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Better constrained in the corset of an insurance logic or at the whim of a liberal presidential system?

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Abstract

The effects that the economic crisis triggered by COVID-19 is having on unemployment could hardly differ more than in the United States and Europe. This divergence also applies to the political reactions to it. Whereas the 27 member states of the European Union (EU-27) managed to keep unemployment in check largely through heavy reliance on short-time work or similar measures, the United States has been experiencing mass unemployment reminiscent of the Great Depression of 1929/1930. Instead of short-time work, the United States has resorted partly to massive social transfers for certain groups of the unemployed, which may temporarily even raise some incomes to levels above those offered by employment. However, the social problems and the limits of economic policy associated with short-time work in the EU-27 are becoming increasingly apparent and unemployment is rising steadily, in particular among vulnerable groups. It is not yet clear which of these two economic and social systems will cope better in the long term with the industrial transformation that the crisis is accelerating. This essay argues that the European approach promises a more humane and effective solution to the crisis, but only if the European Union and its member states find a way to combine short-time work with more forward-looking labor market and social policies. It suggests that they could learn from some of the strengths of the U.S. system to improve the interaction between the federal government and the states.

Keywords:

Unemployment, short-time work, structural change, risk-sharing, USA, Europe, COVID-19

Arbeitslosigkeit in Europa und den USA unter Covid-19. Besser im Korsett einer Versicherungslogik eingeengt oder den Launen eines liberalen Präsidialsystems ausgeliefert?

Zusammenfassung

Die Auswirkungen der von COVID-19 ausgelösten Wirtschaftskrise auf die Arbeitslosigkeit könnten kaum unterschiedlicher sein als in den USA und Europa. Das gilt auch für die politischen Reaktionen: Während die 27 Mitgliedstaaten der Europäische Union (EU-27) die Arbeitslosigkeit bisher weitgehend durch massiven Einsatz von Kurzarbeit oder ähnlichen Maßnahmen in Schach halten konnte, herrschte in den USA zeitweilig eine Massenarbeitslosigkeit, die an die Große Weltwirtschaftskrise 1929/1930 erinnerte. Statt mit Kurzarbeit reagierten die USA u.a. mit massiven Sozialtransfers für bestimmte Gruppen von Arbeitslosen, die manche Einkommen kurzfristig sogar besserstellen als bei Beschäftigung. Umgekehrt werden die sozialen Probleme und die wirtschaftspolitischen Grenzen der Kurzarbeit in der EU deutlich sichtbar, und die Arbeitslosigkeit steigt zunehmend, insbesondere für benachteiligte Gruppen auf dem Arbeitsmarkt. Es ist also noch nicht ausgemacht, welches dieser beiden Wirtschafts- und Sozialsysteme langfristig den durch die Krise beschleunigten Strukturwandel besser bewältigen wird. Dieser Essay argumentiert, dass der europäische Ansatz eine humanere und effektivere Lösung der Krisenbewältigung verspricht, aber nur, wenn die EU und ihre Mitgliedstaaten einen Weg finden, die Kurzarbeit mit mehr vorausschauender Arbeitsmarkt- und Sozialpolitik zu kombinieren und von einigen Stärken des US-Systems hinsichtlich der Interaktion zwischen Föderation und Einzelstaaten zu lernen.

Schlüsselworte:

Arbeitslosigkeit, Kurzarbeit, Strukturwandel, Risikoteilung, USA, Europa, COVID-19

Contents

Introduction[1]

The question posed in the subtitle sounds quite European if not Germanic: Is it better to be constrained in the corset of an insurance logic or to be at the whim of a liberal presidential system? [2] During the last decades, most member states of the European Union (EU) developed a welfare state based more or less on the principles of social insurance. The core of this system are ex-ante risk sharing through contributions of employers and employees combined with state funding, as well as benefits equivalent to these contributions often with minimum provisions. The system also assumes continuous but slow and manageable structural change and fairly regular business cycles. Of course, there are numerous varieties of the EU's social security systems and industrial relations.[3] But a simplification is useful for contrasting "social-market Europe" and "liberal-market United States", and it is justified in light of the solemn declaration of the European Pillar of Social Rights (European Commission, 2017), which specifies the common social policy values to which all member states have subscribed. Social convergence across the EU should progress as far as member states and the Union put these commitments into practice. This is not to say that social and labor policies are irrelevant in the United States, but the system there relies far more on ad-hoc measures in deep crisis, whereas regular social support for the unemployed, for example, is fairly limited, considering that it is one of the richest economies in the world. Nevertheless, labor markets and labor market policy in Europe are still largely uncoordinated, and the EU still lacks redistributive sovereignty despite the establishment of a Eurozone with 19 of the now 27 members. These factors might create serious problems when the region is confronted with pandemic-like external shocks.

The Great Recession in 2008/2009 and the COVID-19 pandemic reveal not only the benefits but also the limits of a mostly social insurance-based welfare state. In the initial phase of responding to the current pandemic, short-time work (STW) and similar measures prevented a drastic slump in employment in the EU, whereas the U.S. labor market showed

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1 This is an updated and extended version of Fischer & Schmid (2020). We would like to thank David Antal for the excellent translation of the first German version and his rapid editing of this version, and Barbara Schlüter for bringing all into the nice shape of a discussion paper. We are also very grateful to Eileen Appelbaum and Christiaan Luigjes for careful reading, helpful and highly valuable comments to which we could only partly respond in a satisfactory way. We welcome further comments.

2 We use the term "liberal" to characterize the U.S. economic system according to the literature on varieties of capitalism, (e.g., Hall & Soskice, 2001). Thus, we are not using the term in the sense of the U.S political discourse, in which "liberal" is connoted with "left" or even "socialist".

3 For classics see Esping-Andersen (1990) and Hall & Soskice (2001).

signs of catastrophic mass unemployment. However, the greater flexibility in the U.S. economic system might – in the long-term – turn out to manage this crisis better in terms of labor market efficiency, in particular concerning the quantity of jobs, although probably not in terms of job quality and unlikely in terms of equity.

Against this backdrop we shall structure this essay as follows: First, we describe how – although countries are all, in principle at least, equally affected by COVID-19 – the European and the U.S. labor markets have reacted quite differently, reflected in particular in terms of unemployment. Recognizing that officially measured unemployment may hide various kinds of underemployment, we briefly touch the issue of hidden unemployment. Second, we take up the issue that many labor experts in the United States eagerly look at, namely short-time work (STW) or work sharing as an alternative to mass-unemployment. We explain the advantages and disadvantages of STW by drawing on the example of Germany, with which we are most familiar. Third, we report the already visible effects of the COVID-19 crisis on the two labor markets and examine the data relating to the most important risk-groups to be addressed by future policies, namely youth and the low-skilled members of the workforce. Fourth, we briefly compare the policy reactions, in particular their past dependency on previous crisis management (insurance related vs. discretionary measures) and pandemic-driven innovations. Fifth, we pose a series of questions: whether Europe and the United States can learn from each other, what general lessons can be drawn from COVID-19, and which concrete measures should be taken to master this exceptional crisis by envisioning a move from unemployment insurance towards employment insurance. We conclude that the European approach promises a more humane and effective solution to the crisis, but only if the EU and its member states find a way to undertake fairly fundamental changes in their welfare state system. To this end, they could try to learn from some of the strengths of the U.S. system, particularly in regard to the interaction between the federal government and the states.

1. One COVID-19 world, two labor market worlds

During the Great Recession in 2008/2009, at the latest, the fundamental difference between the European and U.S. labor markets became clear. Figure 1 below shows the labor market adjustment to a decline in GDP in the United States, in the EU, and in some EU countries in the form of reduced employment and reduction of hours worked (intensive absorption). In 2009 hours worked in the United States actually increased and all labor market adjustment happened through reduction of employment, whereas in Europe roughly two thirds of adjustment happened in hours and one third in reduction of employment. In 2020 the pattern was similar, but in Europe the contribution of hours was even more marked.

This analysis was carried out by the European Commission for its yearly report on European Employment and Social Development 2020, based on the ECFIN Spring forecast and before the depth of the second wave recession was fully known (European Commission, 2020). Nevertheless, it illustrates clearly the role of adjustment in working hours in Europe versus lay-offs (including temporary ones) in the USA. It also shows that many European countries – not just those that classically use STW (*Kurzarbeit*) – reduced working hours substantially, including France and some in central and eastern Europe. Apart from STW, working-hour adjustment, which is often regulated in collective agreements, mainly happens by reducing (paid or unpaid) overtime and weekly hours or by utilizing the flexibility of working-time accounts.

Figure 1: Two types of labor market adjustment: Declines in GDP in USA and Europe – the Great Recession and the COVID-19 crisis

Source: European Commission, Employment and Social Development 2020, chart 3.26 p. 110, based on the European Commission Spring Economic Forecast 2020.

Zooming into the two labor markets in the period between the announcement of the first COVID-19 cases in February 2020 and the end of April 2020 (Table 1 below) reveals that the unemployment rate in the 27 member states of the European Union (EU-27) rose only from 6.5% to 6.6% (i.e., 0.1 percentage point), whereas in the United States it soared from 3.5% to 14.7% (11.2 percentage points). Correspondingly, the U.S. employment rate for the second quarter 2020 dropped from 71.2% to 62.5% (8.7 percentage points) compared to the second quarter level in 2019, whereas the employment rate in EU-27 fell only by 1.5 percentage points. The U.S. unemployment rate unexpectedly tapered quickly to 6.9% in October 2020, whereas unemployment in the EU rose until August and went down only very slowly to 7.5%. In November 2020 unemployment rates in the EU-27 surpassed the U.S. level. Germany's unemployment rates also slowly increased, but are still considerably below the level of EU-27 and the United States. In late autumn 2020, unemployment went down further in the United States, while it seemed to stagnate in the EU-27. The consequences of the second wave of COVID-19 are not yet known.

*Table 1: Unemployment in the EU and the United States: One COVID–19 world, two labor markets**

2020	United States					EU-27					Germany				
Months	*02*	*04*	*06*	*08*	*10*	*02*	*04*	*06*	*08*	*10*	*02*	*04*	*06*	*08*	*10*
U-Rate	3.5	14.7	11.1	8.4	6.9	6.5	6.6	7.2	7.7	7.6	3.6	4.0	4.3	4.5	4.5
- Men	3.6	13.5	10.6	8.3	7.9	6.2	6.5	7.0	7.3	7.2	3.9	4.1	4.4	4.5	4.5
- Women	3.4	16.2	11.7	8.6	6.7	6.8	6.7	7.5	8.2	8.0	3.3	3.8	4.3	4.5	4.5
- Youth	7.7	27.4	20.7	14.7	11.7	14.8	16.0	17.4	18.1	17.5	5.8	6.0	6.1	6.1	6.0
- Long**		4.1		19.0	36.9						29.8	27.7		29.2	32.5
E-Rate 15-64	71.2[a] 62.5[b] 66.3[c]					68.3[a] 66.8[b]					76.7[a] 76.3[b]				

*Apart from the two last rows: seasonally adjusted and harmonized figures.

