment benefits, which includes the self-employed, new entrants to the labor

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

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

force, and those who have exhausted their regularly unemployment benefits, the concept is different from that measured in the household survey.

**Figure 2:** Number Receiving Regular State Unemployment Insurance Benefits in United States (millions), Oct. 2019 to Oct. 2020



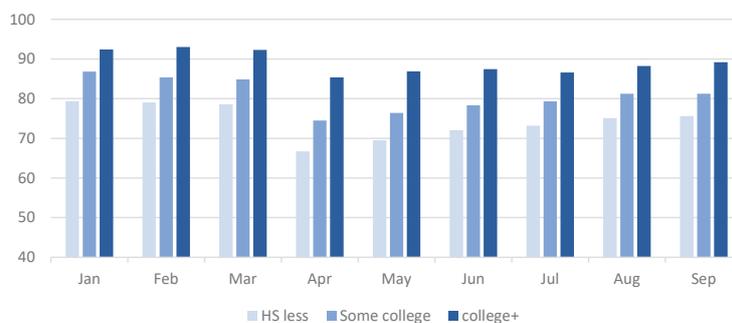
Source: Administrative data published by the U.S. Department of Labor. The numbers exclude those on work-share programs, on Pandemic Unemployment Assistance, and on extended benefits, who do not normally qualify for unemployment benefits.

Analysis<sup>3</sup> of unemployment insurance claims from the state of California in the spring revealed extraordinarily high rates of claims among young and low-educated workers. By May, one-third of wage and salary workers age 16–23 and one fourth of those age 24–39 had filed for unemployment benefits. Especially striking is the fact that nearly half of those without any college education in California had applied for unemployment benefits.

Mirroring the dramatic rise in unemployment, figures from the BLS employer survey<sup>4</sup> show (seasonally adjusted) payroll employment falling by 22.1 million between February and April. Job losses were widespread across sectors but were especially steep in leisure and hospitality, education and health, professional and business services (particularly temporary help agencies), and retail trade. By October, more than half of the job losses sustained in the spring had been recovered.

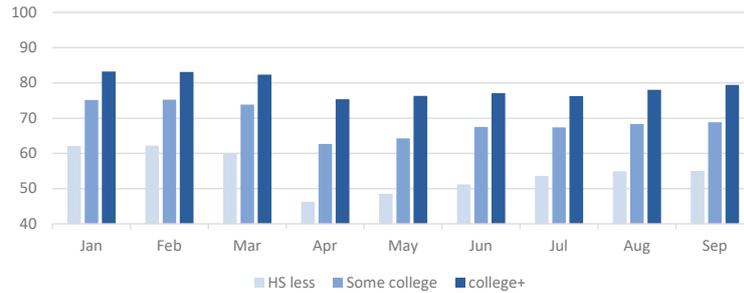
Minorities, women, and the low educated have experienced particularly steep reductions in employment, reflecting in part the composition of employment in sectors hardest hit by the crisis. Between October 2019 and October 2020, the employment rate among all workers age 16 and older fell by 3.5 percentage points. Over the same period the employment rate fell by 3.0 percentage points among Whites, 5.3 percentage points among Blacks, and 4.7 percentage points among Hispanics.

**Figure 3a:** Percent of Men Age 25-54 who were Employed, by Educational Attainment, 2020



<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/empsit.pdf>

**Figure 3b:** Percent of Women Age 25-54 who were Employed, by Educational Attainment, 2020

Source: Author's calculations based on public use micro data from Current Population Survey, U.S. Bureau of Labor Statistics

Interestingly, the employment rate has fallen somewhat more among prime age workers than among those under age 25 and over age 54. This fact largely reflects the steep employment declines among prime-age, low educated women. Figures 3a and 3b display the seasonally unadjusted monthly employment rates in 2020 for men and women by educational attainment (high school degree or less, some college, and four-year college or post graduate degree). In October the employment rate was between 3.5 and 4.1 percentage points lower compared to that at the beginning of the year for men of all educational levels and for college-educated women. In contrast, for women with a high school education or less or with some college, the decline was 7.1 and 6.3 percentage points, respectively. While the relatively sharp declines in employment among low-educated prime-age women is partly due to the fact that they were disproportionately employed in service industries hardest hit by the pandemic, it also reflects their role as caregivers. Many schools and daycare facilities have closed during the pandemic, and mothers have been more likely than fathers to provide childcare in these circumstances. The decline in employment among prime age women exceeds that among prime age men by more than a million, despite the fact that men outnumber women in the workforce.

