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Short-time Work in Europe: Rescue in the Current COVID-19 Crisis?

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Abstract

More countries than ever are using short-time work as a labour market policy instrument to secure employment and limit the social costs of the current COVID-19 Crisis. Despite considerable differences in the institutional design and logic of short-time work schemes, the rapid deployment and high take-up of short-time work benefits is a high priority in all European countries. Highlighting the economic rationality of short-time work the report classifies European short-time work programmes into different clusters and describes significant changes in the programme design since March 2020. It further discusses possible effects against the background of empirical findings on short-time work from past times of crisis.

Zusammenfassung

In der aktuellen Corona-Krise wird in mehr Ländern als jemals zuvor Kurzarbeit als arbeitsmarktpolitisches Instrument eingesetzt, um Beschäftigung zu sichern und die sozialen Kosten der Krise zu begrenzen. Trotz erheblicher Unterschiede in der institutionellen Ausgestaltung und Logik von Kurzarbeitsregelungen hat der rasche Einsatz und eine hohe Inanspruchnahme von Kurzarbeitergeld eine hohe Priorität in allen europäischen Ländern. Der Beitrag beschreibt die ökonomische Rationalität von Kurzarbeit und ordnet die europäischen Kurzarbeitsprogramme in verschiedene Cluster ein. Er beschreibt wesentliche Veränderungen in der Ausgestaltung seit März 2020 und diskutiert mögliche Wirkungen vor dem Hintergrund empirischer Erkenntnisse aus früheren Krisenzeiten.

Keywords

Global health crisis, labour market policy measures, short-time work, unemployment, social security

1 Introduction

More countries than ever are using short-time work as a labour market policy instrument to secure employment and limit the social costs of the current coronavirus crisis. Not least due to the positive experiences Germany made in the financial and economic crisis of 2008/2009, short-time work is the labour market policy instrument of the day in 33 of the 36 OECD countries (OECD, 2020). The SURE[1] programme of the EU, which provides financial support amounting to € 100 billion for establishing and/or extending national short-time work programmes, takes up this positive experience of short-time work as an instrument for securing employment and as a macroeconomic stabiliser in times of crisis.

The objective of short-time work is mainly to get through phases of economic crises and to retain jobs. Companies are relieved of a considerable part of their payroll costs, which are mainly financed by public subsidies and in part by the respective salary losses of the employees. In Germany, companies can apply for short-time work for all or part of their employees from the Federal Employment Agency if they experience a temporary "considerable loss of work" (German Social Code III "SGB III", Section 96).

Despite considerable differences in the institutional design and logic of short-time work schemes, the rapid deployment and high take-up of short-time work benefits is a high priority in all European countries. Both, countries with established short-time work programmes such as Germany, Belgium, France and Italy, and countries that introduced special Corona programmes (such as Austria), have extended government support and simplified the eligibility requirements for short-time work. Preliminary figures from various European countries suggest that the use of short-time work will go far beyond any historic scale.

Highlighting the economic rationality of short-time work this report classifies European short-time work programmes into different clusters. The paper describes significant changes in the programme design since March 2020, depicts first developments of short-time work and unemployment, and discusses possible effects against the background of empirical findings from the recession of 2008/2009.

2 Economic Rationality of Short-time Work

From a theoretical point of view, short-time work provides incentives for companies in an economic crisis to "hoard" staff beyond the number, which would usually be optimal. This has the advantage that company-specific human capital (skilled workers) is retained, that firing and hiring costs are prevented, that the survival of companies with limited liquidity is secured, and social costs in the wake of lay-offs can be reduced. The government or the unemployment insurance will benefit as long as lay-offs can be avoided and salaries and social security contributions are still paid for part of the working time. In the event of a temporary loss of work, the instrument therefore

[1] SURE = Temporary **S**upport to mitigate **U**nemployment **R**isks in an **E**mergency

makes sense for all parties. The more temporary and the less structural the economic shock, the greater the advantages.

