

Cui bono - business or labour?

## Job retention policies to prevent mass unemployment in Europe during the Covid-19 pandemic

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Europe faces multiple challenges during the Covid-19 pandemic, including the problem of how to secure jobs and earnings. In our comparative analysis, we explore to what degree European welfare states were capable to respond to this crisis by stabilizing employment and income for working people. While short-time work was a policy tool already partly used in the Great Recession, job retention policies were further expanded or newly introduced across Europe due to the pandemic in 2020. However, cross-national variations persist in the way in which these schemes were designed and implemented across European welfare states, aiming more or less towards labour hoarding to avoid mass dismissal throughout the employment crisis. We distinguish between *business support* and *labour support logics* in explaining the variation in job retention policies across Europe. Continental, Mediterranean and Liberal welfare states fostered more labour hoarding than Nordic or Central and Eastern European countries.

Keywords: employment crisis, Covid-19 pandemic, job retention policies, short-time work schemes, unemployment.

# 1 Introduction

European welfare states face multiple challenges during the Covid-19 pandemic, including the problem of securing jobs and earnings affected by containment policies, particularly during national lockdowns. Given that national states had imposed unprecedented restrictions on business and employees in pursuing their day-to-day economic activities, governments needed to compensate them, using a mix of social, employment and fiscal policies. Not only business receipt but also earnings for employees and the self-employed were threatened during the first lockdown, starting in March 2020 across most of Europe. During this first and subsequent waves of the Coronavirus pandemic, European welfare states used existing social protection but also new measures to respond to the public health and economic crises. Our analysis focuses on job retention policies as a specific economic and social policy response to the crisis-induced employment shock.

Focusing on the ‘Great Lockdown’ of 2020, we seek to demonstrate that European governments opted for labour hoarding during this sudden crisis in order to prevent mass dismissal, having learned crucial lessons from the Great Recession. In contrast to the US, Europe has not experienced a rapid increase in unemployment during the first wave of the pandemic due to the widespread use of short-time work as we will show in our analysis. Job retention policies, a previously tested instrument, became scaled up and extended or newly introduced across Europe with significant implications for future labour market policies. We contrast two different motivations to use job retention policies depending on the actor perspective: employers or employees. We propose that employers choose short-time work instead of dismissal due to a *business support logic* if their labour costs are relatively low, while employees are motivated by a *labour support logic* when short-time work is more generous than unemployment benefits. We assume that these design features of job retention policies affect the take-up rate, thus providing a more or less effective crisis response. We aim to test this proposition by focusing on the design, take-up and unemployment mitigation effect of job retention policies across Europe during the first wave of the pandemic.

In our contribution, we set out the importance of job retention policies during the Covid-19 related employment crisis, showing whether welfare states have extended pre-existing or innovated with new schemes and whether these became widespread tools to prevent more unemployment. In our analytical section, we discuss our political economy approach for our comparative analysis, arguing that varieties of

economies and welfare state regimes account for cross-national variations in the design and effectiveness of job retention schemes (c.f. Natali, 2022). Nevertheless, there have been also some policy innovations that have the potential to lead to long-term path departures. Analytically, we explain the observed variations in job retention policies by using *business support* and *labour support logics*, informed by political economy and welfare state literatures. The subsequent section presents our empirical analysis of the Covid-19 related employment shock, the policy diffusion of and innovation in job retention policy design, and the economic and social outcomes of these short-time work schemes. The conclusion reassesses our argument and sketches an outlook for the recovery and futures crises.

## 2 Welfare states facing an employment crisis

### 2.1 Path dependency versus policy innovation

The Covid-19 pandemic is an exogenous, simultaneous, and similar shock to labour markets across Europe exceeding the immediate employment crisis of the Great Recession that started in 2008. It serves as a quasi-experiment for our comparative analysis of welfare state crisis responses. Such a crisis is a moment for governments to either respond with their usual instruments or innovate with new measures (Hall, 1993); it is either a path dependent ‘reloading’ of policy responses or path departure through policy innovation (Ebbinghaus, 2005). The initial pandemic wave has been a major challenge for governments to respond to a potential employment shock, forced to decide whether to rely on tested welfare programmes such as unemployment benefits or using special measures such as short-term work schemes.

Pierson (2004) acknowledges the different time horizons of cause and outcome, for instance, a short-term event can have a short impact (like a tornado) or more profound long-term consequences (like a meteorite impact). Applied to social policy, Chung and Thewissen (2011) argue that short-term crisis responses tend to follow path dependence rather than major systemic changes. While some policy analysts claim that policy maker would rely on muddling through instead of systemic policy change, others see in such a crisis a ‘window of opportunity’ (Kingdon, 2014) to innovate at a ‘critical juncture’ with lasting impact for the future (Capoccia and Kelemen, 2007). We investigate whether the Covid-19 pandemic will lead to path dependent absorptive changes or path departure through major adaptations of policy measures with lasting consequences.

From a comparative perspective, we study the cross-national variations within Europe (Arts and Gelissen, 2010), but moving beyond the three ideal-type welfare regimes of Esping-Andersen (1990), the liberal, conservative (Continental) and social democratic (Nordic), by further distinguishing Mediterranean and Central- and Eastern European (CEE) welfare states (Ferrera, 1996; Adascalitei, 2012). Contrary to the previous period of welfare state retrenchment, in particular the period of austerity following the bailout during the financial market crisis (Ólafsson et al., 2019), the Covid-19 pandemic has been characterized by a remarkable return to social policy expansion (Moreira and Hick, 2021). Béland et al. (2021a) view the policy responses in a first assessment as following policy legacies, whereas we also acknowledge some instances of path departure.

## 2.2 The purpose of job retention policies

In addition to relying on unemployment protection, European welfare states reloaded their short-time work schemes or introduced new job retention policies. These measures seek to mitigate the employment crisis resulting from their containment policies, in particular the national lockdown during the first wave of the Covid-19 pandemic. Job retention policies have the function to preserve income for employees and sustain firms throughout a recession. During a crisis, these labour hoarding measures help preserving the employment relationship and sustain consumer demand, facilitating ‘bouncing back’ during a subsequent recovery. From a macroeconomic perspective, short-time work schemes function as an important ‘automatic stabiliser’ (as part of the tax and benefit systems) through smoothing labour income over the business cycle similar to unemployment benefits (Gehrke and Hochmuth, 2021). At the microeconomic level, short-time work preserves existing firm-worker matches, avoids skill depreciation, and prevents dismissal; it functions like an insurance against unemployment during a demand crisis; it is also commonly used to cope with seasonal work fluctuations such as in construction.