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 or their business. New data<sup>5</sup> from the U.S. Census Bureau show that in the latter part of October, 45 percent of those surveyed reported that they or someone in their household had experienced a loss of employment income since March 13. Those who were minorities, had low educational attainment, had low household incomes, and had children were substantially more likely to report a decline in income.

## Orientation and targeting of adopted measures

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act)<sup>6</sup> enacted at the end of March contained several important measures designed to mitigate the impacts of the pandemic on workers and businesses. To reduce employment costs for businesses, the CARES Act gave businesses a payroll tax credit and set up the Paycheck Protection Program, which provided forgivable loans to small and medium sized businesses if they did not lay off employees.

The Act also provided substantial federal support for unemployment insurance during the crisis. The unemployment insurance system in the United States is a federal-state partnership. While the federal government provides states with funding for the

<sup>5</sup> <https://www.census.gov/data/tables/2020/demo/hhp/hhp17.html>

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

administration of the program, the benefits paid out to the unemployed normally come from state trust funds that are financed through taxes on employers operating in the state. The CARES Act extended 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 was too low in many states to sustain the unemployed and their families during a period when new hiring was very weak, the federal government provided a supplemental unemployment insurance benefit of \$600 per week through July. When this provision expired at the end of July and, as discussed further below, Congress was unable to agree on a new package of supplemental unemployment insurance benefits, President Trump used his executive powers under a disaster relief program to provide a \$300 per week federal supplemental benefit to those receiving state unemployment benefits. This supplemental benefit was available for up to six weeks and was limited to those receiving at least \$100 in state unemployment benefits, thus excluding workers with very low earnings. How the program was administered varied greatly from state to state<sup>7</sup>, though all but one (South Dakota) applied for and distributed the supplemental benefits.

Additionally, the CARES Act contained 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 provided 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 have been drained by the high level of regular unemployment insurance payments, will be unaffected 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 have been 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 weekly federal supplement to their unemployment benefit, irrespective of the percentage cut in hours. These generous STC benefits have made work sharing attractive to workers.

The CARES Act also provided 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 reimbursed the states for all unemployment benefits paid to these groups. 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 have been large. In the week ending November 7, 45 percent of the 20.5 million people receiving some type of unemployment benefit in the United States were funded through the PUA<sup>8</sup>.

Many workers, however, have already exhausted unemployment insurance benefits extended to them under the CARES Act, and for those still receiving them, the Act's provisions will soon expire. One study<sup>9</sup> estimates that twelve million people will lose their benefits with the expiration of the CARES Act at the end of December.

Another law enacted by the U.S. Congress in March mandated that small and medium sized businesses offer their employees paid leave under certain circumstances. The Families First Coronavirus Response Act<sup>10</sup> was a response to the fact that, even if workers are not laid

<sup>7</sup> <https://www.forbes.com/sites/jenniferbarrett/2020/10/01/extra-300-weekly-unemployment-benefits-are-still-going-out-in-these-states/?sh=2b3a7a2f44c8>

<sup>8</sup> <https://www.dol.gov/ui/data.pdf>

<sup>9</sup> <https://tcf.org/content/report/12-million-workers-facing-jobless-benefit-cliff-december-26/?agreed=1>

<sup>10</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%20D19.>

off from their job, some are unable to work for reasons related to Covid-19. Workers may themselves be sick with the virus or may have to care for family members who are sick. Additionally, many daycares and schools closed or, in the case of schools, moved to remote learning, leaving many parents without affordable childcare options. In response to these problems, the Act 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>11</sup>. As is the case with the CARES Act, however, the provisions of the Families First Act will expire at the end of December.