Short-time work also has disadvantages, in particular if structural factors are responsible for a difficult economic situation of companies. In that case, the instrument would hinder restructuration and sometimes a more sustainable labour market policy. In order to avoid unemployment, putting people in new jobs faster and using qualification measures might be more appropriate than artificially retaining jobs that have no future. If short-time work is granted over a longer period and there is a complete loss of work, short-time work can have a preserving effect on the employment structure. The structural change of the economy would then rather be inhibited. Economists speak of efficiency disadvantages due to a reduction in the reallocation of labour and a delayed withdrawal of unproductive companies from the market. Furthermore, there can be free-rider effects, for example, when companies first make use of short-time work just to later reduce staff they would have reduced anyway. In this case, short-time work would not be a sensible cushion for the economy, but rather a liquidity aid for companies and a kind of extended unemployment benefit for employees.

The more employers have to participate in bearing the costs of short-time work, the lower the potential free-rider effects. In the current crisis, a rapid implementation and a high utilisation of short-time work allowances have top priority. However, if employers are relieved by government subsidies and easier access to a greater extent than before, greater deadweight effects are more likely, which would then restrict the effectiveness of short-time work.

Moreover, the experience teaches us that easier access to short-time work also increases the risk of abuse, for example by companies providing false information on the actual loss of working hours. While it is true, that abuse is prosecuted (possibly even on the employees' side), the sharp increase in the number of applications for short-time work make checks more difficult.

3 New Regulations in Germany

A crucial challenge for the institutional design of short-time work regulations therefore consists in finding the right balance between making sure that the instrument is being widely used and being efficient at the same time by taking free-rider and abuse aspects into consideration.

An overview of the new regulations concerning short-time work allowance in Germany (see Infobox) shows that the requirements for using short-time work have become considerably better for companies.

Infobox: New regulations for short-time work allowance in Germany

With the Social Protection Package I ("Sozialschutzpaket I"), a number of temporary changes concerning short-time work have been adopted. They were enacted by the Law on crisis-related temporary Improvements of the Regulations Concerning Short-time Work ("Gesetz zur befristeten krisenbedingten Verbesserung der Regelungen für das Kurzarbeitergeld") of 13 March 2020. On this basis, the Ordinance Concerning Short-time Work Allowances ("Kurzarbeitergeldverordnung - KugV") was passed on 23 March 2020. The Social Protection Package II (Law on Social Measures for Fighting the Coronavirus Pandemic - "Gesetz zu sozialen Maßnahmen zur Bekämpfung der Corona-Pandemie") of 14 May 2020 stipulates further changes, e.g. an increase of the short-time work allowance ("Kurzarbeitergeld - KuG").

The various regulations and laws induce the following changes on:

- **Duration of the short-time work allowance**: For employees whose entitlement to short-time work allowance arose before 31 December 2019, the period during which they can collect allowances was extended up to 21 months, until 31 December 2020 at the longest. The regular benefit period used to be 12 months.
- **Amount of the allowance**: From the fourth month of working short-time onwards, employees whose working hours have been reduced by at least 50 percent can receive 70 percent - or 77 percent (if they have at least one child) of the loss of their net salary, estimated in a lump-sum.. From the seventh month onwards, they can get 80 percent or 87 percent (with children). Before, the amount used to be 60 (67 percent with children) for the entire period. This regulation is limited until 31 December 2020.
- **Reduction of the quorum of the employees of the company affected by loss of work.** The entitlement to short-time work allowance is extended to all companies where at least 10 percent of the staff suffer a loss of income. Before, a third of the staff had to be affected.
- **No accumulation of negative working hours.** For the payment of short-time work compensation, in companies where agreements concerning the use of working time accounts are in place do not have to accumulate negative working hour balances. Before, the respective leeway in the working time accounts had to be used up.
- **Complete refund of social security contributions by the Federal Employment Agency.** Security contributions during short-time work must be borne by the employer alone. In combination with further t (limited until 31 December 2020). The social raining activities they are refunded at 50 percent . In the 2009 recession, employers used to get a refund of 50 percent in the first 6 months of short-time work. The social security contributions must generally be borne by the employer alone. Whereas usually, the employer and the employee each bear one half.
- **Short-time work allowance also for Temp agency workers.** With a change in the Temporary Employment Act ("Arbeitnehmerüberlassungsgesetz"), agency workers are now also eligible for short-time work benefits .The possibilities to top up short-time work benefits by **earnings** in essential sectors of the economy "were even expanded as of 1 May 2020. Until the end of the year, short-time workers can now earn money on top of their allowance to the full amount of the monthly income they had before without deductions in all sectors of the economy. Income from a Mini-job is always without deduction.