Sources: U.S. Bureau of Labor Statistics; Eurostat Data Explorer; Federal Employment Agency; **) "Long": US >27 weeks, GER>52 weeks; ***) [age 15-64] second quarters 2020 (down from 68.5% in 2019); source for E-Rate is OECD: a) Q2-2019; b) Q2-2020; c) Q3-2020

The rows in Table 1 for men and women show that before COVID-19 women tended to have an edge over men in terms of measured unemployment but that the pandemic turned this around in Europe and the United States, even in Germany. However, the fear that the situation for women will worsen the longer the pandemic holds its grip on the labor market is not corroborated for the most recent period: In the United States, women's unemployment fell more rapidly than for men, and the increase of women's employment gap in the last decade has also recently halted.[4] Note, though, that the COVID-19 Eurofound surveys (Eurofound, 2020) document a strong increase in pressure on working women because of the combined impact of stress in the job and additional hours spent on care and home work.

The situation for youth is really dramatic. Apart from Germany, where the youth unemployment rate for 15–24-year-olds is still only 1.5 percentage points above the overall level of unemployment, youth unemployment exceeds overall unemployment both in EU-27 and in the United States. In Europe it is more than twice as high as the overall unemployment rate. Table 1 does not show the impact of COVID-19 on specific socio-economic groups or minorities. Yet, here again, the trends are comparable. Minorities with a migration background are harder hit by unemployment in Europe; in the United States, Hispanics and Black or African-Americans are now much more severely hit by the rise in unemployment.

These figures do not capture all the divergence within the U.S. labor market. In addition to the 23.1 million officially recorded unemployed in April 2020, 8.9 million Americans were willing to work but did not count as unemployed because they were not looking for work; furthermore, 10.6 million workers were working part-time involuntarily. In September 2020, the officially reported unemployment figures dropped by 11 million to 12.1 million, whereas hidden unemployment dropped only by 1 million to 7.9 million (U.S. Bureau of Labor Statistics, 2020). The structure of hidden unemployment is similar in Europe. In the U.S. as well as in Europe, the pandemic added new reasons for not actively looking for a job, for instance family or transportation issues, infection or fear of infection risk, school shut downs and so on (Koeze 2020). The Autumn European Commission Forecast (European Commission, 2020a) estimates for the Euro Area for June 2020 an increase in hidden unemployment of about 2.7 percentage points. It also reports that the additional labor market slack has since been partly absorbed as many workers have reentered the labor market, leading to an increase in measured unemployment in the following months.

Germany provides an additional factor influencing hidden unemployment: According to figures of the Federal Employment Agency (BA), underemployment was estimated at 3.5 million in April 2020, which encompasses 2.6 million officially registered unemployed plus 0.9 million people wanting a job but not looking for a job. In August 2020, the number of registered unemployed increased by 400,000, yet hidden unemployment decreased by 200,000 simply because there were 200,000 fewer people in labor market policy measures

[4] The driver of such a turn might be that the speed-up of industrial transformation in favor of services (in particular health, care and education services) is more favorable for women than for men.

who otherwise would have been counted as hidden unemployed. In other words, the pandemic has reduced the capacity of employment agencies to react counter-cyclically to the rising tide of unemployment. This has important policy consequences: The pandemic obviously requires an adjustment of institutional and personal capacities for implementing active labor market policies with working or training conditions that are suited to COVID-19 conditions, for instance by providing more online forms of education or training.

Furthermore, the low German youth unemployment figures do not reflect fully the reality. Even in normal times, about 250,000 school leavers – roughly the size of unemployed youth and in particular male teenagers – enter the so-called transition system. This system is a mix of training, education and work experience that is supposed to prepare these young people for the labor market. However it does not always lead to a regular job. This transition system reacts anti-cyclically, in other words it expands in recessions and shrinks in booms. However, careful labor market policy attention is necessary in order to prevent the system from becoming engrained or structurally extended (Dohmen et al., 2020; Protsch & Solga, 2016).

2. The policy of short-time-work or work-sharing

The lesson of the previous section is clear: Overall unemployment figures are not an optimal guide for proper policy responses to labor market shocks. So why did unemployment in Europe not soar as it did in the United States? The main reason is that many European member states chose the instrument of STW or similar measures instead of dismissing their workers. In April/May 2020, employers in EU-27 used STW or applied for STW allowance and similar measures by – on average – about 25%, in other words for one quarter of their total workforce (Müller & Schulten, 2020). The real average uptake, however, was lower in the course of the pandemic. In Germany, for example, where employers applied for over 10 million in STW, "only" 6 million were used in April 2020, which is 13.4% of the active labor force (17.7% of the insured labor force), compared to the maximum of 3% in the recession 2009. Furthermore, it is important to recognize that the reduction of working time during STW also varies drastically between companies and industrial sectors. In Germany, this variation can go from 10% up to 90%; the average working time reduction in June 2020 was 39%.

2.1 Uptake and structure of STW

The names of the STW schemes (short-time work, work-sharing, furloughs, part-time unemployment) as well as the details of regulation differ between the EU countries. Table 2 provides information about the number of government-supported jobs during the pandemic, showing that many EU countries have used STW or part-time or partial unemployment schemes to keep workers in employment (in both cases workers keep their jobs).

The highest numbers of supported jobs appear in April or May 2020 in all countries (based on administrative data, i.e., information of the implementing employment agencies), and considerable declines come in early autumn. The share of supported jobs in the total economy varies widely. In April or May Italy, France, Austria, and the Netherlands supported around 30% of employment; Belgium, Ireland, Germany, Portugal, Slovenia, and Slovakia around 20%; Spain and Lithuania around 13%, in other countries levels were below 10%; Croatia, with 43%, reached the highest level. Eurostat also provides information by sector coverage, which we will report in section 3.3.

Table 2: Total number of STW or similar government–supported measures in Europe 2020 (in thousands) and the share in total for the highest month

Country	April	May	June	August	September	Share in Economy (%)
Belgium	1150	920	560	300	230	21.1
Denmark	240	230	70			8.1
Irland	70	430	460	440	400	19.1
Germany	6000	5900	4600	2600	2200	17.7
Spain	2300	2700	1800	870	670	13.2
France	8600	7300	3500	1300		34.3
Croatia	570	470	78	73	24	43.0
Italy	5300	4200	2600			39.9
Lituania	170	140	80	12	6	13.4
Hungary	27	100	170	197	198	4.9
Netherlands	2570	2430	2400			30.3
Austria	1030	870	490	140		29.4
Poland	400	560	520			3.3
Portugal	790	780	490	90	67	21.6
Slovenia	180	150	53	14		20.6
Slovakia	460	430	270	190	120	18.4
Sweden	350	170	40	2	4	6.4

Source: Eurostat based on administrative data; for Spain, Slovenia, Portugal (mostly) measures are support for jobs on temporary lay-offs; for Belgium and Portugal a small proportion; for other countries all measures are support for jobs on short-time work. For all countries except Denmark, data refer to measures actually used by local units administering the programs; Denmark authorized or used. The proportion of the number of supported jobs in the number of all jobs in economy refers to those that are actually used by the local units or – if not available – the proportion authorized by the scheme or act to be supported – in the month with the highest number.

The European response of STW contrasts with the hire-and-fire approach which remains the one usually taken by American companies. One should not forget, however, that many dismissals in the United States are temporary lay-offs. Workers receive some kind of promise to return to the original job, but this job security is clearly weaker than the STW arrangement that maintains the legal employment relationship. The concept of STW is not unknown in the United States, because it is enshrined in federal legislation and administered by states with different names such as work sharing (New York, California), shared work (Connecticut, Washington), work share (Massachusetts, Maine, Rhode Island) and short-time compensation (Florida). However, only 26 states dispose of this instrument, and coverage is low and falling: at the peak in July 2020 only 400,000 workers participated in STW, and the numbers declined in September 2020 to 195,000 (U.S. Bureau of Labor Statistics). Given that ever more American experts recommend following the European path[5], it seems useful to weigh the advantages and disadvantages of STW. We undertake this analysis on the basis of German experiences with which we are most familiar, and because Germany was a kind of forerunner in Europe, in particular during the last great recession.[6]

2.2 The functioning of STW: The example of Germany

How does the classical instrument of STW function? What are the advantages, and what are the disadvantages or problems? Table 3 below provides an overview on the basis of the German scheme, which we shall briefly comment.

Germany's STW scheme consists of three types: *cyclical short-time work* to maintain employment in cyclical troughs; *seasonal short-time work* helps construction workers in particular to overcome income risks during bad weather and cold winters; *structural short-time work* helps companies in restructuring to prepare redundant workers to find a new job. Although known in some countries as *part-time unemployment benefits* and often subsumed under *passive* labor market policy, short-time work allowance (*Kurzarbeitergeld*) is far from being passive; in fact, *Kurzarbeitergeld* could be seen as the paradigm of employment insurance if some of its risk-sharing elements were to be enhanced by social investment components, such as education and training (Schmid, 2015; Schmid, 2018). The advantages for workers are quite clear. Workers have a right to STW; works councils are entitled to apply for STW at the public employment service (PES). The drop in wages caused

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5 For instance, Abraham & Houseman (2020); most recently Figueroa et al. 2020.

6 German *Kurzarbeit* goes back more than 100 years and was already enshrined in the first German Unemployment Insurance Act in 1927 as well as in the early *Arbeits-förderungsgesetz* of 1969 (e.g., Schmid, 2015: 84).

by reduced working time is compensated like unemployment benefits, which is at 60% or 67% (for people with dependent children) replacement of net income. Many companies, often via collective agreements, top this amount up to 90% or even more.[7] In summary, STW functions in terms of income like wage insurance, and in terms of labor market security as a kind of employment insurance.