Compared to past crises, recent analyses of social policy responses during the Covid-19 pandemic have stressed that short-time work schemes have been ‘novel in scope and scale’ (Moreira and Hick, 2021: 1). Eichhorst et al. (2020b), Müller and Schulten (2020); European Commission (2020), Eurofound (2021a) and OECD (2020a; 2020b; 2021a) provide overviews of cross-national variations in short-time work designs and effects. Analysis of preliminary data has pointed to the inverse relationship between the expansion of short-time work and changes in unemployment (Eichhorst et al., 2020a).

### 2.3 Business support and labour policy logics

We propose a simple analytical framework to explain the cross-national variations in STW take-up during the first pandemic wave. Using an institutionalist actor-oriented model (Scharpf, 1997), we juxtapose the interests of employers versus employees in deciding in favour of job retention (instead of unemployment benefits) due to the containment measures during the pandemic. At its onset, policymakers expected the pandemic to last only for a short spell thus looking for short-term measures, while the public expected to be compensated for any imposed restrictions. In this rapid unprecedented crisis under high uncertainty, policymakers seized the window of opportunity during the ‘Covid moment’ (Crouch, 2022) for unparalleled fast expansion of business and labour support to mitigate the impact of the containment policies. This is the more surprising given that European welfare states had gone through severe austerity following the Great Recession (Ólafsson et al., 2019), many economies had only slowly recovered from mass unemployment and still faced accumulated public debt.

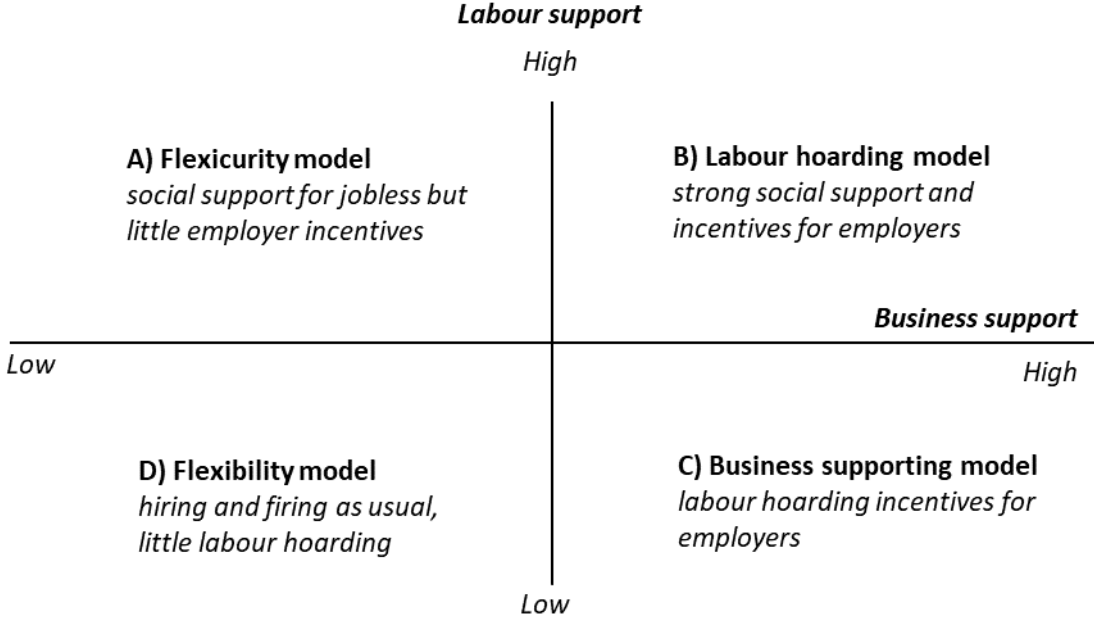
We argue that the design of job retention policies adopted across Europe follows two distinct rationales, mirroring the interests of employers and employees respectively. Identifying those logics helps to understand some of the unexpected developments in STW take-up and potential efficacy in mitigating the employment crisis.

- (i) Following the *business support logic* governments have an interest in limiting firm bankruptcies by subsidizing underused labour costs and maintaining the employment relationship (labour hoarding) in hope of a quick re-bouncing after containment measures can be eased. In this case, governments would significantly shoulder the labour costs, thereby subsidising firms during the crisis.
- (ii) Following the *labour support logic* governments have an interest in limiting unemployment due to its long-term scarring effects and compensating workers for income losses during the crisis to sustain popular support for their containment measures. In this case, governments increase benefit generosity of short-time work relative to unemployment benefits.

Empirically we expect and find different configurations (see Figure 1) along the two dimensions of business and labour support. Both objectives can go together when labour hoarding is attractive to employees but also less costly to employers (Quadrant B), while there are also welfare states that fail to achieve either goal, thus relying merely on existing unemployment protection and flexible labour market adaptation (Quadrant D). Analysing cross-national variations in policy design through the lens of the business support and labour support logics helps to understand varying effects of job retention. In some countries, labour support is relatively generous but it might

still depend on employers whether they are willing to use it due to high labour costs (Quadrant A). In the case of pro-business support (Quadrant C), it is less costly for firms and they prefer such labour hoarding due to potential re-hiring problems.

Figure 1: Business support and labour support logics



Source: Own graphical representation.

