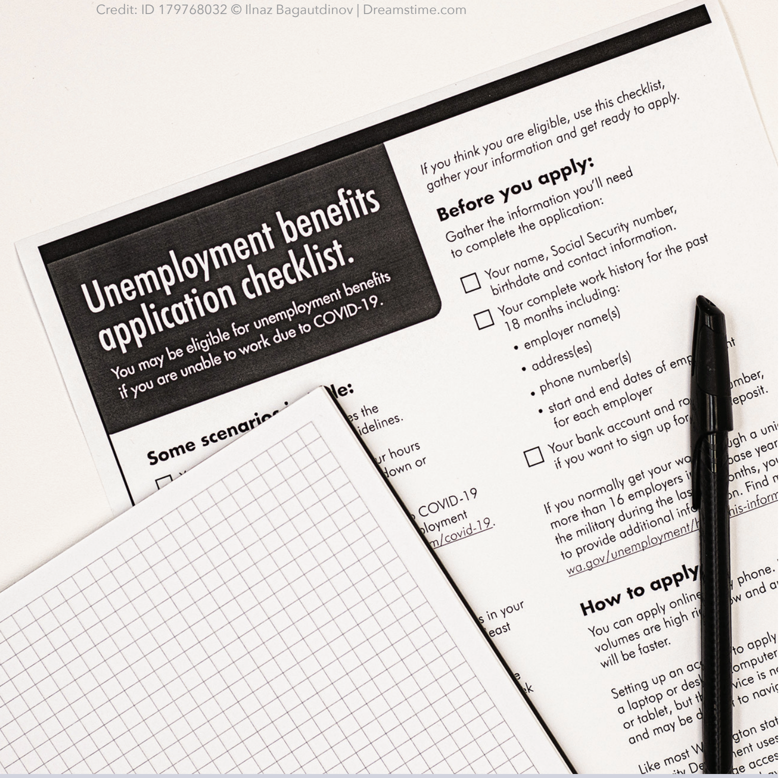
OP-ED

by Giulia Giupponi, Camille Landais, and Alice Lapeyre

Unemployment insurance versus short-time work

Lessons from the pandemic. What should governments do?



The labor market policy response to the COVID-19 pandemic crisis has been unprecedented in scope, yet diametrically opposed on the two sides of the Atlantic. The United States relied extensively on unemployment insurance, placing its policy focus on insuring workers against the cost of job loss.

European countries, instead, concentrated efforts in preserving existing employment relationships through the use of short-time work or job-retention schemes. These polar strategies resulted in 12 percent of the U.S. working-age population being on unemployment insurance benefits in April 2020, and 16 percent of the European cohort being on short-time work at the same time — despite several U.S. states and European countries having operational schemes of both sorts (Figure 1).

In the face of large economic shocks, should governments use short-time work or unemployment insurance?

How does short-time work *work?*

While most people are familiar with unemployment insurance policies, short-time work schemes are less well known. How do they work in practice? Short-time work — also called short-time

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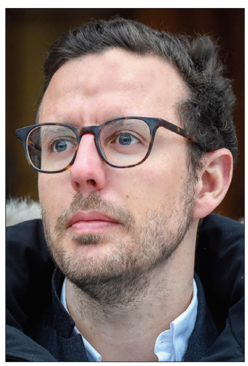

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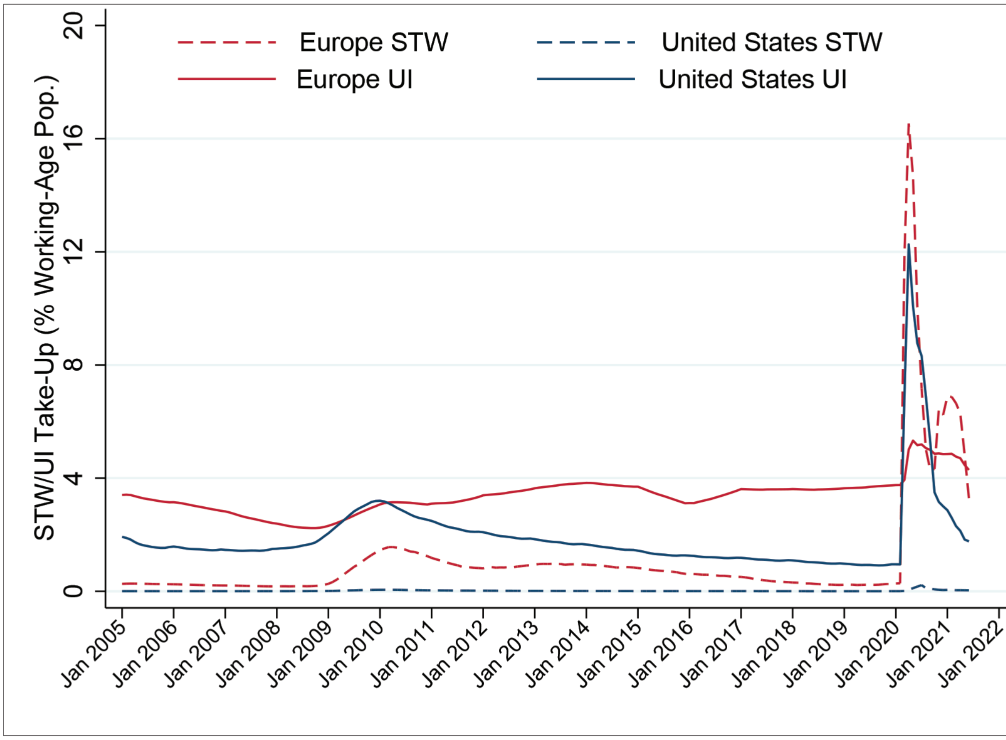
Figure 1. Unemployment insurance and short-time work take-up in Europe and the United States