Table 3: Risk–sharing balance based on German Short–Time–Work allowance

	ADVANTAGES	DISADVANTAGES
Workers	- 60% to 90% net wage insurance - Maintaining job and qualification - Maintaining social network and social status - Maintaining health insurance - Right to STW-allowance	- Covers only insured workers - Low mobility incentive - Low activation incentive - No right to qualification - Poverty risk for low wage worker might be lower than for unemployed but higher than for employed
Employers	- Maintaining skilled workforce (opportunity costs up to €32,000) * - Maintaining loyal workforce - High flexibility in form of > rapid adjustment > strategic waiting in case of uncertainty > reversible > task specific personal adjustment - Exempt from payment of social security contributions	- High remaining fixed costs (24%-46% depending on subsidies, 2009) - Low activation incentive - No right to instructions
Society (State)	- Reduced unemployment > equivalent to 2.4 million people in April 2020 - Maintenance of a qualified and motivated labor force - Avoiding discouragement and scarring effects (hysteresis) - Maintaining purchasing power - Some flexibility in changing regulation and subsidies	- Disadvantaging outsiders - Slowing down structural change - High costs requiring > higher contributions and/or > higher debts covering deficits of Federal Employment Agency

Source: Our presentation; *) average costs of recruiting skilled workforce in 2009

[7] Germany's collective agreements dispose of some other instruments of internal flexibility, such as the reduction of overtime, the drawing down of accumulated working-time accounts, and the reduction of working time. Utilizing time *and* wage corridors allows firms to deviate from standard collective agreements, for example by reducing working time *with* respective cuts of wages under certain conditions. Thus, wage corridors are an instrument of both working-time *and* wage flexibility.

Short-time workers maintain their jobs, their qualifications and their social networks. Problematic aspects are the low incentives for activation and mobility, and current regulations do not legally entitle short-time workers to qualification measures. Furthermore, STW covers only insured workers, excluding thereby self-employed, many young workers who are unemployed or have only brief work experiences, also many fixed-term employees with short contracts. For low-earning workers, the replacement rate of 60% can quickly bring them below the poverty threshold so that they have to apply for means-tested income support.

For employers the most immediate advantage is the maintenance not only of skilled workers, but also of workers who are loyal and cooperative and have accumulated tacit knowledge; the opportunity costs of recruiting, for instance, high-skilled craft workers or engineers were estimated to amount up to €32,000 in 2009. STW allows a much quicker reaction to demand fluctuations than dismissals because dissolving employment contracts takes longer and implies higher transaction costs than just reducing working time by maintaining the employment contract. STW also offers employers the opportunity of *strategic waiting* in the face of uncertainty, which means workforce liquidity: Nobody knows at the outset how big the drop in demand will be and how long this will take. STW is a reversible instrument, dismissals are not. STW also provides an opportunity to adjust the organization of work precisely according to the specific tasks to be reduced or expanded. Already in 2009, the German government increased this flexibility by relaxing the conditions, thereby allowing especially small firms (for instance, logistic enterprises and suppliers of large firms) to use the scheme to a larger extent than in the past. Furthermore, the government took over the contributions to social insurance. The remaining fixed costs per short-time worker, which were 24% to 46% in 2009, depending on the size of government subsidies, can be problematic; corresponding evidence for this pandemic period is not yet available. These remaining fixed costs, however, are an effective incentive to employers not to misuse or to game the system. The low incentives for employers to improve the long-term employability of their workers are also problematic; they do not even have the right to instruct workers in the STW phase.

For society or the state, the first evident advantage is the avoidance of open unemployment. If STW had not been in place in April 2020, the number of unemployed would have increased by 2.4 million, almost doubling the officially measured unemployment. The reproach that STW just manipulates statistics is not justified. This form of job security not only maintains high purchasing power in times of otherwise falling demand, it also avoids the panic reactions of workers, such as trying to reduce their spending unreasonably, which might reduce effective demand and thereby lead to a vicious circle. In this way STW enhances "moral assurance" as a countervailing force to moral hazard (Schmid, 2020). Moreover, for the government and the public employment service (PES) as social insurance principals, STW offers some discretion to fine-tune the scheme as the situation develops. The German government used this discretion by extending STW until the end of 2021, giving employers a comfortable planning horizon; and the PES gave employers a great deal of freedom in implementing the scheme. It could do so because both the managers of private companies and public employment agencies had over a period of time gained experience with this instrument and developed mutual trust relationships. In comparison to an increase in unemployment, STW avoids negative after-effects (hysteresis) as workers keep their formal employment relationship, which makes it easier to maintain a motivated and engaged labor force in a period of low labor demand.

The problematic features, however, are not negligible. Workers in STW are unlikely to change jobs with better long-term prospects; job opportunities for people not yet in regular employment (outsiders) might remain weaker than otherwise and STW may slow down structural change that might be necessary in the long term. Also, the costs of such schemes are not insignificant. However, the costs of allowing unemployment to appear openly would be substantial as well. The German Federal Employment Agency (BA), the "principal" of the risk-sharing community of workers and employers, expects a deficit of €27 billion in 2020, thereby eating up its accumulated reserves of €26 billion and requesting at least €7 billion in tax-financed grants from the federal government.[8] The possibility of fraud (an element of moral hazard) in implementing STW exits, because the pandemic-related extension of STW to almost all sectors (in particular to sectors in which SMEs are in the majority) may invite many employers to game the system of STW. Finally, the government complemented the risk-sharing community by subsidizing social security contributions and by offering a large stimulus package for the automotive industry for replacing fuel-driven cars by electric cars (up to €6,000). These costs (whose size are unknown at the time of writing) to society have to be added to the large deficit spending for other COVID-19-related stimulus packages.

STW as an instrument of wage or employment insurance, therefore, has some disadvantages compared to external flexibility if adequately covered by full-time unemployment benefits. State subsidies might later shift the costs to taxpayers or to marginal workers. Job security against pure income security may maintain non-competitive industrial structures and lead – as the economy recovers – to jobless growth or new job creation only in a non-standard form, especially temp-agency work. We will come back to this point in the following section.

8 The BA expects €62 billion total expenditure in 2020, of which €23.5 billion are for unemployment benefits and €19 billion just for STW.

2.3 *Opportunities and limits of STW in a pandemic*

The United States was long considered a model of flexibility, especially because economic recovery and a corresponding decline in unemployment after the Great Recession and earlier crises had come more quickly than in Europe. Now the tide may be turning, as predicted in the *Financial Times*. In an article appearing there on 17 May 2020, Gawyn Davis noted that, apart from the dramatic explosion in unemployment figures, there are signs that the pandemic is leaving deeper scars in the United States than in Europe, examples being high long-term unemployment, the exclusion of disadvantaged groups, and aggravated regional imbalances in the labor market. An early study by the Becker Friedman Institute for Research in Economics at the University of Chicago (Barrero et al., 2020) estimated that 42% of jobs will actually disappear.

The limits of STW policies, however, are also becoming more apparent in Europe in the fight against the pandemic. An early study by Allianz Research (2020) expected that of the 45 million people currently on STW in the five largest EU member states, 9 million (20%) are threatened by long-term or even permanent unemployment. Why? The eagerly awaited upturn will be an asymmetrical one, not a general V-shaped improvement of the economy. If anything, it will be slow in many sectors. The Allianz team of authors lists four reasons: legally imposed restrictions on health protection (e.g., prohibition of mass events in the exhibition industry or the cultural sector), self-imposed rules on physical distancing (e.g., less travel); economic insecurity (e.g., hiring freezes due to the uncertain sales situation), and dependence on external demand (e.g., tourism and transport) or on external supply (e.g., interruption of value chains). The authors estimate that in the EU-27, up to 115 million employees (nearly 50% of the total workforce) work in "late bloomer" sectors (e.g., tourism, culture, transport, retail, and wholesale), which are slow to regain momentum compared to the expected "early bloomers" (such as in the IT or health-care sectors) in the upswing.

Those were the estimates of the first generation of pandemic labor market research. In the meantime somewhat more data and analysis are available, but the central question remains open as to which of these two labor market worlds will survive the COVID-19 pandemic better. The answer will also depend on how capable the two systems are of learning (possibly even learning from each other) and what is meant by *better.* In the remainder of the paper, we try to develop a preliminary reply by focusing on two evaluation criteria: risk-sharing and structural change or industrial transformation. What is the distribution of the burdens and opportunities inherent in policies for dealing with this crisis? What do the measures contribute to coping with ecologically and socially sustainable structural change? What, in fact, is the impact of COVID-19 on the economy and various socio-economic groups on the labor market?

3. Preliminary evidence on the impact of COVID-19 recession

In the following, we concentrate on Europe with which we are most familiar, with one important exception in order to draw the attention to an intriguing study that emphasizes past transition patterns in the United States compared to the likely future structural change.

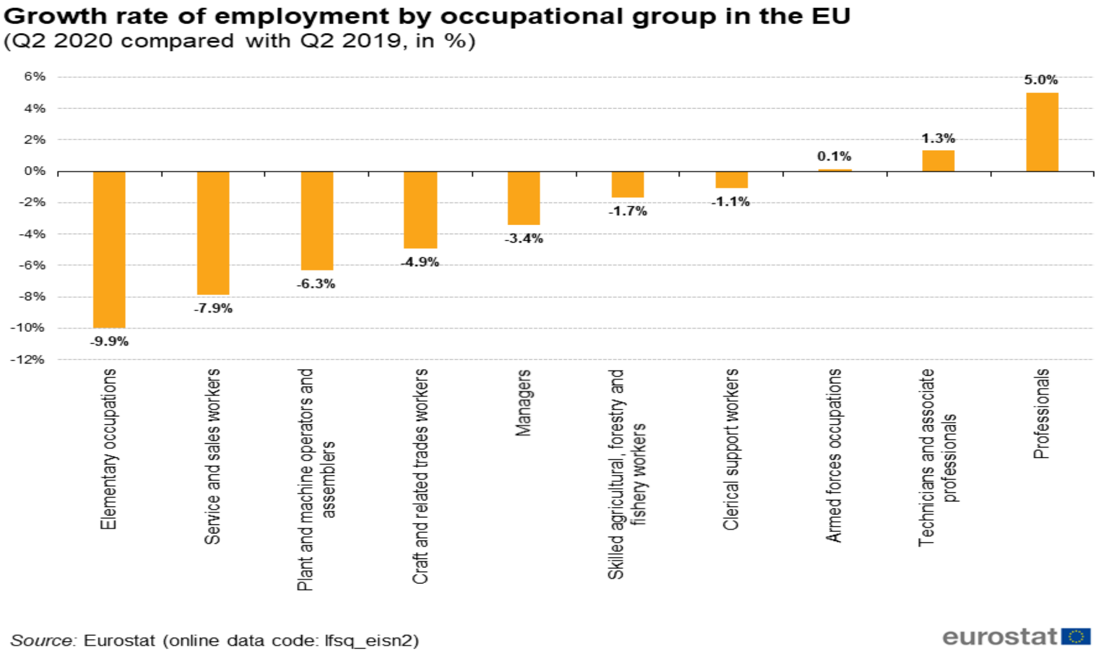
3.1 Overall COVID–19 impact on type of employment in Europe

While in the EU-27 total employment declines were not yet dramatic, impacts on types of employment differed widely. According to the European Commission Draft 2021 Joint Employment Report (European Commission, 2020b), temporary employment declined between Q2-2020 and Q2-2019 by almost 17% while permanent employment remained at the 2019 level and self-employment declined by 2%. Full-time work declined by 2%, part-time work by more than 4%. Thus, similar to the trend in the first period of the Great Recession, workers with temporary contracts suffered job losses most strongly.