### 3 Job retention policies during the 2020 pandemic

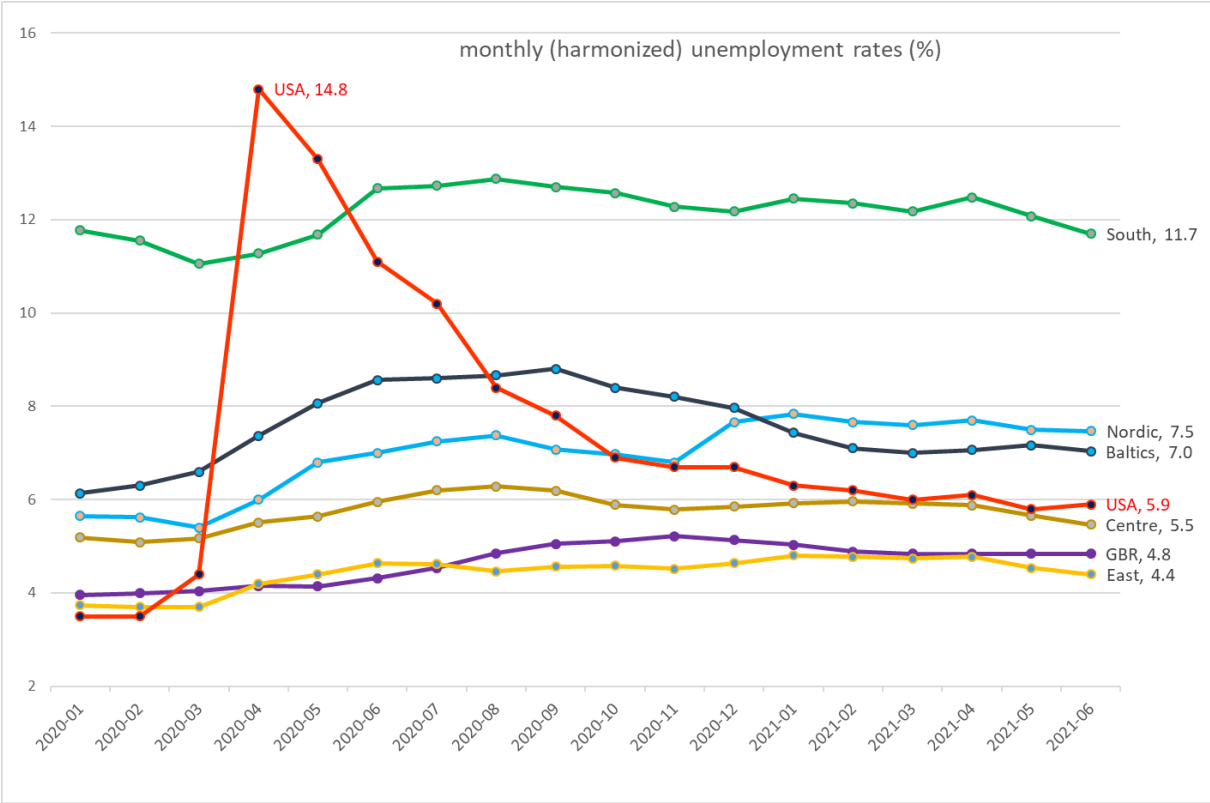
In our empirical analysis, we explore to what degree welfare states were capable to respond to the pandemic by stabilizing employment and income for working people in Europe during the first Covid-19 wave. While several economic measures and labour market policies were used, we limit our focus to the major (and in several countries novel) response to the employment shock: job retention policies (both short-time work and wage subsidies schemes). We discuss briefly their emergence, provide an overview of their design, and explore the variations in take-up and unemployment performance across Europe. We rely on datasets of international organisations and national agencies after screening so-called ‘policy trackers’ (<https://supertracker.spi.ox.ac.uk/>), time-variant databases of policy measures by international organizations and by academics that emerged in the wake of the pandemic (Daly et al., 2020).

### 3.1 The pandemic employment shocks

The Great Lockdown in March/April 2020 reduced most non-essential business, required working-from-home, and restricted leisure activities outside the home, leading to unprecedented combination of demand and supply shock. While the first pandemic wave led to temporary mass unemployment in North America, skyrocketing from 5% to around 14% in April 2020 (Béland et al., 2021b), the EU unemployment rate did not exceed 8% during 2020, though there was nearly a duplication of the inactive working population (17%), indicating also withdrawal from the labour market (Eurofound, 2021a: 1). In April 2020, following the widespread reduction of economic activities due to strict containment measures, 42 million people in the European Union (EU) participated in short-time work, which equals one in five employees (European Commission, 2020; Müller and Schulten, 2020). In contrast, during the Great Recession of 2008/09 a then ‘record-breaking’ 1.5 million employees were on short-time work across the European Union, a fraction of the peak during 2020.

Despite the overall trend across Europe, there are notable cross-national variations in unemployment rates during the pandemic (Figure 2). Although most European countries had a gradual increase with the first wave since March 2020, the cross-national variations remained largely consistent with prior welfare state regime patterns. The increase was pronounced in the Baltic economies with rather flexible labour markets and residual welfare states, followed by Nordic welfare states that relied less on job retention but on their relative generous unemployment benefits. Having still mass unemployment from the last crisis, the Mediterranean countries experienced modest change, though at higher risks for younger jobseekers. Unemployment increases were largely mitigated in the core Continental welfare states. Liberal or residual welfare states such as the UK and CEE countries experienced relatively small unemployment increase from comparatively low levels.

Figure 2: Unemployment rate in Europe and USA (OECD) 2020



Source: Own graph based on OECD harmonized unemployment rates.

### 3.2 Adopting job retention policies during the first Covid-19 wave

The first local Coronavirus containment measures in Europe were undertaken in Italy in February 2020, weeks before the World Health Organization (WHO) finally declared Covid-19 a ‘pandemic’ on 11 March 2020. Within the next days, many governments followed with sudden national lockdowns across Europe in order to ‘flatten the curve’, prevent further exponential spread of the virus and reduce pressures on the overstretched health-care system. Initially, policymakers and experts saw the pandemic as short-lived economic stoppage and hoped for a quick V-shaped ‘bouncing back’. In order to increase compliance with containment restrictions, governments were under pressure to help business to survive and protect the workforce from income loss. Using ‘emergency Keynesianism’ as during the Great Recession (Bremer and McDaniel, 2020) was written large on the political agenda during the Great Lockdown (Béland et al., 2021a), thus overcoming years of austerity.

Already during the Great Recession, about a dozen European welfare states (see Table 1) used short-time work schemes to combat mass unemployment with significant impact (Hijzen and Martin, 2013): several Continental European welfare states had relied on existing short-time work to combat unemployment during the crisis, in



particular Belgium (additional 4% of workers during the peak), Germany (4%) and Italy (2%), followed by other continental countries but also Ireland, Denmark and Norway (ranging between 0.5-2%). For the most popular schemes, partial reductions was possible, eligibility was high, conditionality not very severe, and employer costs low, while benefits relative high (Hijzen and Martin, 2013). Hence some European countries have had some positive experience of short-term work schemes, readymade to scale-up, while other countries introduced such schemes de novo.