Note: The figure reports the evolution of short-time work (dashed lines) and unemployment insurance (solid lines) take-up in Europe (red lines) and the U.S. (blue lines), computed as the ratio of the number of individuals in the program in a given month, as a percent of the quarterly working-age population. The series for Europe is a weighted average of the series for Germany, France, Italy, and the United Kingdom, weighted by the working-age population.
Source: Giupponi, Landais, and Lapeyre (2022)

Short-time work aims at preserving jobs; unemployment insurance seeks to protect workers against the risks associated with job loss.

compensation, work sharing, or shared-work programs — are subsidies for hours reductions granted to firms experiencing temporary shocks, such as drops in demand or production. As such, short-time work programs allow employers to reduce the number of hours worked by their employees instead of making them redundant. Employees are compensated by the government for earnings lost due to hours not worked.

Unemployment insurance programs, instead, provide a temporary subsidy to laid-off workers who lost jobs through no fault of their own. Hence, while both programs provide a cushion against labor market shocks, they differ in one fundamental way: short-time work aims at preserving jobs; unemployment insurance seeks to protect workers against the risks associated with job loss.

The benefits of short-time work schemes

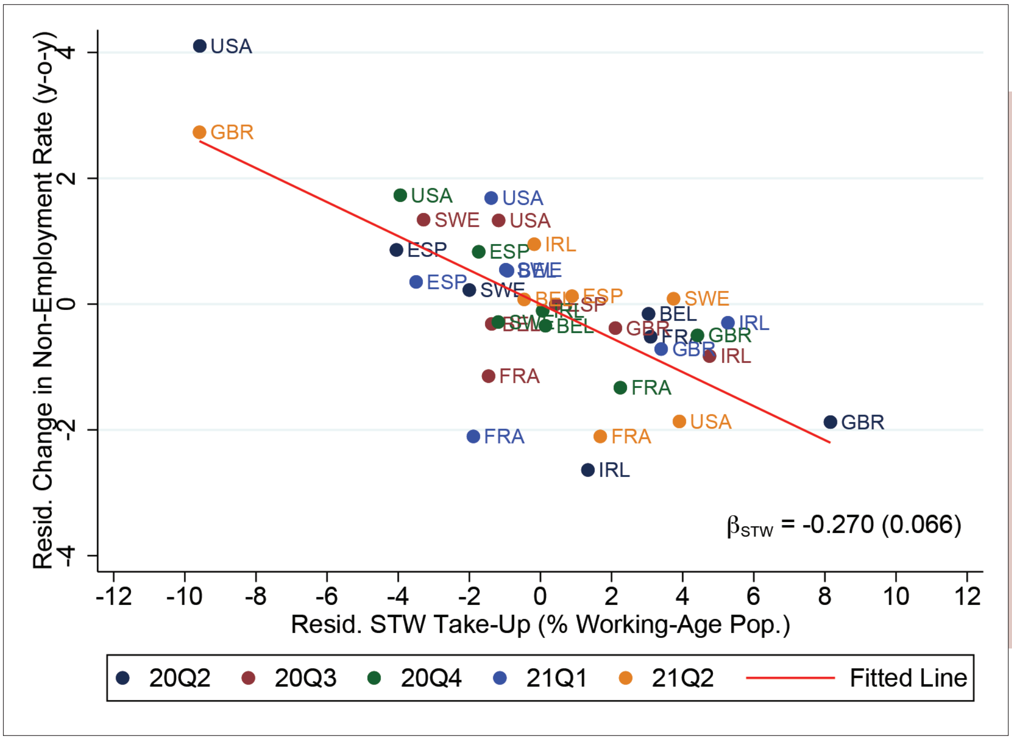
Short-time work schemes are primarily designed to reduce job separations. From a macro perspective, countries that made more intensive use of short-time work during the pandemic experienced lower reductions in employment (Figure 2). The opposite is true for unemployment insurance. Even though this evidence is only correlational, it echoes a growing body of research showing that short-time work indeed saved jobs during the Great Recession. Both then and now, the program has proved to be an expedient way to both preserve employment and attenuate the social costs of layoffs. Unemployment insurance can achieve only the second objective.