There are also great differences with respect to the occupational impact (Figure 2). Jobs for workers with elementary occupations declined by almost 10%, and those for service and sales workers by almost 8% while jobs for professionals increased by 5%. These differential developments may be due to the ease with which jobs can be undertaken from home, but also with deeper structural changes in employment. The pandemic has intensified labor market polarization.

The COVID-19 crisis has also affected sectors of the EU economy in fairly different ways. According to a recently released report by Eurostat, between Q2 2020 and Q2 2019 hotels and restaurants saw the strongest decline in employment, namely by almost 20%; support services employment declined by around 10%; and construction and transport by 7% and 5% respectively. During this period, professional activities, including science, public administration and communication and information activities, continued to increase. Industry saw a moderate decline of less than 1%.

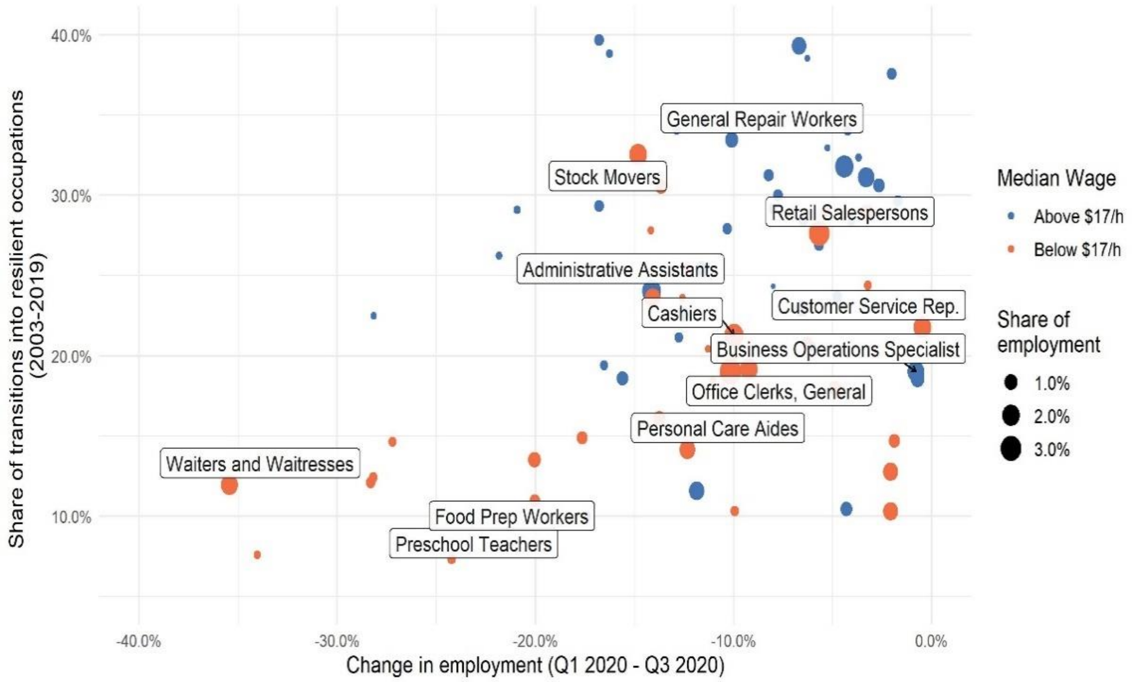
Figure 2: COVID–19 impact on occupational groups



3.2 COVID–19 impact on occupations and wage–levels in the United States

In the United States, the COVID-19 pandemic struck similar occupational groups as in Europe. A recent study by the Brookings Institution related to the "Workforce of the Future Initiative" aims at visualizing data on thousands of real job-to-job transitions, tracing the common pathways into and out of 441 occupations across 130 industries at the national and city levels. Such studies give companies and human resource managers a wider lens on recruitment and talent management, and provide tools for policymakers to target investments in talent development as a strategy to diversify and grow their economy. Even as the COVID-19 crisis destroys jobs, it is also creating a few new opportunities, particularly in occupations with a high level of digital work. The study finds that although this trend may open doors for some low-wage workers, job transitions data suggest that today's hardest-hit occupations – from waiters and bartenders to teachers and personal care aides – have not historically offered pathways into occupations that have added jobs in recent months (Figure 3).

Figure 3: Share of transitions into resilient occupations (2003–2019) and change in employment (Q1 2020–Q3 2020): United States



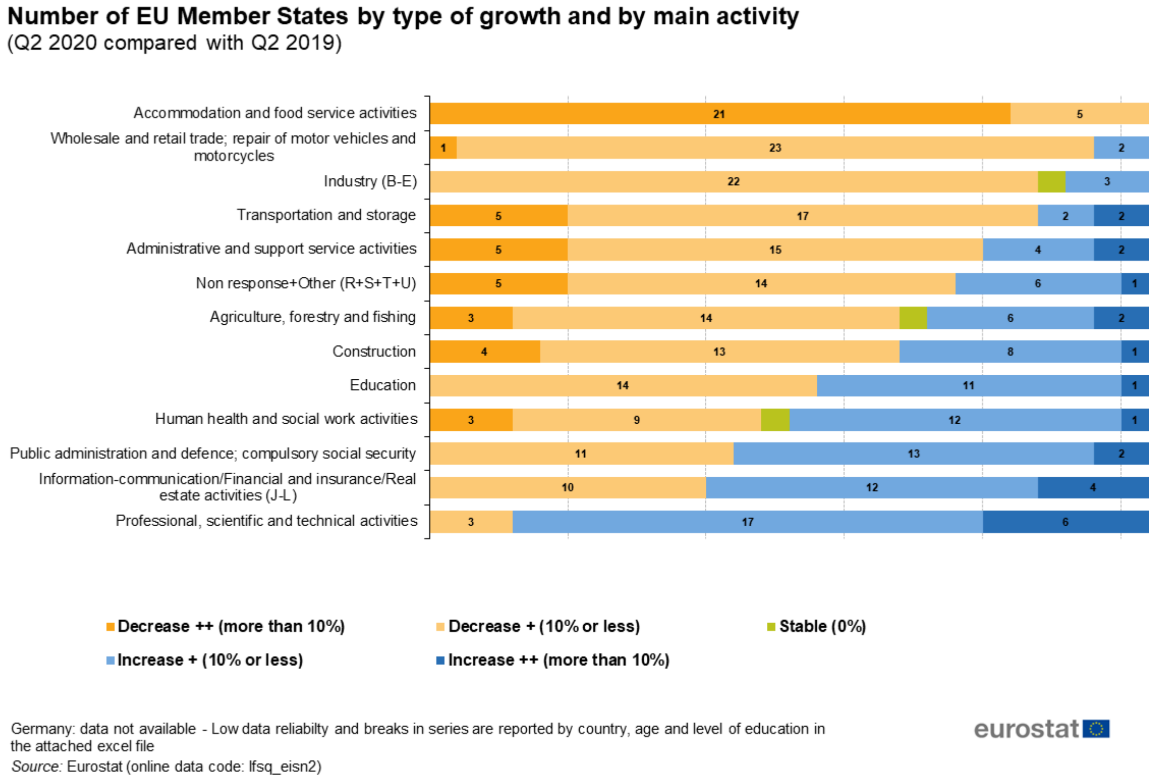
Source: Escobari et al. (2020). The x-axis reflects the severity of COVID-19-related unemployment for each occupation, represented by percent change in the average number of workers between Q1 and Q3 2020 (with the hardest-hit occupations to the left). The y-axis reflects the historical likelihood that each occupation could transition into one of today's resilient occupations, represented by the share of job transitions between 2003 and 2019 that went into occupations that have added jobs since January 2020. For readability, the figure shows only occupations with more than 330,000 workers, which together account for 65% of employment and 82% of employment in shrinking occupations.

The authors of this study conclude that today's high-demand occupations like software engineering have not typically absorbed workers from the occupations currently under pressure. This mismatch suggests that many of today's unemployed workers may find it harder than in the past to find new jobs and advance through the labor market. Low-wage workers in certain struggling occupations have realistic pathways into a number of in-demand jobs. For example, cashiers and retail salespersons – who both face declining demand – have historically transitioned successfully into telemarketer and stock clerk jobs, for which demand is growing. Although not offering higher wages, such transitions could put people back to work quickly with little to no training. The outlook is more promising for workers in administrative jobs (e.g., administrative assistants, office clerks, and other administrative support workers), occupations that are seeing significant displacement due to long-term trends but that have commonly transitioned successfully to jobs as business operations specialists, a higher-paying occupation that has seen some growth even during the pandemic.

3.3 COVID–19 impact on specific sectors in Europe

Figure 4, produced by Eurostat in November 2020 (2nd Quarter 2019 to 2nd Quarter 2020) illustrates a substantial change in the employment structure across the EU member states.