Moreover, the European Commission promoted short-time work as an effective tool for firms to reduce labour costs, increase flexibility without firing costs, and preserve human capital during a crisis (European Commission, 2020). In March 2020, based on a proposal by the European Commission, the European Council negotiated emergency funding to be disbursed from unused EU Cohesion Funds, soon followed by the ground-breaking agreement on SURE (de la Porte and Jensen, 2021; Pochet, 2022), signalling 'this time is different'. The EU support helped Mediterranean and CEE governments to undertake larger borrowing in order to spend on employment protection during the crisis (European Commission, 2021), this was followed by the 'NextGenerationEU' recovery plan at the end of 2020.

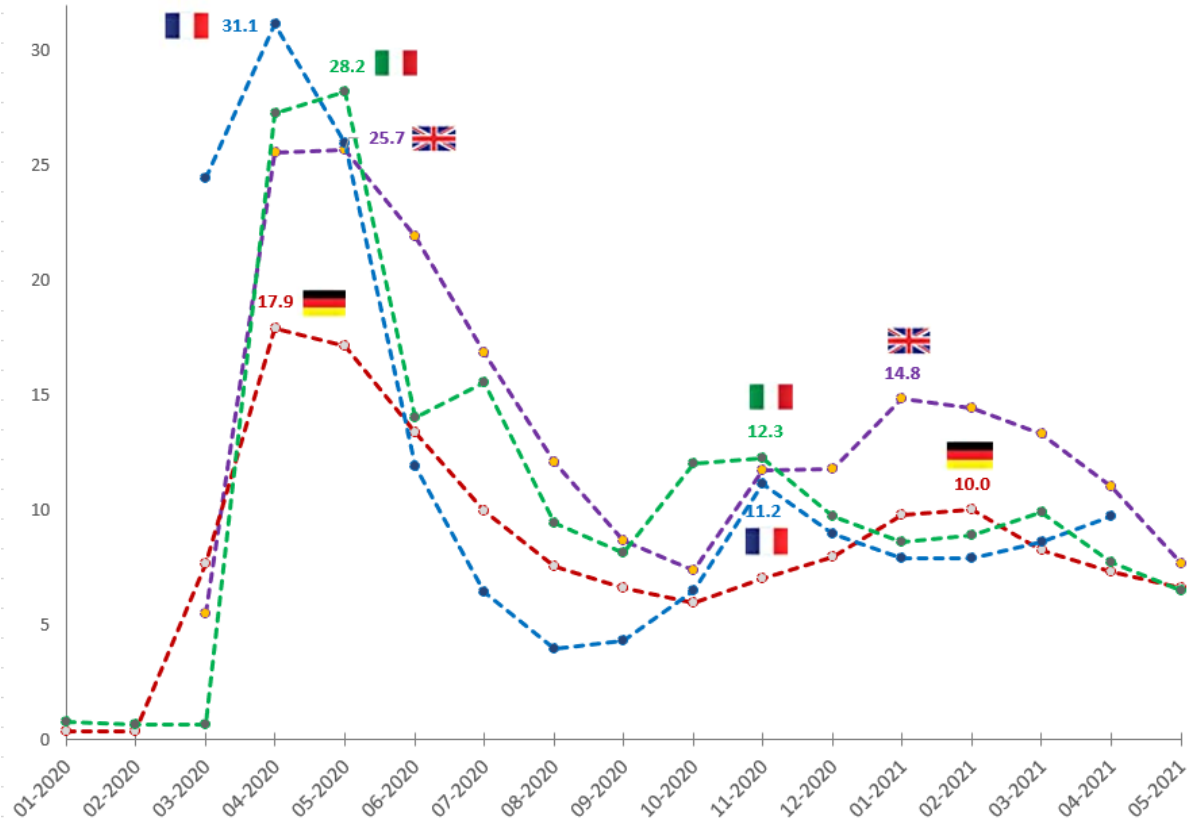
The rapid adoption of job retention policies is obvious when we consider the timing of policy measures across Europe (Eurofound, 2020). Already in February 2020, Italy enacted an exceptional wage guarantee fund to compensate for the first local lockdown followed by national measures, while Belgium applied a time-credit scheme for employees, followed by a partial unemployment scheme, as it was also affected relatively early. Germany in the first week of March extended access to its pre-existing short-time work scheme but improved its generosity only later during the pandemic (Herzog-Stein et al., 2021). All three countries have established short-time work schemes quickly, repeating their lead role during the Great Recession. Quite in contrast, the British government was critiqued for belatedly adopting a national lockdown, once it did so it introduced a new Coronavirus Job Retention Scheme (JRS) that was more generous than the flat-rate unemployment support, providing earnings-related benefits in break with its liberal credo (Hick and Murphy, 2021). In addition to these legislative or executive measures, social partners and governments also agreed on tripartite agreements, most prominently Denmark introducing a new scheme besides an existing one (Eurofound, 2021b). Nearly half of all European countries (see Table 1) had innovated with a new scheme (9 introduced a new one without any prior scheme, plus 3 added a new to their pre-existing one), while the

larger group (14 countries) relied on existing schemes, though often improving its conditions.

Conservative, Mediterranean and Nordic welfare states did often rely on pre-existing instruments that were adjusted, while by contrast, liberal market economies and CEE countries predominantly had to set up new job retentions schemes, often introducing ad-hoc wage subsidies (OECD, 2020b: 7). Adaptation of existing schemes took place in the form of reducing costs for employers and increasing generosity for workers. Moreover, several countries broadened the schemes' coverage to all (or specific sectors), non-standard workers and the self-employed. Governments also simplified administrative procedures to speed up enrolment and extended the maximum duration. Governments introduced job retention measures typically on a temporary basis, though many extended the availability as the pandemic continued.

Many policymakers relied on crisis-corporatism to design and implement their labour market response measures (see in this special issue: Meardi and Tassinari (2022)). Involving social partners to build consensus and rely on expertise has been common during the previous crises, short-time work was a measure that found support of both social partners in countries such as Germany (Ebbinghaus and Weishaupt, 2021). While design choices have been consulted in many countries (Eurofound, 2021b), not all governments included social partners in their policymaking. Governments in the Visegrád countries barely consulted their crisis response with trade unions in Hungary, Slovakia and Slovenia (Podvršič et al., 2020). In addition, the social partners played often a role during the stepwise reopening after the first lockdown, when return to work conditions needed to be implemented with the consent of employers, unions, and workplace representatives.

