

Case Studies and Policy Changes

EU Proposes Support for Short-Time Work Schemes

By Mallory Dreyer

Original post [here](#).

On April 2, the European Commission (EC) announced a proposal to extend loans to Member States to preserve employment. The [Support to Mitigate Unemployment Risks in an Emergency](#) (SURE) initiative would provide loans to Member States to support the creation and expansion of short-time work schemes. It is meant to act as a “second line of defence” to back up Member States’ increased public expenditures. The Council of the European Union (EU) must vote on the SURE proposal before it can take effect.

The SURE initiative would complement the European Union Solidarity Fund (EUSF). The EU established the EUSF in 2002 to aid Member States when large-scale disasters occur, and its scope was recently amended to incorporate large-scale public health emergencies such as the COVID-19 pandemic. The EUSF is a permanent facility that provides grants, while the SURE initiative would be a temporary program that provides loans. The SURE initiative joins a series of proposals under the umbrella of the [Coronavirus Response Investment Initiative \(CRII\)](#) which the EU announced on March 13 and implemented on April 1. The CRII allows Member States to benefit from more financial support and targeted assistance particularly in the most exposed sectors, such as healthcare, small businesses, and labour markets; and the most affected territories in Member States and their citizens.

Under the SURE proposal, the EU would extend [loans](#) to Member States to help cover costs directly related to the creation or extension of national short-time work schemes and similar measures for the self-employed. Short-time work schemes allow companies experiencing economic difficulties to temporarily reduce hours of, or lay off, employees while the employees receive income support from the government for hours not worked. The SURE initiative would make up to EUR 100 billion in loans available and would be backed by EUR 25 billion in voluntary guarantees from EU Member States. The EC would be authorized to borrow on the capital markets or with financial institutions on behalf of the EU to fund the program. The United Kingdom will not participate in the SURE initiative as it has left the EU.

The [German short-time work scheme, Kurzarbeit](#), is one of the oldest such programs in Europe, with roots back to 1910. Short-time work schemes [gained popularity and widespread adoption](#) in response to the Global Financial Crisis (GFC), as countries, including the Czech Republic, Hungary, Mexico, the Netherlands, New Zealand, Poland and the Slovak Republic, created new short-time work schemes. Other countries, such as [Denmark, France, Italy, Japan, and Spain](#), operated short-time work schemes prior to the GFC. In Germany during the GFC, more than [1.4 million individuals](#) received income support. The [OECD credits](#) the German program with preventing unemployment for nearly 500,000 individuals.

[Evidence suggests](#) that short-time work schemes prevent layoffs and enable employers to adjust workers’ hours in response to an economic downturn. Short-time work schemes can promote [equity](#) in the labor market, as the burden of adjustment is shared more equally across the workforce. Short-time work schemes also promote labor market [efficiency](#), as they prevent

temporary downturns from destroying efficient labor market allocation. These programs allow employers to retain valuable staff and maintain relationships during the downturn. An [OECD analysis](#) concludes that short-time work programs used in response to the GFC had significant positive effects, and that countries without such programs could benefit from their introduction.

However, some note that short-time work schemes could lead to [labor market distortions](#) and [inefficient allocation](#) of labor in the long run. If such programs remain in place indefinitely, workers may not have an incentive to move to more productive firms. During the COVID-19 crisis, when many companies have been forced to close due to exogenous circumstances, there is less concern about inefficient allocation of labor.

In response to the COVID-19 crisis, countries with existing short-time work schemes are seeing an increase in uptake. Between March 1 and March 27, 2020, [470,000 companies](#) applied for the program in Germany, under which the government covers [60% of lost wages and 67% for those with children](#). Denmark announced a [wage subsidy program](#) on March 14, 2020, and over 11,000 companies applied by March 30, 2020. Only employees who do not work are eligible for the Danish program, which covers 75% of wages for salaried employees and 90% of wages for hourly employees, up to DKK 30,000. In Sweden, [employees will receive 90% of their wages](#). The [chômage partiel](#) (partial unemployment) program in France, reimburses 84% of net earnings for employees of companies who reduce or stop operations due to exceptional circumstances. As of April 1, 2020, the Labour Minister in France said that 1 of every 5 employees is on chômage partiel due to the COVID-19 crisis.

Despite increased usage of short-time work schemes, features vary, including eligible reductions in work hours, percent coverage of lost wages, and duration. [Many programs](#) protect employees from dismissal, requiring employers to retain the employees while receiving the benefit and for a set period after.

If the SURE proposal is approved, Member States will be able to request financial assistance from the European Commission to support short-time work schemes and assistance for the self-employed.