Figure 4: COVID–19 impact on industrial sectors in Europe



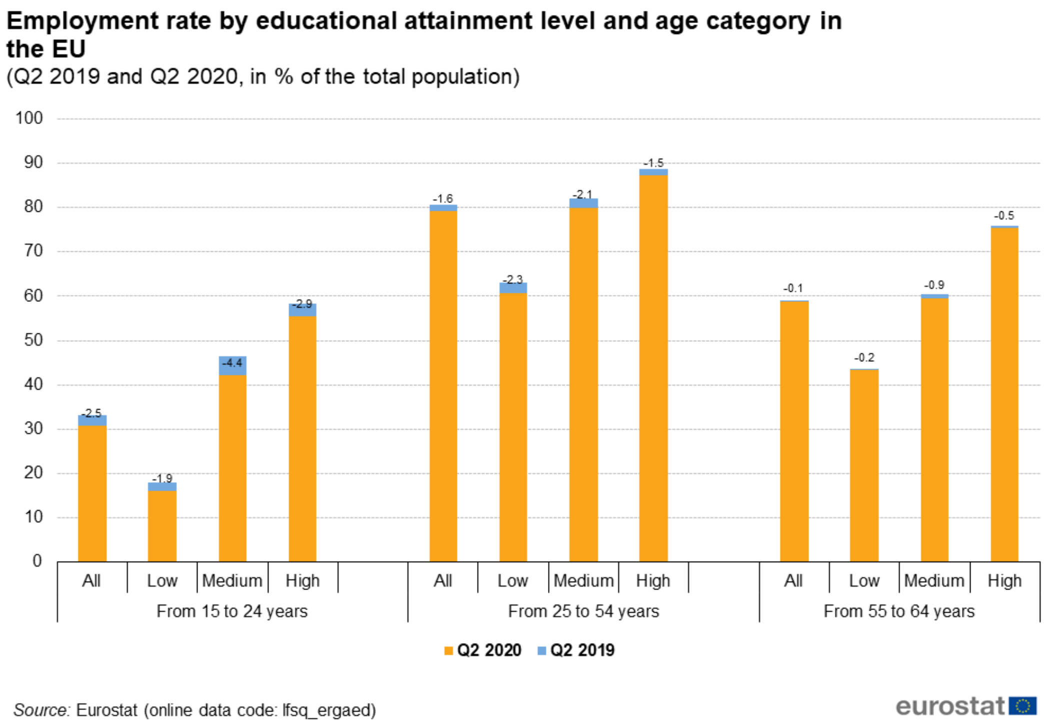
Hotels and restaurants and wholesale and retail trade declined in almost all member states, the former by more than 10%. There is a similar downward trend in employment in industry and transport, albeit with moderate increases in a few countries. Several sectors, including education and health and social services, saw declines and increases in a roughly equal number of countries, whereas employment in information, communication and professional activities was rising in most countries.

STW and similar schemes are likely to have contributed to reducing employment decline in sectors like industry, transport, and construction. They might have been less prevalent in hotels and restaurants, although several countries did open up such schemes for such services as well. Although these are still early numbers, we do not think that employment levels in the hard-hit sectors will return to the pre-crisis levels and we are not sure what to expect for intermediate sectors such as industry, construction, and transport. For all sectors that depend largely on public funding (like education, health, social services, and public administration), employment will depend not only on the size of public budgets but also on the priorities of the respective governments. They might be more favorable for such services than in the austerity period following the Great Recession.

3.4 COVID–19 impact by age groups and educational level

A recent analysis by Eurostat of changes in employment rates by age group largely confirms the experience in the Great Recession. Older workers' employment rates remain basically unchanged, while employment rates for the young declined the most. Young people often have temporary contracts that are not renewed when they expire, so their employment terminates more or less automatically. Also, they might have less access to job retention schemes or employers might include them less into such schemes. Workers at low and medium education levels are almost equally affected among prime age adults and older people, while among the young the employment rates of those with medium educational level decline more than twice as much as for the low skilled. Furthermore, in no age group are the high skilled completely protected (Figure 5).

Figure 5: COVID–19 impact by age group and educational level



3.5 Youth as a particular risk group in a pandemic

We have already noted similarities in the pandemic risk groups in the two labor market worlds, particularly for young people, who are also hit hard in Europe, and in some EU-member states they are hit even harder than in the United States. From February to August

2020, the seasonally adjusted unemployment rate for youth in the EU rose from 14.8% to 17.6.4% (Table 1). This figure should be treated with caution, however, because during the lockdown many young people do not appear as job-seekers. The recession triggered by COVID-19 will take on more dramatic proportions, and young people will be disproportionately affected by unemployment. For example, two Austrian researchers (Tamesberger & Bacher, 2020) refer to earlier experiences indicating that 1% lower economic growth will trigger a rise of 1.8% in the youth unemployment rate. In their medium-term scenario they expect the number of the unemployed young people in the EU-27 to rise from 2.8 to 4.8 million and thereby increase the EU's youth unemployment rate to 26%. In addition, evaluation research has shown that recessions considerably interfere with the employment careers of the education system's young graduates in the long term (e.g., Kahn, 2006, for the United States; Tamesberger, 2014, for Europe).

Table 4: Young people not in education, employment or training (NEET) as percent of the 15–24-year-old population: EU and selected EU countries

NEET IN %	Q2 2017	Q2 2019	Q2 2020	Q3 2020 (2019)
EU 27	11.0	9.8	11.6	
Euro area	11.0	9.9	12.0	
Germany	6.3	5.6	n.a.	
France	11.3	10.2	12.9	11.0 (10.6)
Italy	19.3	17.9	20.7	18.3 (17.5)
Spain	13.3	10.2	15.1	14.5 (12.1)
Poland	9.9	8.2	8.9	
Romania	16.7	14.8	14.4	
Netherlands	4.0	4.2	4.8	
Portugal	9.9	8.3	10.3	9.7 (8.1)
Greece	15.5	11.3	13.3	
Hungary	11.0	11.4	12.1	11.9 (11.2)
Czech Republic	6.6	5.4	6.4	6.6 (5.5)
Belgium	9.8	8.2	10.5	8.8 (9.2)
Austria	6.8	6.8	10.2	7.2 (7.4)
Men	10.6	9.4	11.4	
Women	11.2	10.2	11.8	

Source: Eurostat

An even clearer picture emerges when one also considers two states of so-called "inactivity." For youth it makes a great difference whether they are still in education or are not active due to other obligations, such as providing unpaid care work. In the EU the main indicator also included in the Sustainable Development Goals (SDG) of the United Nations to analyze the situation is the percentage of young people neither in education nor in employment nor in training, the so-called NEET (see Table 4).[9]

The COVID-19 crisis has led to a remarkable trend change. Whereas the NEET rate for the EU 27 amounted to 11.0% in Q2-2017 and declined to 9.8% in Q2-2019, it increased to 11.8% in Q2-2020. The increase is greater for young men than for young women, however young women are still more affected. This deterioration is particularly marked in France (from 10.2% to 12.9%), in Italy (from 17.9% to 20.7%), in Spain (from 10.2% to 15.1%) and in Austria (from 6.8% to 10.2%). Data for Q3-2020 show an improvement in countries for which data are available, however levels are often still higher than in Q3 2019.[10]

Obviously, a policy of STW is of little use to young people who are not yet employed or have been employed only briefly without gaining entitlements to insurance benefits. Hence, the task of the EU and its member states will be to deal with this risk group more concertedly in a supportive, cohesive manner than in the past. One possibility would be to massively expand the existing EU Youth Guarantee Program as quickly as possible. The European Commission has already taken steps in this direction by proposing a reinforced Youth Guarantee Recommendation, which the Council of Labor and Social Affairs Ministers adopted on 30 October, 2020. The new Youth Guarantee reaffirms the commitment of the EU member states to set up national schemes through which young people can receive an offer of employment, education, traineeship or apprenticeship within a period of four months of becoming unemployed or leaving formal education. The recommendation extends the age limit for targeted young people from 25 to up to 29 years, because experience suggested that this cohort faces serious difficulties not least because they were heavily affected in the aftermath of the Great Recession. Member States commit to better inclusion of persons from vulnerable groups, to complement the actual offer of a job, education or training with supportive measures and to use a pathway approach rather than to limit the guarantee to one-time offer. A full implementation of the reinforced

9 The concept of NEET seems to be of particular interest to Europe although the SDG 8.6 target asks all UN member countries to "substantially reduce the proportion of youth not in employment, education or training". OECD and ILO report NEET numbers also for the United States (latest available figure is 13.1% for 2019, well above the almost 10% of the EU-27).

10 The impact of the second wave of lockdowns or shutdowns, will probably worsen the situation again.

Youth Guarantee will require member countries to use substantial funding. The Recommendation argues that there is substantial financial support through EU funds, such as the European Social Fund Plus (ESF+), the new Recovery and Resilience Facility, and REACT-EU. Although the EU did not devote a specific amount to the Youth Guarantee as in the previous funding period, when the Commission launched the proposal in July, it demanded from member countries that with EU funds at least €22 billion should be spent on youth-employment support (European Commission 2020d).

3.6 Other groups at risk in the labor market

Women, especially those with care responsibilities, low-income earners, solo self-employed people, and workers in precarious jobs are other key risk groups. In their situations, too, the German policy of preserving jobs through STW benefits, for example, is ever more clearly showing the downside of the country's tight corset of laws that secure the livelihood of job-seekers and promote employment (Sozialgesetzbuch II and III). The partial replacement of wages (60% for earners without children, 67% for those with children) exacerbates the income disparity to the disadvantage of low-wage earners, who barely make ends meet even on full wages. Many of them have to rely on supplementary public transfers.[11] Furthermore, low-wage earners are underrepresented in privately or collectively arranged top-ups of STW allowance. According to a survey published by the Hans-Böckler-Stiftung, only 39% of STW-workers with low-wage jobs in accommodation and food services (hotels, restaurants) received a top-up, whereas in the high-wage financial and insurance sector 70% of STW-workers benefitted from a top-up (Pusch & Seifert, 2020); 22.8% of workers with a net-wage between €900 and €1,500 were in STW in June 2020, whereas only 11.9% of those earning a net-wage over €4,500 were in STW (Hövermann & Kohlrausch, 2020). Because women constitute the main share of low-income earners and because they are more likely to reduce or even suspend their working hours, traditional role patterns long believed forgotten are resurfacing.[12]

Some changes that were undertaken in the course of the pandemic are at least mitigating this trend. Germany's current Grand Coalition (consisting of the Christian Democratic Union/Christian Social Union and the Social Democratic Party) has justifiably improved the wage-replacement regulations several times. Mothers or fathers continued to receive wage payments for two days a week under infection protection laws because of the closure of daycare centers or schools, for example. Their wage-replacement entitlement of 67%

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[11] In April 2020, 39,000 short-time workers saw their STW allowance topped up by basic social welfare benefits (Hartz IV);

[12] See, for example Allmendinger (2020) and Hövermann & Kohlrausch (2020).

was extended by cabinet decision on 21 May 2020, but is capped at €2,016. In addition, a cabinet decision on 22 April 2020 raised the amount of wage replacement for short-time workers to 70% (80% for those with children) after five-months and to 77% (87% for those with children) after seven months.