Figure 3: Job retention rates (% dependent labour force) in Germany, France, Italy and United Kingdom, 2020-21



Source: Own calculations based on national sources (DE: BA, FR: DARES, IT: INSP, UK: HMRC).

### 3.3 Design and functioning of job retention policies

While job retention policies were adopted within few weeks since the first lockdown, the policy choices differed not only between extending existing and setting up new schemes. Two policy design dimensions matter particularly: the generosity of short-time work vis-à-vis unemployment benefits for employees, and whether job retention cover the labour costs of employers; these mirror our analytical framework of a labour support vs. a business support logic.

Around one quarter of European countries linked eligibility for short-time work to a drop in revenue of more than 25% and/or over 30% of worktime reduction (Eurofound, 2021a: 2). The wage replacement for employees ranged from 30% to 100% for the hours not worked, although benefit ceilings are often capped, thus limiting the maximum received. In contrast, France and Germany provide also support for higher income groups in line with their contributory earnings-related unemployment insurances. Duration of short-time work benefits varied widely between 2 and 21 months across Europe (Eurofound, 2021a: 2), though only a dozen or a third of about thirty countries provided for six or more months. Average public spending to preserve employment has amounted to around 1.7% of GDP across the

OECD compared to around 0.2% pre-Covid-19 (IMF, 2021: 73), there are considerable cross-national variations due to reliance on job retention and its generosity (see Table 1). The EU Commission proposed a total of €94.3 billion in financial support for SURE, and €75.5 billion have already been disbursed to 17 EU member-states by March 2021.

*Nordic welfare states* focused on extending relatively generous social protection to vulnerable groups, while their flexicurity model provides only moderate employment protection. For instance, Finland lowered employment protection to increase employers' flexibility for layoffs, while strengthening unemployment benefits and extending social protection to vulnerable groups (Greve et al., 2021: 7). Short-time work has been part of the crisis response in Norway and Sweden, as well as wage subsidies in Denmark, but overall job retention played a less prominent role. Although wage replacement rates for workers are high, relatively low labour cost subsidies to employers make job retention less attractive (OECD, 2020b). For instance, wage replacement in Denmark and Sweden's short-time work scheme amount to the highest in Europe, while subsidies for firms' labour costs are less generous than elsewhere, this led to take up of only around one-tenth during the first wave (Greve et al., 2021: 11). Short-time work was less frequent in Nordic economies than on the Continent, regardless of whether measured by applications approved or actual STW take-up (Table 1). Norway placed more emphasis on short-time work but even there less than 10% were furloughed at its peak, down to only 2% by September 2020.

*Continental welfare states* in the centre of Europe focused predominantly on maintaining the employment relationship by supporting business rather than on income replacement for the unemployed. France and Germany, for instance, have taken over the full labour costs of furloughed workers for employers; the French short-time work followed the severe containment measures during the first wave, and Germany had a similar wave but at a somewhat lower level given its less severe first pandemic wave (see Figure 3). Compared to the Nordic countries, less generous wage replacement rates were offered under Germany's 'Kurzarbeitergeld' but sectoral collective agreements provide supplementary benefits for around half of all employees (Pusch and Seifert, 2021: 101-102). By contrast, Austria's and Belgium's STW schemes were more generous for both employees and employers (Schnetzler et al., 2020; Tamesberger and Theurl, 2021)(Cantilelon 2021), although Belgium applied a relatively low cap to workers' salaries. Quite in contrast, the Netherlands introduced a series of new wage subsidies with liberal features (OECD, 2020b; Cantillon et al.,

2021: 333). Overall among these Continental welfare states, take up in short-time work was high not least thanks to substantial allocation of public budgets (Table 1).

*Mediterranean welfare states* doubled down on employment maintenance. With EU SURE support, Italy, France and Portugal were able to deploy substantial funding to maintaining their pre-crisis employment levels. In Italy, thanks to previous labour market reforms, unemployment benefits had been extended before the pandemic, and in addition to the established STW (Cassa Integrazione Guadagni, CIG) for industrial workers, a shorter Covid-related CIG was introduced for all employees. Given severe lockdown during the first wave Italy used STW considerably, similar to France but less STW was used in Portugal and Spain's job retention scheme (ERTE) was not very successful in preventing unemployment (see Figure 3) (Moreira et al., 2021: 9). Greece introduced first a flat-rate lockdown benefit for private sector workers and the self-employed lasting several weeks, while its full job retention scheme (SYN-ERGASIA) failed to attract many employees due to its late introduction in June 2020, unattractive design and employers' reluctance to abstain from dismissal (Moreira et al., 2021: 8-9). Employment protection was strengthened further through restricting dismissals or increasing associated costs, such as Italy and Spain imposing a universal ban of dismissals for the crisis period. Combining low costs for business to maintain labour under short-time work with high dismissal costs, made an attractive case for business to furlough workers instead of laying them off.

Surprisingly, *Liberal welfare states*, particularly the UK, pursued a policy of generous support for business and working people. Especially subsidies for employers amount to the highest across Europe, making the UK's Coronavirus Job Retention Scheme one of the most costly (Table 1). The high-take up with around 20% on furlough during the first wave is due to its cost waiver to employers during the initial 6 months and minimal co-payments thereafter (Hick and Murphy, 2021: 8-9). Compared to the UK's low flat-rate unemployment benefits, employees receive a relatively generous proportionate wage replacement. In contrast, Ireland as a liberal-conservative hybrid adopted a less prominent wage-subsidy scheme with very low but universal benefits. Switzerland pursued a universal approach by extending eligibility widely to vulnerable groups, including workers on fixed-term contracts, apprentices, temporary workers, on-call workers and even family members helping in small firms (Eichhorst et al., 2020a: 6), which lead to considerable take-up in STW.

