Eurofound

Weathering the crisis: How job retention schemes preserved employment and incomes during the pandemic

Introduction

Job retention schemes were one of the main policy interventions used in the EU to address the negative effects of COVID-19 on the labour market. In contrast to previous crises, all Member States used them to protect employment, support incomes and ensure the fiscal health of national social security systems. This report maps the institutional features of job retention schemes, assesses their effects on employment and their role in protecting household incomes against the shock of the pandemic.

Policy context

COVID-19 required swift and innovative policies at both EU and national levels. In March 2020, the general escape clause under the Stability and Growth Pact was activated for the first time to allow Member States to implement emergency policies with significant budgetary consequences. This was followed by two Coronavirus Response Investment Initiatives, which introduced a temporary framework providing flexible rules on using structural funds to address the economic impacts of the pandemic. They allowed Member States to mobilise up to €8 billion of immediate liquidity and to accelerate up to €37 billion of EU public investment in response to the crisis. The packages simplified the rules for accessing cohesion policy funds, allowing transfers between different categories of funds and between regions and, exceptionally, allowing Member States to request 100% co-financing for cohesion policy programmes.

Furthermore, in April 2020, the European Commission proposed a novel funding mechanism: Support to mitigate Unemployment Risks in an Emergency (SURE). SURE allowed the Commission to borrow up to €100 billion under favourable terms and distribute funds to Member States for employment retention interventions. It became the main pan-European instrument for funding job retention schemes during the pandemic.

Key findings

All Member States implemented job retention schemes during the pandemic. The availability of funds through SURE and policy lessons learned from the global financial crisis contributed to the widespread use of such schemes in the EU. Eleven Member States had schemes pre-dating COVID-19, and 16 introduced new or additional schemes in 2020. Especially in the initial phases, national schemes were adjusted to broaden the eligibility criteria, ease the administrative burden of applications and introduce income support schemes for the self-employed.

Despite similarities in the overall approach, significant differences remained in their institutional features and between the support offered to employees and to the self-employed. These affected eligibility and take-up rates as well as employment and incomes.

Although income support for self-employed workers was an unprecedented feature of the response, the scale and level of support granted to them remained below that offered to employees.

Participation tended to be lower in countries where some categories of workers, such as self-employed or public sector workers, were excluded from the scheme or where firms had to provide justifications for accessing it. Certain conditions, such as special dismissal protection rules, also reduced take-up rates.

Reducing the administrative burden for enrolment encouraged higher take-up rates. This was particularly important during the first stage of the pandemic, when uncertainty about lockdowns and administrative bottlenecks were widespread.

Longer-standing schemes had higher take-up rates, indicating that knowledge of them influenced whether firms opted to use the support available.

The estimated employment effects of job retention schemes are significant. In 2020 and 2021, they saved an estimated 26.9 million jobs. Large labour markets, including those in France, Germany, Italy, the Netherlands and Spain, accounted for more than 80% of jobs saved in the EU during 2020.

The schemes cushioned the impact of COVID-19 on household incomes, particularly in 2020. Their relatively smaller contribution to the protection of household incomes throughout 2021 is explained by lower take-up rates during the incipient recovery phase. In many countries, the schemes provided a lifeline to both dependent employees and the self-employed throughout both years.

Together with social benefits and direct taxes, job retention schemes absorbed 74.4% of the shock on disposable incomes in 2020 and 67.1% in 2021; the main instruments that absorbed the effect of the pandemic on income were taxes and social insurance contributions, accounting for 26.4%. Lower taxable income and lower tax liabilities combined with the progressive taxation schemes in some countries helped to soften the burden of social insurance contributions. In contrast, job retention schemes and unemployment benefits reduced the income shock by 22.1% and 18.0%, respectively.

Income stabilisation measures akin to job retention schemes remained the main policy intervention protecting the incomes of self-employed workers in both 2020 and 2021. While unemployment benefits helped to protect the incomes of dependent employees, they played only a marginal role for self-employed workers.

Job retention schemes protected the incomes of bottom earners more than those of other groups in both years of the pandemic and in all Member States. The redistributive role of job retention schemes and income stabilisation measures varied substantially in size between Member States. On average, at EU level, the income-cushioning effect of the interventions was 20 percentage points greater for the bottom quintile of the income distribution than for the top quintile. This effect was driven by design features of job retention schemes such as income thresholds and replacement rates, suggesting that job retention schemes correctly targeted groups most in need of support.

The redistributive role of job retention schemes and income stabilisation measures for employees and the self-employed is reflected in poverty and inequality indicators. On average, in 2021, job retention schemes reduced inequality by an estimated 0.15 percentage points while also reducing the at-risk-of-poverty rate by 0.5 percentage points.

Policy pointers

- Job retention schemes are temporary yet effective policy interventions that can be deployed during crises to preserve employment and incomes. Their effectiveness depends on flexible conditionality and eligibility criteria, which need to be adjusted to reflect labour market needs and avoid deadweight effects.
- During the COVID-19 pandemic, targeting job retention schemes at the sectors most affected by national health restrictions proved effective in supporting businesses and workers.
- In designing job retention schemes, policymakers need to consider interactions with broader national social insurance systems. In particular, the link between unemployment systems and job retention schemes should be strengthened.
- Job retention schemes should also incentivise workers and employers to use available downtime productively, for example for training. Such schemes should be aligned with existing national and EU initiatives such as the Council of the European Union's recommendation on micro-credentials, which seeks to ensure that short-term learning experiences are certified and recognised in the labour market.
- Access to job retention schemes and similar income support measures for non-standard workers and the self-employed should be improved. Experience from the pandemic shows that such schemes temporarily filled existing gaps in social security coverage for these categories of workers.

Further information

The report *Weathering the crisis: How job retention schemes preserved employment and incomes during the pandemic* is available at https://eurofound.link/ef24021

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