4 Institutional Arrangements of Short-time Work in Different European Countries

How to assess the above described changes in the international context? How do they compare to adjustments of similar programmes in other countries? While the objective is the same in all countries, the institutional design and the underlying logic of short-time work regulations differ significantly. This is already reflected in the terminology used. While the expression “short-time work” is mainly used in German-speaking countries, in Belgium, France, the UK and the Netherlands the expression “temporary or partial unemployment” is rather used (Table 1).

Currently three systems of short-time work can be identified in Europe:

1. In countries with a long tradition of short-time work such as Belgium, Germany, France, Spain or Italy, access was made easier and/or the amount and period were extended. This also applies to Central and Eastern European countries like Hungary, Poland or the Czech Republic, where short-time work has been introduced in the context of the economic and financial crisis of 2008/2009.
2. In countries like Austria or the Netherlands, which also have many years of experience with short-time work, the existing regular programmes were replaced by temporary Corona short-time work programmes, which are considerably more generous than the regular short-time programmes.
3. Countries without established short-time work programmes such as Denmark, Ireland or the UK also implemented temporary special programmes.

The design of short-time work programmes is very different in the three groups of countries. While traditional short-time work programmes (in the first group of countries) stress the reduction of the daily or weekly working hours, countries (of the third group of countries) without any established short-time work programmes rather focus on supporting employees who do not work at all over a longer uninterrupted period of time. In the second group of countries, which use a kind of mixture of rule-base and special COVID-19 short-time work programmes, there are still e.g. minimum requirements on the r the loss of working time. In Austria, for example, a requirement for receiving short-time work allowance is that the beneficiaries work at least 10 percent of their regular working time. However, this applies to the entire period of short-time work of three months so that the working hours can in fact be temporarily reduced to zero t (“short-time work zero”). Furthermore, Corona short-time work must be justified economically, just like in Germany, and the works council or - in companies that do not have a works council - the employees must give their consent.

Although the intention of all short-time work programmes - be it temporary special programmes or established short-time work programmes - is the same, the way they are organised differs considerably. In the following, the German programme is compared to short-time work programmes in other countries regarding the amount and duration of benefits, the funding of the scheme , eligibility requirements and the employers’ cost participation, as well as protection against layoffs, the requirements for job seeking and for promoting further training.

For the employees who suffer a loss of work, the amount of the allowance and the question for how long it will be paid is of utmost importance. The following table provides an overview of current regulations for selected countries with regard to the amount and period of benefit payments and how they are financed.

Table 1: Amount of allowance, duration and financing

Country	Designation	% of the net salary	% of the gross salary	Duration in months	Financing
AT	Corona Kurzarbeit (Coronavirus Short-time Work)	80 – 90*		3 +3**	Government subsidies on unemployment insurance
BE	Chômage Temporaire (Temporary Unemployment)		70 % + € 150 / month ~ € 2750 max.	12	Relief fund of the unemployment insurance
DE	Kurzarbeit (Short-time Work)	60 - 67 % from the 4th month onwards: 70 % (77 % with children), from the 7th month onwards: 80 % (87 % with children) in case of a work loss of more than 50 %		12***	Unemployment insurance
DK	Lønkompensation (Salary Compensation Scheme)		75 % 90 % for employees paid on an hourly basis € 3,500 max.	3	General tax revenues****
FR	Chômage Partiel (Partial Unemployment)	84 % 100 % for minimum wage max. 4.5 times the minimum wage	70	6+6**	Government subsidies on unemployment insurance
ES	Expediente de Regulación Temporal de Empleo - ERTE (Temporary Regulation of Employment)	70 % 50 % after 6 months		24	Unemployment insurance**
NL	Noodmaatregel Overbrugging voor Werkbehoud – NOW (Temporary Emergency Measure for the Preservation of Jobs)		100	3	Government subsidies to UWV (social security)
IT	Cassa Integrazione Guadagni - CIG (Salary Guarantee Fund)		80	12+12**	Wage guarantee fund
GB	Corona Job Retention Scheme	80 £ 2.500 max.		3+1**	General tax revenues