For *Central and Eastern European* (CEE) countries, the rapid introduction of job retention led to an expansion of their welfare states, although designed comparatively

less generous for employees and employers (Table 1). Although they received substantial EU funding via SURE, less was spent on job retention by these relatively modest welfare states. Subsequently, STW take-up was lower during 2020 than in most other countries, though the more conservative Visegrád countries differ from the more liberal Baltics (Nölke and Vliegthart, 2009) and some of the peripheral new EU member states. Poland provided the lowest level of wage compensation to companies under its 'Anti-Crisis Shield' at 40% of the minimum wage, leading to low STW take-up (Aidukaite et al., 2021: 12). Hungary, a comparatively high-spender, has undertaken very little in social protection (Aidukaite et al., 2021: 13). While the Baltics tended to be less generous, the pandemic coincided with an election and a pro-welfare president in Lithuania, thus the government adopted universal policies complemented by generous targeted social protection.

Table 1: Characteristics of job retention schemes

Country	EU Code	Welfare-regime	Job retention scheme 2020+ (14 pre-ex., 9 new, 3 both)	Peak 2008-10	Take up April/May 2020	Applications May 2020	Wage replacement for workers	Remaining labour cost for employers	Budget spent (% GDP) until Sept 2020
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Austria	AT	CON	Pre-existing	1.2	29	31.6	84.4	0	1.2
Belgium	BE	CON	Pre-existing	4.4	27	31.5	*70	0	*2.3
Czech Rep.	CZ	CEE	Pre-existing	2.0	18	4.6	60	20	0.3
Denmark	DK	NOR	Pre-existing & <b>new</b> STW	0.5	8	7.8	100	25	0.5
Estonia	ET	CEE	<b>New</b> wage subsidy	..	20	..	100	7.9	0.9
Finland	FI	NOR	Pre-existing	1.5	5	4.6	62.6	0	0.1
France	FR	MED	Pre-existing	0.9	35	47.8	40.6	0	0.8
Germany	DE	CON	Pre-existing	4.1	18	26.9	78	0	0.4
Greece	GR	MED	<b>New</b>	..	25	..	66.6	0	..
Hungary	HU	CEE	<b>New</b>	0.9	1	..	43.9	0	0.1
Ireland	IE	LIB	Pre-existing & <b>new</b> subsidy	1.2	18	30.8	33.6	0	0.8
Italy	IT	MED	Pre-existing	2.1	45	46.6	35	0	1.0
Latvia	LV	CEE	<b>New</b>	..	4	..	71.5	0	0.2
Lithuania	LT	CEE	<b>New</b>	..	13	..	100	30	0.3
Luxembourg	LU	CON	Pre-existing	..	#28	44.4	82.4	12.1	..
Netherlands	NL	CON	Pre-existing & <b>new</b> subsidy	1.1	30	23.2	100	10	1.2
Norway	NO	NOR	Pre-existing	0.7	*11	..	82.3	3.3	..
Poland	PL	CEE	<b>New</b> wage subsidy	0.0	9	3.1	59.3	22.6	..
Portugal	PT	MED	Pre-existing	0.4	20	5.0	54.1	16.2	*2.8
Slovak Rep.	SK	CEE	Pre-existing	1.4	18	4.6	84.7	23.3	0.5
Slovenia	SI	CEE	<b>New</b>	..	21	35.6	82.8	0	0.6
Spain	ES	MED	Pre-existing	0.8	12	24.1	59.9	0	1.8*
Sweden	SE	NOR	Pre-existing	..	12	11.1	88.6	7.6	0.1
Switzerland	CH	LIB	Pre-existing	..	*33	48.1	81.2	0	..
U.K.	UK	LIB	<b>New</b>	--	*32	23.5	73.5	0	1.8

Note: (2) welfare regimes: CON: continental centre (conservative), LIB: liberal, MED: Mediterranean (southern Europe), CEE: Central & Eastern Europe (residual), NOR: Nordics (social democratic); (4) peak (2008-10) STW % dependent labour force (increase since 2007); (7) Replacement for maximum permissible reduction in working time at the average wage level May/June 2020 ; (8) at maximum permissible reduction in working time at the average wage level in % usual full-time labour costs; (9) on job retention between March and September 2020 in % of GDP, \* includes SURE funding.

Source: (4) Hijzen & Martin (2013); (5) Eurofound (2021), \* OECD (2020), # applications approved; (6) Mueller & Schulten (2020); (7) OECD (2021a), \* Eurofound (2021a); (8) OECD (2021a); (9) own computation based on Eurofound (2021) and OECD (2021b), for UK: HM Revenue and Customs

Our comparison of job retention schemes indicates their importance across Europe during the pandemic, while also revealing important cross-national variations in their design. Nordic welfare states have continued their legacy of strong social protection for people but refrained from generous firm subsidies. Combined with already fluid labour markets, employers had relatively little incentive to furlough workers. CEE countries with few exceptions have improved their otherwise residual support through short-time work but had lower STW take-up than elsewhere. Higher firm subsidies combined with more stringent employment protection in Continental and Mediterranean welfare states led to higher STW take-up, expanding their already successful strategy of the past. Liberal welfare states, especially the UK and Switzerland, embarked on a new path in their employment policy response. After introducing a widely used model of labour hoarding, the UK government found itself unable to wind down these expensive job retentions schemes for more than a year. As a consequence of these measures, Continental, Mediterranean and liberal welfare states spent on average 4 times more on job retention than Nordic and CEE countries (Table 1).

### 3.4 Unemployment vs. Job Retention Trade-Off

Across Europe, we find that welfare states with larger STW take-up experienced lower increases in unemployment during the initial crisis (Figure 4).<sup>1</sup> This association is robust regardless of the measure for short-time work: applications approved or STW take-up both point to a negative association with changes in the unemployment rate, supporting the thesis that job retention policies help avoiding mass dismissal. While the use of job retention schemes also correlates with the variations in government restrictions and economic activity, first estimations indicate that incurred job losses would have been between 50% and 100% larger without job retention measures (OECD, 2021a: 114-116). This is also supported by the European Commission's Employment and Social Report (2020: 122) which finds for selected countries