## Immediate liquidity support to businesses

If a small or medium sized business received a loan under the Paycheck Protection Program and retained all its employees, the loan was 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 was very popular and ran out of its initial \$349 billion allocation in less than two weeks. The U.S. Congress replenished the fund with an additional \$310 billion. The loans under the Paycheck Protection Program were available for businesses with 500 or fewer employees. One concern has been that relatively large organizations were better equipped to apply for loans, which private lenders administered, and that smaller businesses were underrepresented among those receiving funds. The Paycheck Protection Program closed on August 8.

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 bought corporate bonds directly, and for medium-sized businesses purchased business loans from banks. In a recent controversial move, the Secretary of Treasury—over the objection of the chair of Federal Reserve Board—moved to end<sup>12</sup> rather than extend several programs to assist businesses, despite the pandemic's recent resurgence, which threatens the economic recovery.

## Support of dependent workers

As outlined above, the primary policy for dependent workers (i.e., employees) losing their jobs has been income support through state-run unemployment insurance systems, supplemented with a federal benefit and a federally financed 13-week extension of the maximum duration of benefits. 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 hired and trained new staff and are now better able to process the applications. The insured unemployment rate for dependent workers, defined as the number of dependent workers receiving unemployment benefits as a share of the labor force (the sum of the employed and the unemployed), was high—11.1 percent—in the week ending July 4, although it had fallen to 4.1 percent by mid-November<sup>13</sup>.

<sup>11</sup> <https://www.washingtonpost.com/business/2020/03/16/paid-sick-leave-coronavirus-house-bill/>

<sup>12</sup> <https://www.cnbc.com/2020/11/19/treasury-seeks-to-extend-some-emergency-fed-programs-but-end-others-including-main-street-facility.html>

<sup>13</sup> <https://www.dol.gov/ui/data.pdf>

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, however, made benefits very generous for low and middle-income workers. Analyses of unemployment insurance administrative data<sup>14</sup> in the state of California showed that during the time this supplement was available, the wage replacement rate for the median worker on unemployment insurance was 140 percent—meaning that more than half of workers receiving benefits were earning substantially more than they did when employed. Consistent with this evidence, a study<sup>15</sup> of the entire United States estimated that, with the \$600 federal benefit supplement, the median unemployment insurance benefit replacement rate in the United States was 134 percent and that two-thirds of workers eligible for unemployment insurance could earn more unemployed than they would earn on their jobs. There were widespread reports from employers that was 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.

While use of work-share programs was high by historical standards, at any point in time during the crisis, workers participating in work-share programs made up less than two percent of those receiving unemployment insurance benefits, and by November, that share was well under one percent. Active labor market programs have been greatly pared back because initially there was relatively little new hiring and because many job centers have been closed due to health risks. In Michigan, some employees who had been working in job service centers were reassigned to assist with the processing of unemployment insurance claims and setting up work-share programs.

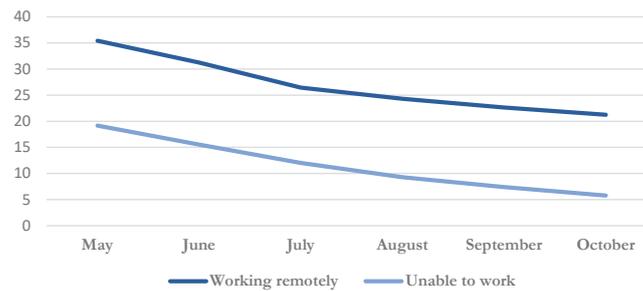
## Working conditions and work organization

As in other countries, there has been a tremendous increase in remote work wherever this is feasible—generally for office workers. Beginning in May, the U.S. Bureau of Labor Statistics added several questions to its monthly Current Population Survey to, among other things, gauge whether people were teleworking or were unable to work because of the pandemic at any point during the prior four weeks. In May, a time when virus infections were peaking and restrictions on business openings were widespread, 35 percent of the employed indicated that they had teleworked during the prior four weeks and 19 percent reported that they had been unable to work because of the pandemic. Those rates steadily fell to 21 percent and 6 percent, respectively, by October (Figure 4). With the resurgence of the virus, states have once again begun to impose some restrictions on business openings, and many businesses are voluntarily curtailing in-person operations. The share working remotely or unable to work because of the pandemic is thus likely to climb in the coming months.