* 80 percent of the net income at a gross salary of € 2.685 to € 5.370, 85 % of the net income at a gross income between € 1.701 and € 2.685; and 90 % of the net income for a monthly gross income of up to € 1.700;

** can be extended by the indicated number of months by means of a legal regulation

*** can be extended to 21 months (see infobox)

**** In Denmark, employees must contribute 5 days of their annual leave, in Spain 2.5 days/month

Source: Own compilation

4.1 Amount of the Allowance and Duration of the Programme

- *Standard amount of allowance and duration of the programme:* In countries like Denmark, the Netherlands, the United Kingdom, and Austria, which introduced special programmes in the context of the Corona crisis, the short-time work allowance is comparatively high, but (for the time being) it is limited to three months. In countries where the short-time work allowance amounts to only 60 - 70 percent of the net or gross income, the money is paid out for a longer period of time: in Spain for two years, in Germany and Belgium for twelve months, and in France initially for six months
- *Net or gross income:* The amount of the legally defined short-time work allowance can refer to the net or gross income. In most countries the basis for the calculation is the gross income that would usually be subject to taxes. On the net side, this may result in a higher salary compensation if the short-time work allowance is tax-free, like in France.
- *Minimum and maximum amount:* In France, the statutory minimum wage is the absolute lower limit. Minimum wage earners are compensated by 100 %. In Austria, too, people with low income are granted a higher proportional short-time work allowance for a limited period from the coronavirus short-time work programme. In Denmark, people with low income get 90 instead of 75 percent of their gross salaries. In a number of countries (France, Belgium, Denmark, and the UK), there are also upper limits for the short-time work allowance.
- *Social grading:* In Germany and in Belgium, there is no socially graded increase of the short-time work allowance. In Belgium, a lump sum of € 150 per month is paid to all short-time workers. In spite of controversial debates, no social grading could be agreed on in Germany. In the context of the Social Protection Package II, which was passed on 14 May 2020, provides step-by-step increase for all workers from the fourth month onwards to 70 percent (77 percent with children) and to 80 percent (87 percent with children) of the salary if the loss of work is more than 50 percent.
- *Top-ups from employers:* In contrast to countries with high wage replacement rates, the short-time work allowance in Germany can be topped up by collective bargained agreements in certain sectors or voluntarily by employers. While the metal and electrical industry or the chemical industry have had collective agreements in place for some time, such agreements were only agreed during the Coronavirus crisis in other sectors, for example, in the system catering industry. In the traditional low-pay sectors, however, there are often no additional payments from collective bargaining agreements on top of the public short-time work allowance. According to a recent survey by the Hans Böckler Foundation, 21 percent of the surveyed 7,600 workers who have a net household income of less than € 1,500 work in companies who top up the short-time work benefits. On the other hand, 40 percent of the workers with a net household income of € 4,500 work in companies where the short-time work allowance is topped up (Schulten/Müller, 2020; Press service of the Hans Böckler Foundation, 2020).
- *Eligible workers:* In many countries, the regulations for short-time work are also extended to atypical workers, like Temp agency workers in Germany or domestic workers in France. In Italy, where only 1/3 of all employees had been covered by various funds before, short-time work has now been extended to all workers and all sectors. In Germany and Austria, Mini-job-

bers are still excluded from short-time work benefits, since they do not contribute to the unemployment insurance scheme. This also applies to the self-employed, who do not contribute voluntarily to the unemployment insurance. Out of the 1.9 million self-employed, only 74,000 are insured in Germany on a voluntary basis and, thus, eligible for short-time benefits.

