European Parliament

EU-27 support for national short-time work schemes

The coronavirus pandemic is affecting all 27 European Union (EU) Member States, but not all to the same extent, although the impact could spill over onto those Member States not (yet) badly hit.

A common European unemployment insurance scheme has been considered as one potential response to the lack of stabilisation instruments under economic and monetary union (EMU). Short-time work schemes could provide such a stabilisation instrument, as well as a starting point for the implementation of a European unemployment insurance scheme.

During the financial crisis, 'short-time work' (STW) schemes in Member States allowed firms to temporarily reduce working time and to receive support from government or public employment services (PES) for the hours not worked. This instrument stabilised employment levels, by avoiding dismissals (even in cases where working time was reduced to zero), sharing the burden and retaining the skilled workforce.

A common STW scheme for the EU-27 could reinforce existing national schemes, and support them in the countries most affected by the coronavirus pandemic. The proposal fully respects the principle of subsidiarity.

Short-time working schemes in Member States

A majority of EU Member States have STW schemes, which differ in the way they are implemented:[1]

- Austria, Belgium, France, Germany, Italy, Luxembourg and Portugal have relatively large (in Belgium, Germany and Italy) and well-established schemes.
- In Denmark, Finland, Ireland, the Netherlands and Spain, support for employees on short-time work is provided through 'partial unemployment benefits'.
- Bulgaria, Croatia, Slovakia and Sweden can also activate STW schemes (for Bulgaria, specific funding is needed).

Today, Member States without STW schemes in place, including Cyprus, Denmark, Estonia, Latvia, Greece, the Netherlands and Slovenia, are taking measures to avoid dismissals, and granting support to workers and companies.

Existing STW schemes can be used if external events (bad weather conditions in the construction or agricultural sector and incidences of *force majeure*), affect economic activity. In response to the coronavirus pandemic, many Member States have now qualified the situation as a case of *force majeure*.

Short-time work schemes generally cover all employees, irrespective of their type of contract (full-time or part-time, temporary or permanent). Furthermore, in many Member States, apprentices and temporary agency workers are excluded. As a response to the current situation, Member States have extended the coverage of their STW schemes, e.g. to temporary agency workers in Germany. In Spain, employees can receive support regardless of the period for which they have contributed to unemployment insurance.

The use of short-time work is limited in time. The limits can vary, depending on whether work is fully suspended (i.e. 0 hours), or only partially reduced (e.g. from full-time to part-time). For a partial suspension of work, the maximum duration can range from three months (Belgium) to up to two years (Italy). In case of a full suspension of work, the maximum duration is generally shorter.

Evaluation

A Europe-wide evaluation of STW schemes[2] concluded that there are advantages in adopting such measures. However, only countries with pre-existing STW schemes would be 'able to fully exploit the benefits of STW', and 'the effect of STW is strongest when GDP growth is deeply negative'. An STW scheme has to be boosted at the beginning of a recession and results indicate that STW is most effective when used as a fast-responding automatic stabiliser.

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A short-time work scheme for the EU-27

A common STW scheme for the EU 27 could reinforce the existing national STW schemes. Such a scheme would limit severe economic crisis through its stabilising effect on disposable income and aggregate demand. It could ensure a stabilisation function, because the insurance scheme would intervene in areas where the economic impact is higher. It could also reduce the pressure on social policies and complement national schemes, when the level of current support is too low.

A growing number of workers are temporary agency workers, external collaborators, project-based workers, task-based workers, and workers identified as (but not actually) 'self-employed', for instance, platform-based workers. A European scheme could provide more universal cover than national schemes, and could also enhance protection for people facing a high risk of poverty, thereby strengthening the social dimension of the EU-27 and demonstrating European solidarity. Analysis estimates the costs of such a system (under four 'shock scenarios'), to amount to between 0.6 and 0.8 % of the GDP of participating countries per year, with an estimated 20 % stabilisation effect.[3]

European Parliament position

The European Parliament considers that ensuring compensation during a downturn has significant macro-economic stabilisation potential, as demonstrated by previous experience in the EU and the United States of America. A second important benefit is that this type of expenditure goes where it is most needed: to the countries most concerned and to support the capacity of households whose labour income is going to be reduced; it gives the economies affected greater space to invest where it is needed for long-term sustainable recovery.

In its resolution of February 2017 on the budgetary capacity of the euro area,[4] the Parliament expressed the view that an EMU-wide basic unemployment benefit scheme would contribute directly to stabilising household income. Short-time working schemes could have more sustainable results, because they avoid dismissals. The workers would remain 'employed'.

Commission and Council responses to date

In May 2018, the Commission presented, within the proposals for the 2021-2027 multiannual financial framework (MFF), a regulation on the establishment of a European Investment Stabilisation Function (EISF). This regulation envisages support for Member States hit by an asymmetric shock and/or increase in the unemployment rate.[5]

In June 2018, France and Germany decided to examine the issue of a European Unemployment Stabilisation Fund, for the case of severe economic crises, without transfers. While the intention was to set up a working group with a view to making concrete proposals by the European Council meeting of December 2018, there has been no result to date.

On 1 April 2020, the Commission made a proposal for a Council regulation on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the coronavirus outbreak.

ENDNOTES

1 Short-time working schemes as a response measure to the coronavirus crisis, European Commission, March 2020.

2 Brey B., Hertweck M. S., The extension of short-time work schemes during the Great Recession: A story of success?, University of Konstanz, 2016.

3 M Del Monte and T Zandstra, Common unemployment insurance scheme for the euro area: Cost of Non-Europe report, EPRS, European Parliament, September 2014.

4 European Parliament resolution of 16 February 2017 on the budgetary capacity for the euro area (2015/2344(INI)).

5 European Commission, proposal for a regulation on the establishment of a European Investment Stabilisation Function, COM(2018) 387 final, 31 May 2018. The 'activation criteria' for EISF support would be the simultaneous fulfilment of two criteria: (1) the quarterly national unemployment rate exceeded the average unemployment rate over a period of 60 quarters, (2) the quarterly national unemployment rate increased above 1 % in comparison to the unemployment rate observed in the previous year. In Parliament, this proposal has been referred to the Committees on Budgets and on Economic and Monetary Affairs, meeting jointly under Rule 58 (2018/0212(COD)).