Other EU countries were more flexible from the outset with wage replacement during STW. Austria increased the replacement rates to 80% and 90% of net wages, depending on the wage level. The Netherlands and Sweden replace 100% of the gross wage and have options on extension. France guarantees benefits at least at the level of the minimum wage. Switzerland and Italy replace 80% of the gross wage for up to 12 months. Through a quickly conceived Coronavirus Job Retention Scheme (CJRS), even the UK payed 7.5 million employees – representing almost a quarter of all jobs in the nation – 80% of their lost wages, but only in the event of total absence from work. As of August 2020, compensation will be received for involuntary part-time unemployment as well, though it will not exceed 2,500 British pounds. According to the European Trade Union Institute (ETUI) study (Müller & Schulten, 2020), an even stricter cap on wage compensation exists in Italy, namely €1,130 (gross). By contrast, the logic of insurance prevails in Germany and Austria, with compensation keyed to the wage standard achieved by the individual (up to a certain ceiling). The cap is reached in Germany at €4,140 and in Austria at €4,296.

4. COVID-19 policies in Europe and the United States

Summing up the previous section, the regulations on STW-type measures vary greatly in Europe. This fact needs to be kept in mind while examining the EU as an actor as in the following.

4.1 Policy responses at the EU-level

After the outbreak of the COVID-19 pandemic, the European Commission was quick to present two initiatives to support national efforts to tackle the health and economic crisis (Box 1 below).

First, regulatory provisions for flexibility in the EU budgetary and state aid rules, and, second, a temporary emergency package in the spirit of STW. The third initiative, the European recovery program, took several months of bargaining by the European Council and was contested for a long time, in particular by the member states Hungary and Poland, due to rules making financial allocations of the recovery program conditional on adherence to EU rules of democracy. EU leaders surmounted these divisions with a compromise only until 11 December 2020.

The second initiative is particularly relevant for the core question driving this paper. On 4 April 2020 the European Commission broke new ground in EU social policy with its proposal for *Support to mitigate Unemployment Risks in an Emergency* (SURE), a temporary European program to facilitate STW systems in the member states. After negotiations that were brief by EU standards, on 24 May 2020 the Council of Finance Ministers (ECOFIN) adopted a framework within which states that establish or expand national programs receive loans at conditions that many of them find more favorable than those available on the financial markets. To make this policy feasible, the Commission is authorized to borrow up to €100 billion on the financial markets, with the member states providing guarantees of €25 billion.[13]

Box 1: The EU as an actor in COVID–19 crisis management

1. Member States' response has been quick and resolute, involving massive fiscal stimulus measures, reaching up to 20% of GDP in some countries, made possible by loosening tight fiscal policy rules (EU regulation of national debt management) and by agreeing on two packages of support (*Coronavirus Response Investment Initiative*: CRII and CRII+), which introduce extraordinary flexibility in the use of the European Structural and Investment Funds to mitigate the consequences of COVID-19.
2. The EU also adopted a program called "*Temporary Support to mitigate Unemployment Risks in an Emergency*" (SURE), a new instrument providing funding solidarity to Member States.
3. On May 27 2020, the European Commission presented a €2.4 trillion recovery plan, including a new recovery instrument, *Next Generation EU*, endowed with a financial capacity of €750 billion. Next Generation EU is embedded within a revamped long-term EU budget of €1.85 trillion, focused on promoting a job-rich and sustainable recovery, (a) to ensure that recovery support goes hand-in-hand with investment in the EU's long-term priorities, notably green, digital and social resilience; (b) to fund the Recovery and Resilience Facility, which consists of large-scale financial support (€310 billion in grants and up to €250 billion in loans) to both public investments and reforms that promote the green and digital transition as well as social fairness and resilience and thus help prepare Member States' economies for the future.

Source: European Commission (2020), Employment and Social Development, in particular chapter 3, pp 87-126.

By early autumn 2020 all EU member states had provided their share of the guarantees and subsequently the Council approved a total of €87.9 billion in financial support to 17 Member States. By mid-November 2020, €31 billion had been disbursed to Italy, Spain, Poland, Greece, Croatia, Lithuania, Cyprus, Slovenia, Malta and Latvia. All Southern and CEE member states will receive support (with the exception of Estonia): the biggest recipients will be Italy (€27.4 billion), followed by Spain (€21.3 billion), Poland (€11.2 billion), Portugal

[13] To this end, the German federal government has introduced a SURE guarantee bill, among other measures.

(€5.5 billion) and Romania (€4 billion). Northern and Western European countries did not apply for support, with the exception of Belgium (€7.8 billion).

SURE is an important signal that the EU takes the problems of the labor market seriously (Vandenbroucke et al., 2020). The bond was priced at a negative yield of -0.102%. This means that for every €102 that Member States receive, they pay back €100. This negative interest rate advantage is therefore passed on straight to the Member States receiving the loans in the form of back-to-back lending.[14]

STW systems can delay the onset of unemployment and reduce its extent, but they cannot prevent it. People are already losing their jobs because their temporary employment contracts are expiring, employers have become insolvent, or solo self-employed persons are losing their livelihood despite the assistance they are currently receiving. By spring 2021 it will become clear how many young people are unable to find jobs or take refuge in the semi-protected, yet precarious, transition system. The hurdles stem partly from the fact that companies must consolidate their workforces before hiring new employees, and partly because the creation of sustainable new jobs takes some time. If the economic crisis induced by COVID-19 lasts until 2022, as some observers predict, then a long recession will also be accompanied by considerable unemployment. Regions and states will experience varying degrees of growth, depending on the extent to which their economic structure is affected by the restrictions imposed to combat the virus, among other factors. Although SURE can be seen as a sound and important step toward European unemployment reinsurance (Beblavý et al., 2017; Dullien et al., 2018; Luigjes et al., 2019), it is already becoming clear that such a step is far from sufficient. The European Commission considers SURE as an emergency operationalisation of the European Unemployment Reinsurance Scheme announced by the president of the European Commission (von der Leyen, 2019). During 2021 it should become clearer how the Commission, Council and Parliament intend to pursue this further.

4.2 Sharing burdens and opportunities: The case of Europe

The main advantage of STW systems is that they bridge periods of temporary interruptions of production due to lack of demand (or pandemic shutdowns) and enable a quicker resumption of economic activity than do hire and fire systems. As already indicated, however, this policy entails considerable risks, which must now be recognized and addressed soon, or at least eventually. One way to find a solution is to examine the situation from the perspective of risk-sharing: Is the sharing of burdens and opportunities between

14 Nevertheless, it would be of interest to see the size of this financial advantage compared with regular bonds on the capital market.

companies, the workforce, and the state fair, or is the manner of financing the current pandemic labor market policy exacerbating unequal income distribution?

The ETUI study (Müller & Schulten, 2020) examines burden-sharing and the different models in the member states. The point is not only the method of financing STW but also the structure of its uptake, which we already briefly touched on in section 2.1. Whereas STW used to be applied predominantly in large manufacturing companies (especially in 2008/2009), it is now sought in almost all sectors and by small and medium-sized enterprises (Bellmann et al., 2020; Weber & Gehrke, 2020), such as the hotel and restaurant business with its many low-income employees. When examining income levels and education in the uptake profile of STW, the German Institute for Economic Research (Deutsches Institut für Wirtschaftsforschung, DIW) concluded that STW "does not systematically vary across income terciles but does vary across educational groups. The percentage of STW employees with a low level of education is twice that of highly educated ones" (Schröder et al. 2020: 3, our translation).

The Eurostat Survey provides a similar picture of broad coverage across the working age population for other countries that make extensive use of STW or similar schemes. Whereas manufacturing, transport, and construction were a focus of support programs everywhere, low-pay sectors such as retail and wholesale trade, administrative and support services, and accommodation and food services reached very high levels of coverage of jobs in France, Italy, Belgium, Austria, and Spain (currently far higher than in Germany) and in Belgium, Austria, France and Italy also arts and leisure services. National data for Austria show that 28% of women workers and 29% of men workers, 37% of workers with non-Austrian citizenship compared to 27% of Austrians, and 38% of the young compared to 30% of prime age individuals benefited from STW, thereby reaching relatively broad coverage.

The quarterly ESDE Review of the European Commission study published in December analyzed employment induced income losses in the EU countries by wage level and the degree of compensation using the Euromod Microsimulation model. In almost all countries employment income losses were highest for the low wage earners and lowest for high wage earners. Compensation relative to the earnings loss was higher for low earners in most countries. In Germany income losses and compensation were almost proportional (European Commission 2020c).

What does this appraisal mean for financing? Because STW in Germany is paid for mainly through unemployment insurance premiums (also because the Federal Employment Agency had €26 billion at its disposal), benefits are based on insurance rules. The scheme expects short-time workers, especially those on low incomes, to accept a considerable loss of income. In contrast, companies enjoy a comparatively favorable position because the social security premiums as well as the wages they would otherwise have to pay are covered by the state. This logic of insurance does not preclude asymmetries among companies either. Large companies and strong medium-sized enterprises have been able to prepare, so it is easier for them to retain qualified employees or even to give them further training than it is for weak (often subcontracting) medium-sized and small companies. Moreover, current estimates indicate that the Federal Employment Agency, despite its reserves, will run high deficits by the end of 2021. This drain makes increases in contribution rates likely, especially if the additional spending on active labor market policy (particularly to intensify further training) has to be financed. Ultimately, it may not be the universal taxpayers (including the wealthy and high-income earners) who foot the bill, but mainly the employees. In many respects the logic of insurance does not apply to a pandemic, so it is already apparent that financing pandemic-induced policy measures primarily, if not entirely, through taxes and loans – as in the United States, Sweden, and Denmark, for example – would have been more equitable in terms of income policy (Schmid & Schroeder, 2020).

4.3 Sharing burdens and opportunities: The case of the United States

The seemingly harsh U.S. social policy may at least partially regain an edge. The widespread bias in Europe that the United States is antisocial should be modified somewhat, particularly in the current crisis: In April 2020 the Democrats in the U.S. Congress pushed through the CARES Act, a $2 trillion emergency program that provides generous unemployment assistance, along with other elements (see Box 2).

Usually, when unemployment is low in the United States only a relatively small proportion of the unemployed receives unemployment benefits (measured as recipiency rate). During a recession the proportion of unemployed people receiving such benefits rises due to a combination of more eligible workers becoming unemployed and measures facilitating access and prolonging the duration of benefits. Thus, in 2009 the recipiency rate rose from 33% to 45%, and the number of beneficiaries tripled. This substantial increase in recipiency was thanks to extra cash provided by Congress and regulatory changes notably extensions of duration (up to 99 weeks). The COVID-19 crisis is of an altogether different dimension. Responding to a rise in unemployment by 15 million people, the emergency program allowed for an increase in the number of beneficiaries by 16 million and of the recipiency rate to more than 85% in the Q2-2020.[15] This level of coverage is far higher than in many national states in Europe and is similar to the most generous ones.