4.2 Funding and Cost Participation by Employers

Short-time work benefits are funded by the unemployment insurance and/or government subsidies to the unemployment insurance or by the general national budget (tax revenues). The source of the funds plays an important role with regard to eligibility and access criteria such as the economic situation of the company, requirements with regard to the required loss of working hours or remuneration, involvement of works councils or the consent of the employees. It also determines both the administrative procedures and the employers' participation to the costs of short-time work.

- *1st group of countries:* In countries with long-standing regulations on short-time work, the short-time work compensation itself is not a public benefit to the employer, but a benefit paid by the unemployment insurance (see Table 1) to the workers affected by short-time work. They must have an employment contract subject to social security, since the short-time work benefits are usually financed out of the contributions of employers and employees to the unemployment insurance. A special form exists in Italy, where short-time work allowances are paid from the Salary Guarantee Fund CIG (Cassa Integrazione Guadagni). Employers pay between 1.9 and 2.2 per cent of the sum of monthly gross salary into the fund, depending on their number of employees. This covers between 92 to 96 percent of the costs for short-time work compensation, the rest must be borne by the employers.
- *2nd group of countries:* In the group of countries with rule-based systems plus current special programmes, the time-limited special Coronavirus programmes are financed by subsidies to the unemployment insurance and managed by the unemployment insurance. In Austria, short-time work grants are currently financed by the national budget, without employers contributing to the costs. In addition, special payments and other salary-related payments (so-called remanence costs) such as pro rata holiday and Christmas bonuses are also compensated through the tax budget by a lump sum. In the Netherlands, the share paid by the government is linked to the expected losses in the corporate sales figures and can vary between 22.5 and 90 percent.
- *3nd group of countries:* In countries without any established short-time work programme, the benefits are financed out of the general tax revenues and are usually paid directly to the affected workers. Employers must participate in the costs of the programme to a varying degree to avoid free-rider effects. In Denmark, 25 percent of the short-time work allowance are borne by the employers, and the employees must also participate in the costs by bringing in five days of the annual vacations.
- In Germany, short-time work compensation is not only managed by the unemployment insurance (Federal Employment Agency), but (up to now) has also been exclusively financed from the contributions of employers and employees. Employers are relieved by the new short-time

work allowance regulation to a greater extent than before, as social security costs are completely reimbursed (i.e. including the employee contribution). However, in contrast to Austria, employers in Germany are left with the remanence costs such as pro rata holiday and Christmas bonuses, company pension schemes and other collectively agreed benefits. Calculations of the IAB (Bach/Spitznagel, 2009) show that the remanence costs without the reimbursement of the social contributions were in the past at 46 to 59 percent of the usual wage costs. In case of a 100 percent refund, they were still at 24 percent. However, these estimations refer to the manufacturing industry. For small and medium-sized service companies the remanence costs are probably lower.

4.3 Protection against Lay-offs, Requirements for Job Seeking and Further Training

To prevent employers who receive short-time work compensation for their employees from lay-offs, a number of countries have introduced regulations for employment protection during and after the end of short-time work. Different regulations to reduce free-rider effects have to be regarded as (partially) substitutive. This concerns regulations such as the protection against lay-offs, the use of annual leave entitlements or credits on working time accounts as well as the regulations on employer participation in the costs for short-time work compensation.