In practice, though, short-time work and unemployment insurance provide social protection to different types of workers. If we consider the German case — one in which the two schemes coexist — recent evidence shows that unemployment insurance recipients tend to be younger, on lower earnings, and reliant on a weaker safety net than recipients of short-time work. Consequently, even though it has the added benefit of preserving jobs, short-time work may fail in catching those with the greatest need in its net.

The costs of short-time work schemes

As with any governmental program, short-time work and unemployment insurance are not without costs. Both require a fiscal disbursement, which grows larger as workers and firms opportunistically use the scheme beyond what is strictly necessary. Such opportunistic behavior — moral hazard, in economic jargon — is what ultimately determines the total fiscal cost to the government of providing one dollar of transfer to an unemployed person as opposed to a worker on short-time work. Evidence from Switzerland and Italy during the Great Recession suggests that the total fiscal cost of short-time work is lower than that of unemployment insurance. The reason for this is that, by saving employment, the former reduces the use and, in turn, the cost of the latter.

Figure 2. Short-time work take-up and the non-employment rate during the pandemic



Notes: The figure shows the relationship between the year-on-year change in the quarterly non-employment rate and in the rate of short-time work take-up at the country level. See Giupponi, Landais, and Lapeyre (forthcoming) for more details on data sources and the construction of the graph.
Source: Giupponi, Landais, and Lapeyre (2022)

Far from being substitutes, unemployment insurance and short-time work have high potential to be complements.

Yet this is only part of the story. Besides fiscal costs, one should also consider the economic costs of social insurance schemes. One that seems to have vastly preoccupied policymakers during the pandemic is that short-time work — by keeping workers attached to their old employers — may inefficiently delay the efficient reallocation of workers toward more productive employment relationships and slow down the recovery. While evidence from the Great Recession suggests that reallocation costs are smaller than dreaded, it is hard to speculate about their scope in the current context.

Complementary policies

So, what should governments do? The policy debate tends to contrast short-time work and unemployment insurance as two opposite, mutually exclusive strategies to respond to economic shocks. In fact, far from being substitutes, the two have high potential to be complements. They offer protection to different types of workers. They exhibit strong fiscal complementarities, since the use of short-time work reduces the risk of layoffs and, in turn, the cost of unemployment insurance.

They also tend to work best in the face of different shocks: short-time work is an effective way to respond to temporary shocks, while unemployment insurance can be more efficient and less economically costly when the shock becomes persistent. Having both programs in the policy toolkit is likely to offer the best equipment to respond to any type of labor market shock. ■

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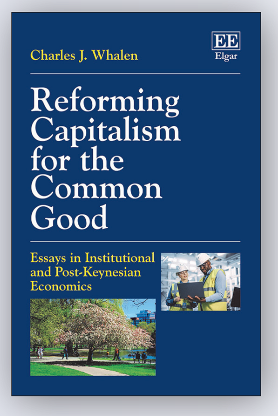


Charles J. Whalen

Reforming Capitalism for the Common Good: Essays in Institutional and Post-Keynesian Economics

by Charles J. Whalen

Edward Elgar Publishing, 2022

From Edward Elgar Publishing:

This book of selected essays presents constructive analyses of vital economic problems confronting the United States since the 1970s, giving special attention to challenges facing working families. The analyses, produced by Charles Whalen over three decades, address the causes and consequences of macroeconomic instability, job offshoring, community economic dislocation, financialization, and income inequality. They also explore the various dimensions of worker insecurity and underscore the dynamics of an ever-changing economy. The result is a compelling case for reforming capitalism by addressing workers' interests as an integral part of the common good, and for reconstructing economics in the direction of post-Keynesian institutionalism.

Whalen's reformist approach builds not only on the institutional economics of John R. Commons, but also on the post-Keynesianism of Hyman Minsky, who stressed that society should be democratic and humane. To that end, the book gives attention to policy-making processes as well as policy details.

Scholars and students of economics and labor studies will appreciate the incisive analyses and real-world focus. Historians and economic sociologists will be interested in the book's attention to the evolution of U.S. capitalism; and policy analysts and concerned citizens will welcome its emphasis on economic reform and optimistic vision for our economic future.