[15] Department of Labor, Unemployment Insurance Data, labor force data, quarterly.

Box 2: The CARES-Act (*Coronavirus Aid, Relief, and Economic Security Act)* of April 2020 consists of four packages:

1. The *Recovery Rebates* (often referred to as "stimulus checks") are direct cash assistance to families below a certain income threshold. They provide a one-time payment available at a rate of $1,200 per eligible adult and $500 per eligible child aged 16 and under. For example, a family with one adult and two children can receive up to $2,200. The full amount is available for those with an annual adjusted gross income of up to $75,000 (for single filers), up to $112,500 (for those who file as heads of household), or up to $150,000 (for joint filers). The payment then phases out at a rate of 5%, offering a partial amount to households with incomes above these thresholds, before phasing out completely
2. A new benefit called *Pandemic Unemployment Assistance* (PUA), which expands the eligibility universe to individuals who are not typically eligible for unemployment insurance; it includes the self-employed as well as individuals whose earnings or number of weeks worked were too low. Benefits for individuals receiving PUA payments are calculated in the same way as for standard unemployment insurance recipients, with the exception that the minimum benefit floor is higher, equal to half of the average benefit in the state.
3. A new program called *Pandemic Unemployment Compensation* (PUC), which provides a $ 600 weekly top-up for all unemployment insurance recipients. That decision means that many of the unemployed get a wage-replacement rate exceeding 100%; for instance, the wage-replacement rate usually applied in the state of Mississippi rises from 31% to 118%.
4. Fourth, the *Pandemic Emergency Unemployment Compensation* (PEUC) extends the maximum duration of benefits by 13 weeks.

PUA and PEUC were in place until the end of December 2020, but PUC payments, expired on 31 July 2020.

A study by the Upjohn Institute for Employment Research (Cortes & Forsythe 2020) found that the $600 Pandemic Unemployment Compensation (PUC) payments in the CARES Act ended up providing more economic stimulus than initially conceived.[16] Almost half of the benefits went to the one-third of workers at the bottom of the income scale. CARES Act payments (in conjunction with standard unemployment insurance payments) exceeded total pandemic earnings losses by $9 billion. However, this sum amounts to less than 3% of the Recovery Rebates in the CARES Act, which took the form of payments of $1,200 per adult and $500 per child. By expanding unemployment insurance beyond the replacement rates for displaced low earners, the targeted aid provided by the CARES Act may have had

[16] According to the authors, the $600 figure was chosen to provide the median full-time earner a 100% replacement rate when combined with standard unemployment insurance replacement rates of about 40%. The policy, however, overshot for two reasons. First, the median weekly pay in 2019 was only $765, because many workers do not work fulltime. This would push the median replacement rate to118%. Even more importantly, pandemic job loss was concentrated among low earning individuals, with median weekly earnings of job losers of only $519. The median job loser has a projected replacement rate of 156%.

a stronger fiscal multiplier effect than the Recovery Rebates. Moreover, the combination of Recovery Rebates payments and the CARES benefit expansion probably accounts for the remarkable finding of other studies, namely that poverty rates have fallen during the pandemic.

Parolin et al. (2020) from Columbia University, for instance, found that the U.S. federal transfer program had the potential to reduce the poverty rate in 2020 by 3.6 percentage points in the medium term (from 16.3% to 12.7%, according to the restrictive U.S. definition). In short, the CARES Act has a strong redistribution potential favoring poorer people. This potential for redistribution is greatest among the Hispanic and Black or African-American minorities, who run at least twice the poverty risk of Whites.

All authors, however, warn that this positive effect depends on several contextual factors. First, the program explicitly excludes 15 million members of unregistered families, although their children are U.S. citizens. Second, it is still unsure whether the emergency program reaches recipients everywhere and whether it will help in the long term. According to media reports, the payment of higher unemployment benefits was delayed in many regions because the responsible government agencies were hopelessly overloaded. The hour-long lines of people waiting for free food show that belief in a largely unbridled labor market is saddled with extraordinarily high social costs. Cortes & Forsyth (2020) estimate that around 5% of individuals that they predicted to be eligible for unemployment insurance or PUA did not receive benefits. Further, about 30% of individuals who lost employment during the pandemic period do not meet the eligibility requirements for unemployment insurance. These workers are much more likely to be low-earners, and hence in most need for stimulus payments. Thus, although the PUA and PUC were very successful in replacing income and increasing consumption for recipients, many individuals were ineligible for this aid.

Despite the advice from influential commentators such as Paul Krugman (2020a), the extension of PUC payments beyond late July was blocked by the Republicans and the U.S. president. This obstruction was a severe blow to millions of American families, especially youth and ethnic minorities. Moreover, according to a study by the Urban Institute (Johnson, 2020), older people with meager retirement incomes have experienced a steeper rise in average unemployment rates than that of adults from 25 to 54 years of age, and are suffering from the loss of the supplementary income necessary for a decent living.

Resistance to a further extension or increase in unemployment benefits also came early from the scientific community. The Becker Friedman Institute for Research in Economics, a neoliberal think tank, called attention to possible adverse consequences, namely that the recovery could be slowed if the unemployed were to retain their extended or increased entitlements until the end of the entitlement period. The longer unemployment lasts and the longer it is generously funded, the more the economically strong companies attract the qualified workers; and the overcompensated underqualified workers, upon their return, will demand higher wages that economically weak companies cannot pay (Barrero at al., 2020).

Such studies were not without influence. Despite a bipartisan compromise proposal for a revival of the CARES Act at the end of November 2020, President Trump tried to counteract it in his final moments in office and Finance Secretary Mnuchin made proposals which would have cut unemployment benefits substantially. The compromise that was finally found at the end of December endorsed a $908 billion plan after Democratic leaders stepped back from their fight for a different stimulus package of at least $2 trillion. The main elements in terms of employment and social support are summarized in Box 3 (below). The standoff between President Trump and Congress created a gap of entitlements in late autumn and a great deal of uncertainty for many unemployed and their families about income support in early 2021 (that will last only until March). For unemployment insurance payments after March, it remains to be seen whether the new Congress and President Biden can agree on extensions of the measures and in what form perhaps go even further.[17] All this illustrates, however, the dark side of a system that relies on ad hoc decisions and compromises between President and the legislator.

President Trump and State Secretary Mnuchin would have completely eliminated the most important piece of this compromise: the expansion of benefits for the unemployed due to the alleged disincentive to take up new jobs, a proposal that Paul Krugman (2020b) chastised as "grossly inadequate." Although people might spend some of direct payment, the majority of employed people are not in urgent need of more income. Boosting overall demand is not the main problem during a pandemic; providing economic relief of millions of unemployed or underemployed is the real priority. The Economic Policy Institute (EPI) also sees the reduction of the extra payment to $300 as problematic. Reinstating the full $600 would have created or saved 3.3. million jobs over the next year; the $300 would create or save just half this number, even if it were sustained over the entire year rather than just 11 weeks (Lee 2020). Moreover, analysis of the extended periods of unemployment benefits under President Obama has not confirmed the fears expressed in the early study by the Becker Friedman Institute (Barrero et al., 2020). On the contrary, they have

[17] The tiny majority of the Democrats in the U.S. Senate achieved in January 2021 is a silver line for hopes that the December 2020 compromise soon will be revised with improvements.

contributed significantly to stabilizing the U.S. economy and to curbing the rise in poverty in the United States.[18]

Box 3: Compromise Corona-Package of the U.S. in December 2020

1. *Unemployment Benefit:* The compromise between Democrats and Republicans restores the lapsed federal jobless benefits and the extensions of duration, providing $300 a week for 11 weeks. The legislation also extends Pandemic Unemployment Assistance – a program aimed at a broad set of freelancers and independent contractors – for the same period, providing an additional $100 per week.
2. *Individual payments:* Among the most anticipated components of the legislation are direct payments, with $600 going to individual adults with adjusted gross income of up to $75,000 a year. Heads of households who earn up to $112,500 and a couple who make up to $150,000 a year would get twice that amount. Eligible families with dependent children would also receive an additional $600 per child. As with the earlier round of payments of up to $1,200 sent out in the spring, the benefit declines for those who earned more than those income levels. It cuts off entirely for individuals who earned more than $99,000.
3. *Targeted aid for small businesses*: The agreement sets aside $285 billion for additional loans. Responding to criticism of fraud and funding of borrowers such as professional sports teams, high-income law firms and national restaurant chains loans are capped at $2 million and available only to borrowers with fewer than 300 employees that experienced at least a 25 percent drop in sales. The agreement sets aside $12 billion specifically for minority-owned businesses.
4. *Rental protection and avoiding evictions*: The compromise would protect tenants struggling with rent by extending a moratorium on evictions another month, through Jan. 31. A similar measure protects homeowners against foreclosures on home mortgages and runs until Feb. 28. The bill provides $25 billion in rental assistance.
5. *Food security*: The agreement increases monthly SNAP ("food stamps") benefits (a crucial social benefit for the poor, by 15% for six months. Overall, the legislation provides $13 billion for increased nutrition assistance, $400 million of which will support food banks.

The agreement also provides additional funding for vaccines and tests and tracing and bans extraordinary expensive medical bills. The agreement also includes tax credits for employers offering paid sick leave and for keeping employees on the pay role.
Source: New York Times, various issues; National Jobs for All Network (2021).

Recent studies related to CARES corroborate these results of studies on the Great Recession. Boar and Mongey (2020), for example, find it unlikely that workers receiving replacement rates beyond their wage would reject an offer to return to work at the same wage. Their empirical study identifies several reasons for this outcome: the temporary nature of the CARES Act, the uncertainty that their return-to-work offer might expire, or search frictions and the fear of wage losses out of unemployment in a recession. Furthermore,

[18] See Fischer, 2017; and Schmid, 2018: 169-174 for references to the original studies.

Finamor and Scott (2020) from Yale University find that the workers with higher post-CARES replacement rates did not experience larger declines in employment or hours of work when the benefits expansion went into effect, and they also returned to their previous jobs over time at similar rates as other workers. Finally, calls are growing to revive the spirit of the New Deal in the 1930s under President Roosevelt and to design in particular a federally funded job guarantee program to prevent mass unemployment (e.g., Bartik, 2020; Kelton, 2020; National Jobs for All Network, 2021).[19]

5. Summary and Conclusions

Let us summarize and venture an answer to the initial question: Is it better to be constricted in the corset of insurance logic or at the whim of a liberal presidential system? First, economic policy events in the United States during the pandemic demonstrate that its democratic institutions remained largely intact despite the democracy-endangering behavior of the president in particular at the end of his tenure. The decisive initiatives for U.S. labor market policy came from the relevant legislative organs, the Federal Reserve, and the state and federal employment services. The strengths of the United States compared with the EU are that Congress and the president can react much more quickly than the EU currently does. The U.S. unemployment insurance system has proven itself capable of contributing significantly to economic stabilization. During the Great Recession of 2008/2009, the Obama administration ensured that unemployment benefits were increased (but only by $25 per week) and substantially extended (up to 99 weeks). The Congressional Budget Office (CBO, 2012) concluded at the time that unemployment insurance had stabilized the income of population groups with a high propensity to consume and had thereby raised effective demand. In probably the most thorough work on the subject, Wayne Vroman (2011) estimated that every dollar spent on unemployment benefits generated two dollars of economic activity.