- *Protection against lay-offs:* While in Germany, lay-offs due are still possible during short-time work, Austria has combined the receipt of short-time work benefits with employment protection during short-time work and one month afterwards (2 months from the 4th month onwards). Similar regulations on employment protection also exist in France, Italy, Denmark, the Netherlands, and Spain, each with different terms. In Spain employment protection is effective for 6 months after the end of short-time work.
- *Working time credits:* In Germany, in companies with agreements on working time accounts do not have to accumulate negative working hours from now on, but just like in Austria, holiday entitlements and working time credits must be used up beforehand.
- *Availability and job seeking:* Stricter requirements regarding availability and job seeking during short-time work are in place in countries with short but relatively generous programmes such as Denmark or the UK. The respective regulations are combined with the aim of more quickly putting the affected workers in jobs that have a promising future once the (usually) three months lasting short-time work schemes have expired.
- *Further training:* Countries with a longer programme duration are usually linking short-time work with the promotion of further training. In Germany, the Federal Employment Service is supporting further training during short-time work periods. It is possible to support further training e in the framework of the Qualification Opportunities Act ("Qualifizierungschancengesetz"), so that under certain circumstances, the employer receives a wage subsidy ("Arbeitsentgeltzuschuss - AEZ") instead of short-time work compensation. In France, the costs for further training during short-time work are now subsidised by up to 100 percent. In other countries, however, no further subsidy options have been introduced, although the acceleration of digitalisation processes would provide a good opportunity to fill gaps e.g. in IT skills to increase the employability of workers and reduce their risk of future unemployment.

5 Interim Conclusion

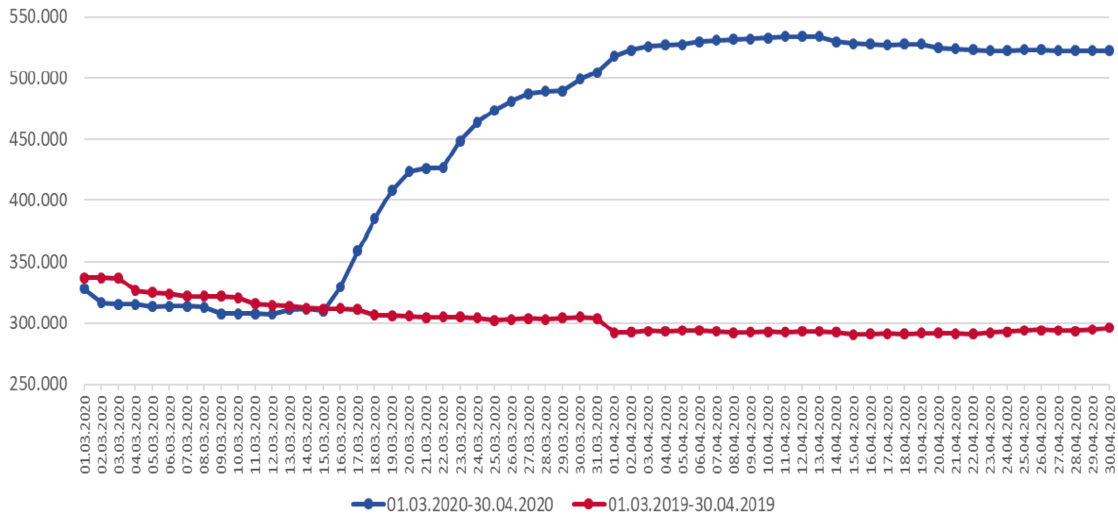
In summary, the country comparison shows that a common feature of short-time work programmes, which differ in logic and design, is that the amount and the duration of support for employees has been expanded, access to short-time work has been simplified and companies have been relieved in their participation in the costs. In some countries, short-time work programmes have been introduced for the first time. As a result, the utilisation of these programmes have increased significantly in all countries, especially in small and medium-sized service providers (hotels and restaurants, tourism organisations, hairdressers, laundries, car dealers), which are heavily affected by the lockdown and by a declining demand. Another characteristic that applies to all countries is the extension of short-time benefits to more groups of workers and more sectors of industry.

6 Current Development of Short-time Work and Unemployment

The simplified access has led to an enormous increase of short-time work in the current crisis. The number of companies and of workers affected by short-time work is already well beyond any historical standards. Short-time work was announced in Germany and Austria for every third employee subject to social security contributions at the end of April 2020 (10.1 million in Germany, 1.2 million in Austria) even though the actual use and the volume (extent of the reduction in working hours) are likely to be lower in the end. By end of April 2020, in Belgium were 23 percent (1.25 million) and in France even 40 percent (10 million) of all employed persons affected by short-time work.