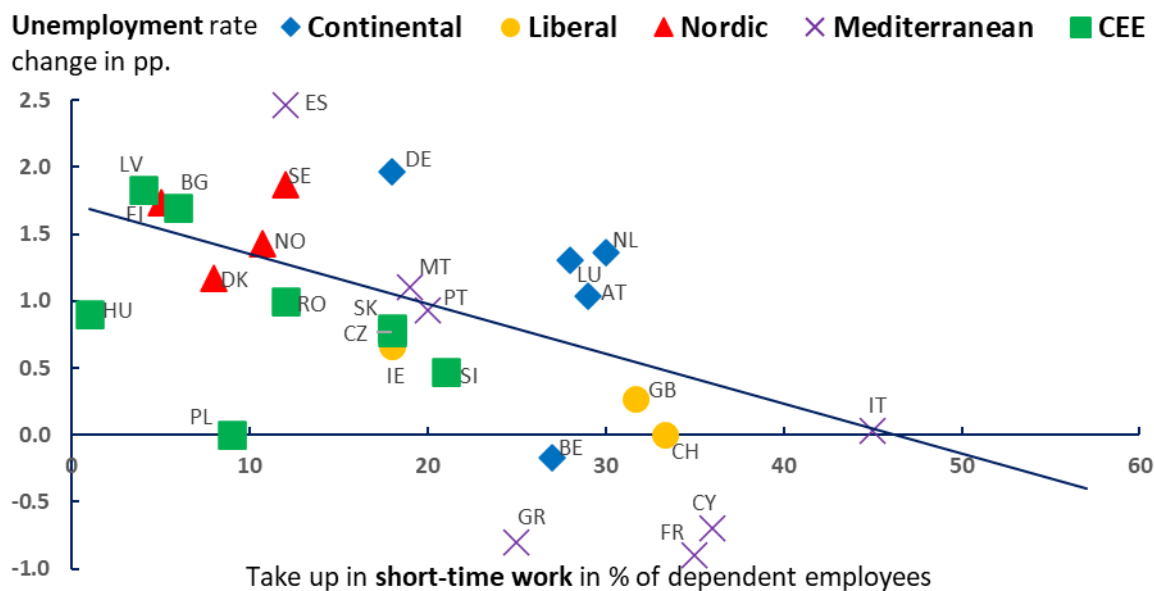
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<sup>1</sup> Other measures may also intervene such as temporary dismissal bans or extensions of parental and sick leave policies.



(Austria, Belgium, and Germany) that the largest parts of negative employment shocks have been absorbed by short-time work at least until May 2020.

Figure 4: Effectiveness of short-time work schemes varies between welfare states



Note: Data refer to April/May 2020, STW take-up in % of employees (2019Q4), except for the Netherlands (March 2020) and Luxembourg (STW applications).

Source: Own compilation based on Eurofound (2021a), OECD (2021a), OECD (2020b), Eurostat (2021) and OECD Employment Database (OECD, 2021b).

Cross-national variations along welfare state regimes continue to matter (Figure 4): Continental, Mediterranean, and liberal welfare states relied more on job retention, while experiencing lower unemployment increases. Several Mediterranean welfare states even reported declining unemployment rates at the beginning of the pandemic parallel with high STW take-up. For instance, 3.3 million French workers were on short-time work in April 2020, while the number of registered unemployed declined (European Commission, 2020: 112). By contrast, Nordic and Baltic countries experienced higher increases in unemployment as take up of short-term work was much lower. These cross-national differences suggest that the schemes' design affects their effectiveness in protecting workers against job loss.

There are striking outliers given their welfare state regime, particularly the expansive short-time work responses by the United Kingdom and Switzerland, two liberal welfare states with flexible labour markets. The strong response by Mediterranean welfare states also differs compared to the previous crisis when they were severely restricted by current account deficits and budgetary pressures (Bieling, 2012). Some CEE countries used the crisis to expand their residual welfare states, particularly

Slovenia and Lithuania and to a lesser extent also Czechia, Slovakia, and Romania. It is too soon to predict whether such path departures will have a lasting impact on their welfare state models beyond the crisis.

### 3.5 Mapping business and labour support logics

Design choices matter for the effectiveness of job retention policies: Countries with limited labour cost subsidy for business (lower than 100%) on average experienced lower applications and subsequent STW take-up. There was no difference in applications approved or STW take-up between pre-existing and new schemes. This association underscores the differences between the *business support* and the *labour support logics*. Governments following the *business support logic* aim to lower labour costs of firms in order to hoard labour during the crisis, thus further strengthening the power of business. This has proven effective, as the decision whether to put staff on short-time work or terminate the employment contract by laying off staff lies predominantly with employers (Adams-Prassl et al., 2020: 605-607; Möhring et al., 2021: 7).

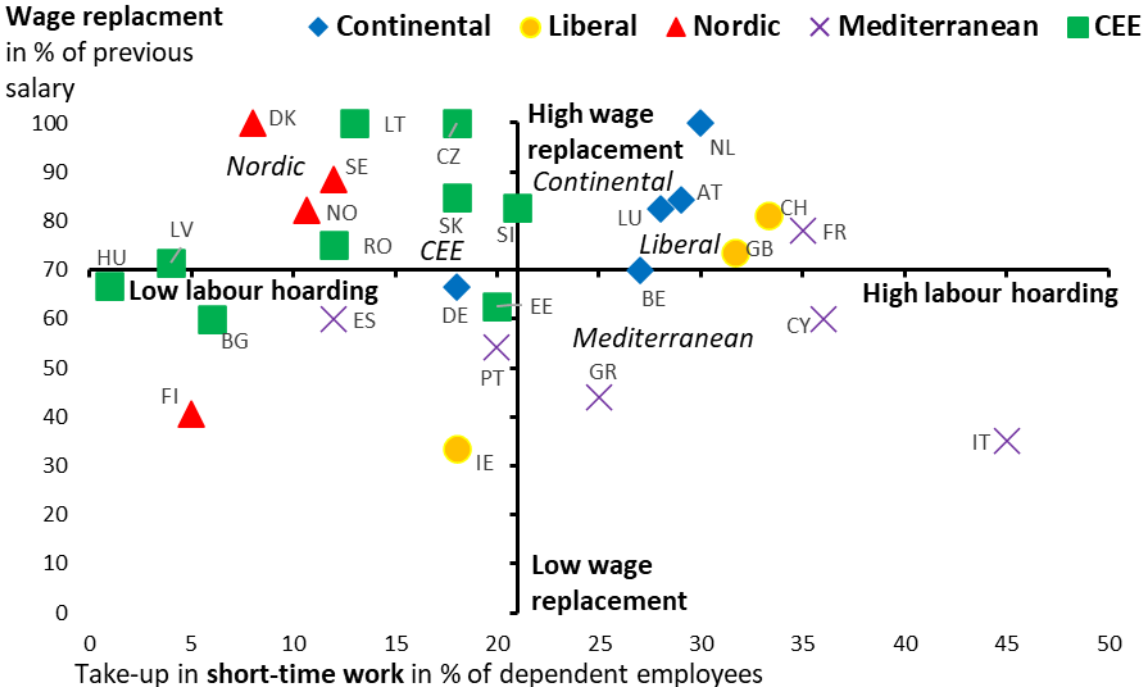
In contrast, governments following *the labour support logic* aim to cover employees' income losses to sustain popular support. However, we find no association between STW take-up and income replacement for workers. The non-existent relationship points again to the skewed power in the employment relationship: employers, not their employees, decide whether to put staff on short-time work or terminate the employment contract. The two logics, support for business and for labour, help to explain some of the theoretically counterintuitive developments given the path dependence expectations based on their welfare state regime.