By contrast, the wheels of government in Brussels still turn slowly, with the notable exception of SURE. However, contrary to the situation in the USA, where states have only minimal opportunities for fiscal expansion, the big fiscal stimulus in Europe came from the member states, and the EU authorized it in the context of the commonly agreed budgetary regime (see Box1, point 1). All the EU member states supplemented the funding by raising money in the markets, the levels however varied widely in keeping with their fiscal capacity rather than with the depth of the economic downturn. The first funds of

[19] For a highly informative paper on full employment policy under the New Deal and its partly failed revival under the Humphrey-Hawkins Act see Ginsburg (2012).

the new EU €750-billion reconstruction plan (on the basis of the initiative launched by Emmanuel Macron, Angela Merkel, and Ursula von der Leyen) will not flow until early 2021. For future crises like the COVID-19 pandemic and the associated slump the EU therefore needs permanent structures to improve macro-stabilization. The state of the art of fiscal policy research – in particular based on experiences of the Great Recession 2008/2009 – clearly demonstrates that equitable as well as efficient stabilization policies have to rely much more on inbuilt stabilizers (especially on established social security systems) than on discretionary fiscal policies (Dolls et al., 2011; Fatás & Mihov, 2012). Moreover, in equity-terms, pre-distribution (or ex-ante redistribution) is more efficient than redistribution (Bozio et al., 2020).

Furthermore, the weakness of the system in the United States cannot be overlooked. The need to agree on ad hoc improvements of unemployment insurance provisions also create not only gaps in income support but also huge uncertainty for those in urgent need of support, and the inadequate resourcing of the unemployment insurance administration causes long waits and very late payments. Despite the initially generous wage-replacement benefits and other emergency programs, which certainly expressed a wave of solidarity across the aisle, U.S. labor market policy will – unless Biden can realize his promised radical reforms – soon revert to an unemployment insurance system that has been in need of fundamental reform for decades. In most U.S. states both the degree of coverage and the level of protection for the unemployed fall far below the social standards anchored in the conventions of the International Labor Organization (Fischer, 2017; Wandner, 2018).

A large number of European countries has so far been able to avoid mass unemployment on the scale seen in the United States by resorting to a shield often rooted in insurance law. Evidently, many EU member states have learned from the 2008/2009 recession. STW is being used to a far greater extent. Even national systems with strong labor market policy institutions, such as those in Denmark, Sweden, Austria, and Germany have learned additionally by making surprisingly flexible use of their STW systems. Nevertheless, the limits of this flexibility have become clear, as the case of Germany illustrates. Moreover, enormous differences in the regulations governing STW have surfaced and must be ironed out through minimum standards to ensure a fairer distribution of burdens. The authors of the ETUI study (Müller & Schulten, 2020) have offered very helpful guidance in this respect, to which further aspects need to be added:

(1) The degree of coverage provided by STW must be extended to all sectors of the economy, particularly the areas of personal services declared to be "systemically relevant" (health, education, training, care, supply, and disposal), in which women predominate. The protective shield must also encompass all employees regardless of their employment relationship, especially temporary workers, part-time workers and solo self-employed

people. In cases where the logic of STW work does not fit the employment status, other labor market policies must take effect. This is especially relevant for young people who are not yet in stable employment relationships. Recognizing that young people are particularly vulnerable and hard hit by the pandemic, youth guarantee schemes (ensuring either a job or education or training) must be established or enhanced.

(2) Wage-replacement rates should guarantee an adequate standard of living for all, rather than preserve status in income policy. This requires certain redistributive elements favoring low-income earners, especially in times of a pandemic that defies the classic logic of insurance, which is predicated on regularly recurring economic cycles or seasonal fluctuations in demand. In Germany a benchmark of minimum income has been proposed that corresponds to the net income of a fulltime earner working at the minimum wage.[20] Correspondingly, the EU should coordinate minimum standards for setting minimum wages, which the European Commission recently set in motion. Furthermore, and – in the spirit of the European Pillar of Social Rights – the EU should guarantee an adequate minimum benefit level in times of pandemic-like external shocks. The proposed European unemployment reinsurance scheme would be a step in this direction.

(3) Employment protection should be ensured in times of STW. What is needed is a "breathing" system of wage-replacement benefits that provides generous compensation at the height of a crisis and more restrictive and selective extension of coverage during the upswing in order to create incentives for individuals and companies to assume risk. Risk-taking requires moral assurance through a reliable social protection floor (Schmid 2020). This is particularly true for adjusting and shaping structural change towards a green economy and a society rich in high quality human services for health, care, education and life-long learning.

(4) Social partners at the company and sectoral levels should have a say in implementing STW. The ETUI study (Müller & Schulten, 2020) stipulates the questionable condition that compensation from STW should be denied if companies simultaneously pay out ethically unjustifiable dividends. In our view, the individual legal entitlement to wage compensation in the event of externally imposed reductions of working hours must not be made dependent on the dubious behavior of managers or shareholders. Other instruments are available to enforce ethical standards, such as a tax to skim off excess profits, or naming and shaming. If companies help finance STW systems in advance, there would probably also be insurance-related legal objections to such conditions.

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[20] In Germany this currently corresponds to €1,200 per month (Bispinck & Schulten, 2020).

(5) With regard to risk-sharing, the fair distribution of the resulting debt burden deserves attention. On this point the EU could learn from the way the U.S. unemployment insurance system functions. It shows how a partnership between the federal government and the states in arranging for and funding unemployment insurance systems can become an effective element of an anticyclical economic and social policy. This approach should be taken into account as one dimension in the framework of a European fiscal stabilization strategy. Of course, it does not mean adopting the U.S. system, but it does mean establishing a setting in which the EU level actively pursues the principle of subsidiarity if national systems for economic and social stabilization are not sufficiently equipped for that task. All the member states have an interest in functioning systems of unemployment insurance in the Union. This shared interest also opens the possibility of jointly developing these systems further toward job or employment insurance.

In terms of burden-sharing, the Commission's proposal to finance such programs primarily through EU taxes is a sound path forward. The European Commission is considering revenue from emissions-trading or a digital tax. Its proposals include a single-market tax for large corporations to compensate for the advantages of the common market. "Large companies usually benefit more from the single market than small ones, but small companies carry a higher tax burden. It's all about tax justice," said Johannes Hahn, the responsible Budget Commissioner, in explaining the proposal on 30 May 2020. He also advocated the introduction of new EU taxes and levies for the repayment of EU loans between 2028 and 2058 (Hahn 2020). An expansion of emissions trading and a tax on large companies could each generate €10 billion per year; a tax on goods from third countries with low environmental standards could generate up to €14 billion; and a digital tax could amount to €1.4 billion.

(6) Lastly, structural change in both economic and social terms must be undertaken without delay and steered toward generally recognized goals. Germany and the EU are now largely avoiding open unemployment, which is a greater burden for individuals than STW and similar measures. The effect on structural change remains to be seen. If STW continues, combining it with further training will be especially important, also as preparation for job transitions if structural change requires them. Obviously, training has to be meaningful and provide competencies and skills usable in the open labor market.[21]

Moreover, the creation of new jobs can be promoted during the upswing by such means as converting funds for STW into wage subsidies as suggested recently by experts (e.g.,

[21] For Germany see Bellmann et al. (2020) both for the urgent need of more education and training as well as for the administrative difficulties to implement such measures in combination with STW.

Blanchard et al., 2020).[22] According to these authors, the theoretical rationale for wage subsidies is twofold: First, in times of high unemployment, the opportunity costs (shadow prices) of labor are very low. From a social efficiency standpoint, firms should make decisions based on a comparison between the marginal product of a worker and this opportunity cost rather than on the comparison between the marginal product and the wage. If wages cannot – and we believe should not – be cut for equity reasons, at least not substantially, wage subsidies are needed to encourage firms to take the socially efficient decision. Second, in the absence of such subsidies many firms might not survive although they are economically viable, and the costs involved in the process of destruction and new creation might be very high. If the expected duration of the shock is not too long, allowing most of the firms to survive is likely to be a better social alternative. This conclusion is corroborated through an empirically quite sophisticated Finnish study (Nurmi et al., 2020), which found that roughly a third of so-called zombie firms are in fact growing companies and two thirds recover from the zombie status to become healthy firms. All government subsidies reduce the likelihood that those firms will die, regardless of the type of subsidy, but it is worth examining the effects of different subsidies separately. Furthermore, recovery hazards appear lower for R&D subsidy recipients and higher for employment subsidy recipients. So, the case for wage subsidies is supported by empirical evidence. Furthermore, such wage subsidies (and this is particularly relevant for the European type of welfare state) can also take the form of temporary reduction of, or even temporary exemption from, social security contributions.

In any case, STW and similar schemes offer the chance to facilitate a much more humane transition from one job to another. They demonstrate that Europe can manage industrial transformation just as well as the United States can. These measures could help many employees, but not all. Depending on the specific provisions, such schemes are less likely to help those with temporary contracts, commissioned or contract work, and some of those with family and care responsibilities; and they are unlikely to help those either re-entering the labor market or entering it for the first time. For this reason, advocates of a European unemployment reinsurance system propose a multipronged approach: requiring minimum standards for national unemployment insurance, and combining the macroeconomic stabilization mechanism with support for national labor market policies and services (e.g., Luigjes et al., 2019). The main aim of expanding the capacities of national unemployment insurance systems should be to protect against the risks of critical transitions in a person's life course, as advocated in the European Pillar of Social Rights. Achieving that goal would constitute the first step toward employment insurance or work-

22 As a complement to wage subsidies the authors also propose a new tool for debt restructuring of SMEs handicapped by excessive legacy debt.

life insurance (Schmid, 2018, 2020; Schmid & Schroeder, 2020), which Germany and the EU member states urgently need in order to master both the economic dimensions of structural change (digitization, climate change, environmental protection) and its social dimensions (inclusion and equality).

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