A glance at the current development of unemployment and short-time work in Germany and Austria shows asynchronous developments. While in Austria, unemployment abruptly increased by almost 70 percent between 16 March and 2 April (Figure 1), the increase stopped mid-April 2020 and is steadily decreasing since then. In Germany, in contrast, unemployment increased somewhat later, - from March to April - by 308,000 workers, i.e. about 13 percent and in May by 6.4 percent. Part of the increase is due to the fact that less people were integrated in measures carried out by the employment agency, so there was an exchange between people in measures (*Stille Reserve in Maßnahmen*) and those in unemployment.

Figure 1: Unemployed reported to the Austrian Labour Market Service AMS from 1 March to 30 April 2020



Source: AMS Austria - special analysis

The different development of unemployment in Germany and Austria might in part be due to the Corona short-time work programme introduced in Austria on 21 March 2020. The programme is considerably more generous (80 - 90 percent of the net income) as compared to unemployment benefits (55 percent of the net income). Consequently, expenditures for the Corona short-time work scheme have increased dramatically. Within four weeks, the short-time work budget of the Austrian Ministry of Finance had to be increased by more than tenfold (from € 400 million to € 5 billion).

The t decline in unemployment in Austria since mid-April 2020 (see Figure 1) is also related to the beginning of the loosening of the confinement measures. The fact that a further rise in unemployment has come to a standstill must be assessed positively for the time being, since the jobs and income of around one million workers have been secured - at least in the short run. It will only become clear in retrospect whether short-time work has been a cyclical shock absorber or rather has been preventing an effective reallocation of labour in favour of essential sectors. In this context, it is of particular interest to see in the end which design features have proved to be effective. Empirical findings on the effect of short-time work during the Great Recession of 2008/2009 may provide certain clues to answer this question.

7 Empirical Findings on the Effects of Short-time Work

Most studies on the effects of short-time work during the Great Recession of 2008/2009 confirm that short-time work helps companies to cope better with the crisis. Hijzen and Venn (2011) estimate that especially in Germany (580,000), Japan (445,000) and Italy (130,000) jobs were secured by short-time work. In almost all countries, however, more workers were affected by short-time work than jobs were saved. Moreover, in many countries the positive effects have often been limited to workers on permanent employment contracts aggravating the segmentation between workers in regular jobs and workers in atypical employment such as temporary or fixed-term employment (European Commission, 2010).

There are only single findings concerning the influence of individual regulations on the effectiveness of short-time work, in the sense of securing employment while taking deadweight and crowding-out effects into account. In a study that compares the effects of short-time work in Italy with those in Germany, Boeri/Brücker (2011) conclude that the lower free-rider and crowding-out effects in Germany can be explained by a relatively high participation of the employers in the costs of short-time work. The insurance-based short-time benefit is financed entirely by contributions from employers and employees. Further, the German scheme provides low incentives for a one hundred percent reduction in working hours ("short-time work zero").

Experiences with short-time work during the restructuring of the East German economy have shown clearly that if there are no prospects for permanent employment, short-time work cannot secure jobs in the long term. After the German reunification in 1991, the instrument reached its peak with almost 1.8 million employees on short-time work (the vast majority of them in East Germany). However, this instrument, which was designed to alleviate temporary lack of job opportunities, could only cushion job reduction in the former GDR for a short time. Most short-time workers later got unemployed, retired early or were placed in active labour market policy measures. If structural change is unavoidable, short-time work only delays it. This was also the case in Italy after the financial and economic crisis of 2008/2009. In contrast to Germany, short-time work was also used there to overcome structural problems at that time (Boeri/Brücker, 2011).