Based on our comparative analysis, we propose the following mapping of the five welfare regime clusters in a stylized two-dimensional model with the reliance on labour hoarding on the horizontal and the generosity of STW benefits on the vertical axes (Figure 5). Although the figure includes benefit generosity (wage replacement rates for workers), it does not include labour costs to employers, but these were essentially reduced to zero in most Liberal, Continental and Mediterranean welfare states (cf. Table 1, countries on the righthand side of figure 5).

The Continental welfare states, in particular Germany, are a model of labour hoarding during crises whether during the Great Recession or the pandemic. Nevertheless, during the first wave of the pandemic, liberal welfare states, such as the UK and Switzerland recorded even higher numbers of furloughed workers. Liberal, Continental and Mediterranean welfare states relying on *the business support logic*

provided attractive conditions for business and reimbursing employers' labour costs (Table 1) that led to wide usage, indeed we see higher take up (horizontal axes in Figure 5). By contrast, Nordic welfare states relying on *the labour support logic* providing generous STW schemes in line with unemployment benefits have been ineffective in preventing unemployment through short-time work as STW take-up was rather limited and employers partly used dismissal instead. Most CEE countries used relatively sparingly short-time work (with the Baltics suffering more from increases in unemployment), neither policy design logic was strongly present explaining the low take up.

Figure 5: Mapping business support and labour support logics onto welfare state regimes



Note: Data refer to April/May 2020, STW take-up in % of employees (2019Q4), except for the Netherlands (March 2020) and Luxembourg (STW applications). Axes are placed at the average values.

Source: Own compilation based on OECD (2021a), Eurofound (2021a), and OECD (2020b).

### 4 Conclusion

In response to the Covid-19 pandemic, Europe responded to the employment shock by newly introducing or expanding job retention policies on a large scale. Almost all European countries managed to successfully implement job retention policies during the first wave of the Covid-19 pandemic in 2020. The STW take-up during the Great Lockdown exceeded by far the use during the Great Recession. The widespread diffusion of job retention policies across European countries - irrespective of their

welfare state regime - indicates an important policy innovation triggered by the specific nature of this crisis. Contrary to the United States, Europe was able to avoid a massive increase in unemployment due to a rapid roll-out of STW schemes. Europe's social model was sustained and – thus far – has substantially mitigated the negative social effects of the employment crisis.

Cross-national variations, nevertheless, continue to persist in the way in which these schemes were implemented, succeeded in labour hoarding and were sustained through the crisis, indicating the predominant path dependency of welfare states. Nevertheless, the crisis also brought a few divergent trajectories. Continental welfare states as the archetype of labour hoarding were this time joined by newcomers. Liberal welfare states with flexible labour markets provided generous support for labour and business, experiencing a massive reliance on costly furlough, especially in the United Kingdom and Switzerland. European funding via SURE allowed Mediterranean and few CEE welfare states to massively scale up their STW schemes, though the latter were more reluctant to do so (partly as they were less affected by the virus during the first wave). Thus, Continental and Mediterranean welfare states have overall relied on *the business support logic* and Nordic welfare states mainly on *the labour support logic*, while liberal welfare states followed both logics. However, most CEE countries failed to gain from either logic, showing lower take up during the first wave. Overall the job retention policy responses to the pandemic showed path-dependent patterns, though there were some cases of path departure. It remains to be seen whether any innovation from institutionalized patterns, in particular the UK's break with austerity, will last beyond this unprecedented crisis.

Our comparative analysis leads to questions left to future analysis. First, why did countries choose distinct policy responses? Our finding of policy legacies is a starting point for such an investigation but would require further analysis to understand the political decisions undertaken. Second, only in the future will we be able to explore the long-term impact of the distinct policy responses and to apply the two distinct logics to the subsequent use of job retention during later waves of the pandemic and future crises. Moreover, future research could investigate whether the differences in higher replacement rates for short-time work compared to unemployment benefits has led to the emergence of new inequalities associated with labour market segmentation (c.f. Naumann et al., 2020; Möhring et al., 2021). Are job retention policies inherently insider-oriented, while they might not benefit the more vulnerable groups? Which social risk groups are not benefitting from short-time work, for

instance, precarious migrants (c.f. Ban et al., 2021) and undeclared workers (Williams and Oz-Yalaman, 2021)?

As Europe emerges from the immediate health crisis, severe economic and social consequents are likely to last much longer. The 'NextGenerationEU' recovery plan will support the upswing through the first joint EU debt financing tool. To prepare for future crises, STW schemes could be further developed into a permanent tool available to prevent unnecessary mass dismissals and provide automatic stabilisation as an emergency Keynesian response during any recession (c.f. Corti and Alcida, 2021). The tool should address the concerns of social inequality, adapt to new social risks and support life-course related needs. Working time accounts could be used to rebalance changing needs of employees over their working lives (Boulin and Cette, 2013). Other proposals call for a wider-ranging work-life insurance system (Schmid, 2020). Government subsidies to compensate in large part for working time reduction have become a widespread and respected tool during the pandemic, also thanks to EU's SURE funding. Establishing permanent STW schemes could be part of a broader reform triggered by the 'Covid moment' (Crouch, 2022) leading to a 'pandemic paradigm shift' (Rubinić, 2020) to increase welfare state resilience and thereby strengthening Europe's social model.

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