

Short-Time Work or Unemployment? On the role of individual traits and job-related features during COVID-19

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Abstract

The COVID-19 crisis exposed individuals, firms, and self-employed to unforeseen, sizeable, and long-term revenue and product demand declines, caused by the mandated economic activity reduction. The risk of high unemployment rates, as well as the risks of businesses losing significant human capital and going bankrupt, prompted the widespread adoption of *Short-Time Work* (STW) in European labor markets. STW is a government program that subsidizes employees' reductions in working time in response to temporary economic shocks. The scheme aims at avoiding excessive layoffs and, therefore, ensures eligible firms and employees from the unemployment risk and its fallouts. According to our elaborations of Eurostat Labor Force Survey (ELFS) data, an average of more than 8% of the working-age population in 21 countries with a formal STW system relied on the policy in the second quarter of 2020, the pandemic's initial peak. Nonetheless, for this set of countries, the shares of the working-age population on STW and unemployment display a *positive* correlation coefficient of 0.57 for the pandemic period. This conclusion not only contradicts the inverse correlation of -0.007 for the Great Recession but also confutes the hypothesis that increased STW support might reduce the likelihood of unemployment.

To this end, this paper investigates the *individual* and *work-related* features of employed individuals on STW and the unemployed. It focuses on who are STW beneficiaries during the COVID-19 crisis to better understand STW's potential to target the most vulnerable economic groups in the hardest-hit sectors and occupations. Then, it detects differences in demographic groups and jobs on STW and unemployment to determine whether specific groups suffered an increase in joblessness because of lacking STW support or the firm's decision not to uptake this policy tool for them.

This study fills the scant evidence on who are STW-insured employees and on the dimensions along which they diverge from the unemployed. Giupponi et al. [2022] show that STW primarily protected insiders, individuals with higher incomes, and better self-insurance options in Germany during the COVID-19 crisis. Individuals on unemployment were, on the contrary, mostly outsiders: younger individuals at the beginning of their careers, individuals with lower education, and with fewer resources to smooth household consumption, such as the presence of a working partner. Hijzen and Salvatori [2022] evaluate changes in the transition probabilities – to non-employment and STW - during COVID-19 for different socio-demographic groups while controlling for sectoral and occupation different compositions and uneven exposures to the economic shock. Exploiting the longitudinal structure of the Swiss LFS data, they exhibit that low-educated and workers on fixed-term contracts faced, between the first and second quarters of 2020, a larger risk of non-employment and a lower probability of being placed on STW, compared to medium- and highly-educated workers and workers on open-ended contracts. By gender, they find that women were more likely to transition to non-employment and be placed on STW than men and part-time workers. Across age categories, none of the groups saw a large increase in non-employment, but only a small increase in the probability to be placed on STW.

This study relies on ELFS microdata for 21 European countries that had a formal STW system in place during the COVID-19 period: Austria, Belgium, the Czech Republic, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, the Netherlands, Norway, Poland, Portugal, Slovenia, Slovak Republic, Spain, and Switzerland. Individual responses of the working-age population for the second quarter of 2020 are examined. Individual variables determining socio-demographic characteristics include gender, age, education, marital status, and household income decile, whereas job-related features encompass occupation and economic sector, contract duration (i.e. open-ended versus fixed-term), and type (i.e. full-time versus part-time). Employees on STW are those

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who reported not working at all or working less than normal during the reference week due to a lack of activity for technical or economic reasons, but who were nonetheless formally attached to their job. Individuals who reported not working due to layoffs are classified as unemployed. For the pooled set of countries, sample average differences in individual and job-related characteristics of STW-insured employees versus unemployed are quantified. A cross-country analysis is then performed to identify exceptions or countries where such disparities are more pronounced.

Preliminary findings reveal that employees on STW and unemployed were *distinct populations* based on socio-demographic traits, however, they worked in *similar* industries and occupations. Prime-age and elderly workers, highly educated, married individuals with higher household incomes were, on average, significantly more represented in STW than in unemployment. Middle-age and old employees were 10.6% and 5.9% more in STW than unemployed, respectively. The sample difference for highly-educated stands at 5.7%, for married individuals at 14.5%. The sample difference between the shares of women on STW versus unemployment is rather small and amounts to 1.1%. On the contrary, youths, as well as low- or medium-educated individuals were significantly over-represented in unemployment (i.e. with a sample difference of 16.5% for youths, 1.8% for low-educated, and 4% for medium-educated). 84.2% of employees on STW had an open-ended relationship, whereas 78.4% had a full-time contract. STW-insured and unemployed individuals were primarily concentrated in the hospitality and art industries, the construction and manufacturing sectors, and in transportation and wholesale operations. STW and unemployment were also more prevalent among blue-collar workers in services and sales, primary and technical vocations, and plant and machine operators. This picture is consistent among the countries studied, except for the Netherlands and Norway. In the first country, STW sheltered to greater extent workers on fixed-term and part-time contracts. In the latter country, STW targeted less old and highly educated employees, rather over-represented in unemployment, but targeted only open-ended and full-time contracts. Finally, Belgium, France, Germany, Greece, and Switzerland are the countries for which employees on STW and unemployed individuals diverged the most along the individual and work-related traits examined.

Key words: *Short-Time Work, unemployment, labor force survey*

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