7.1 Lessons Learned from the Past for the Current Crisis

Can findings from empirical studies on short-time work be transferred to the current crisis or do short-time work programmes have a different effect this time compared to 2009? Firstly, the nature of the crisis is different. While at that time it was primarily a crisis of demand that mainly affected the manufacturing industry, now all sectors are affected, especially small and medium-sized service companies with limited liquidity. When an extended lockdown combined with business closings or a significant decline in demand leads to more insolvencies, this cannot be prevented by short-time work. Moreover, in many of the affected sectors it is less likely that companies would "hoard" employees. Furthermore, there had been structural problems in the manufacturing sector, especially in the automotive industry, even before the COVID-19 shock. Eventually however, the most decisive question is whether the shock is indeed temporary or whether it will grow into a systemic crisis, which would mean enormous and long-lasting damages to the economy (see IAB Forum of 24 April 2020).

7.2 Recommendations for the Optimal Design of Short-time Work

Against this background, the recommendations for the optimal design of short-time work, which have received a lot of attention in the scientific community, must be treated with caution in the current crisis. For Giupponi/Landais (2020), the crisis triggered by a health shock is a kind of textbook example of a temporary shock during which the use of short-time work proves to be particularly beneficial if a number of design features are implemented: in a temporary crisis, the focus should be on maintaining employability. Short-time work allowances should be higher (80 - 90 percent) than unemployment benefits in order to reduce the incentives for lay-offs and to maintain the demand for consumer goods. Furthermore, the short-time work allowance should be granted for the entire period of the crisis, the reduction of working hours should be organised flexibly, and wage subsidies in essential sectors should be used as an incentive for reallocation. The programmes should be temporary. After the crisis, the normal rules should be re-installed and the recovery phase should be accompanied by demand programmes. However, important aspects such as the participation of the companies in the costs of short-time work were not considered by Giupponi/Landais (2020). If the companies are relieved to a large extent, there is a risk of free-rider effects in the short and long term, which would limit the effectiveness of short-time work.

Many of the proposals made by Giupponi/Landais (2020) and based on the available empirical evidence have already been implemented in the new regulations for short-time work in Germany. For example, it is ensured that short-time work benefits are financed for a longer period and that the reduction in working hours is not generally reduced to zero, but is managed flexibly. In addition, the possibilities for earning money on top have been extended. For short-time workers, additional earnings are not taxed away until the sum of the short-time work allowance plus side job reaches the level of their previous net income. “Mini-jobs” are always exempted from taxation. With regard to the recommended increase in short-time work allowance to 80 - 90 percent of the net salary, there is probably a fundamental conflict of interests in the insurance-based German model. Short-time work and unemployment benefits are considered interrelated systems that mitigate short-term income risks due to the loss of work but also contribute to resuming work in the previous company or elsewhere as quickly as possible. According to this logic, an increase of the short-time work allowances to 80 percent would have to result in an increase in unemployment benefits to 80 percent if short-time work benefits were not to be considered as an extended, generously funded unemployment benefit. The politicians found a compromise solution linking a temporary increase in short-time work allowances from the 4th or 7th month with a temporary extension of the duration of unemployment benefits by three months.

8 Conclusion

A rapid implementation and a high utilisation of short-time work allowances have top priority in the current crisis. In the short term, the focus is on limiting the social costs of the crisis. Irrespective of the specific institutional arrangement, many countries have extended government support and simplified the requirements for receiving short-time allowance. However, simplifications also entail higher risks of free-riding and abuse. Short-time work compensation might sometimes be misused as liquidity support by companies charging for a higher loss of working hours than actually incurred, for example. In order to keep the effects of abuse as low as possible, careful examination of each application should not be omitted, even in the current situation.

To assess the effectiveness of short-time work for securing employment and income, a large number of design characteristics discussed in this paper must be taken into account. An international comparison of short-time work regulations, which one-dimensionally focuses on the amount of the benefits, for example is, however, misleading. The lessons learned from the Great Recession of 2008/2009 prove this. Retrospective studies have to evaluate the effects from the new regulations with regard to securing employment and avoiding unemployment in the longer term. They also have to assess which individual regulations are associated with higher deadweight and abuse effects. However, the decisive factor across all countries will probably be whether the shock is indeed temporary or whether it grows into a systemic crisis (Weber et al., 2020). It also becomes problematic when structural problems are concealed (e.g. decarbonisation, new drive technologies). In these cases, short-time work cannot secure jobs in the longer run.

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