<sup>14</sup> <https://www.capolicylab.org/wp-content/uploads/2020/05/May-21st-Analysis-of-California-UI-Claims-During-the-COVID-19-Pandemic.pdf>

<sup>15</sup> <https://www.nber.org/papers/w27216.pdf>

**Figure 4:** Percent Working Remotely and Percent Unable to Work at any Point during Prior 4 Weeks Due to Covid-19



Source: Author's calculations based on public use micro data from Current Population Survey, U.S. Bureau of Labor Statistics

There has been no national policy in the United States 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, resulting in a patchwork of rules governing business operating conditions across the country, which occasionally have been challenged and struck down by courts.

In this sometimes chaotic and uncertain policy environment, individual businesses often have adopted restrictive practices to protect workers or redesigned their workplaces to make them safer for employees. For instance, many stores and factories<sup>16</sup> have erected plexiglass barriers to protect workers from customers or other employees. Numerous businesses have been forced to shut temporarily owing to Covid-19 outbreaks among workers, causing widespread supply chain disruptions.

## New labor market entrants

College students usually graduate in May and high school students in June. The labor market for new graduates is weak, but the labor market policies adopted thus far have focused on assisting those who have lost work, not on those entering the labor market. Although the unemployment rate for teenagers age 16-19 has dropped from nearly 30 percent in mid-May to slightly under 14 percent in mid-October, the high level of unemployment among this group continues to point to the serious challenges facing new labor market entrants.

## Next steps and fiscal viability

The pandemic outbreak occurred during a contentious presidential election year. In the highly charged partisan atmosphere preceding the fall election, Congress was unable to agree on a stimulus and coronavirus aid package to replace the CARES Act passed in March, whose provisions have largely expired or are set to expire at year's end. Legislation must be approved by both the U.S. House of Representatives and the Senate. The House, controlled by the Democrats, most recently passed a \$2.2 trillion bill<sup>17</sup> that, among other things, renewed generous federal supplemental unemployment insurance benefits and the Paycheck Protection Program, which extends forgivable loans to small businesses and non-profits. The Senate, controlled by Republicans, most recently introduced a much

<sup>16</sup> <https://www.cnn.com/2020/04/30/cars/gm-ford-plans-restart-us-factories/index.html>

<sup>17</sup> [https://appropriations.house.gov/sites/democrats.appropriations.house.gov/files/Updated\\_Heroes\\_Act\\_One\\_Pager\\_0.pdf](https://appropriations.house.gov/sites/democrats.appropriations.house.gov/files/Updated_Heroes_Act_One_Pager_0.pdf)

narrower measure<sup>18</sup> that also would have renewed the Paycheck Protection Program and provided a federal supplemental unemployment benefit (albeit at half the prior level) but was estimated to cost \$500 to \$700 billion.

A major difference between the House and Senate versions concerned federal aid to state and local governments, set at nearly \$1 trillion in the House bill but absent from the Senate version. Like unemployment insurance, the budgetary problems faced by states<sup>19</sup> has become a salient policy issue. While the federal government can run budget deficits, states must balance their budgets each year. High unemployment and a reduction in business revenues are leading to large state budget shortfalls. States will need to make deep cuts to services, which will have adverse spillover effects on the economy. The federal government aid to states thus far has been limited to expenditures on Covid-19 issues.

The economy appeared to be rapidly recovering during the summer, and the disagreement between Republicans and Democrats partially reflected a differing perspective on the need for further stimulus. Many Republicans were more concerned about incurring a large federal deficit than about a weak economy. With the virus's resurgence in the fall, bringing record infections and deaths and new state-led measures to curtail certain business activities, a second slowdown seems certain.

A new relief package, however, is unlikely to be passed before the Biden administration takes office in January. The shape of any package will depend not only on the state of the economy early next year but also on the outcome of runoff elections for the U.S. Senate in the state of Georgia. These runoff elections will determine whether the Republican party retains control of the Senate or whether the Democrats will have a majority, giving them control of both legislatures and paving the way to a more generous relief and economic stimulus package.

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<sup>18</sup> <https://www.bloomberg.com/news/articles/2020-09-08/mcconnell-aims-for-vote-on-senate-republican-stimulus-this-week>

<sup>19</sup> <https://www.upjohn.org/research-highlights/automatic-stabilizers-and-federal-aid-states>