

# **Job-retention schemes and labour market adaptivity in the context of the Coronavirus crisis**

- Summary of Results for Ukraine -

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# Structure

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  1. Increasing labour market flexibility
  2. Short-time work schemes
  3. Wage subsidies
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# 1. Introduction

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## Background:

- Coronavirus pandemic led to heavy economic impact around the world
- Need for adaptivity of labour market as companies needed to quickly cut (labour) costs as production had to be stopped/demand collapsed
- In countries with flexible labour law, companies can easily lay off employees, but in many countries, labour law is quite rigid
- Some countries used Job Retention Schemes (JRS) such as short-time work to overcome rigidities whilst allowing workers to keep their jobs

## Purpose of this Policy Briefing

- Analysis of policy options to foster labour market adaptivity
- Analysis of labour market adaptivity in six transition countries
  - Here: focus on Ukraine
- Tentative policy recommendations

## 2. Policy options to foster labour market adaptivity

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- In a temporary economic crisis, companies should be able to adjust labour input as necessary given economic conditions in order to be able to stay financially viable
- Also, labour market should be able to accommodate structural change – reallocating workers from outdated to new and productive industries
- All of this depends on labour market regulation
- To improve adaptivity in crisis situations such as the global pandemic, two main policy options exist
  1. Increase labour market flexibility
  2. Implement/use Job Retention Schemes (JRS). 2 main sub-types:
    - Short-time work (STW)/furlough
    - Wage subsidies
- Although not conceptually inconsistent, countries usually focus either on flexibility or STW

## 2.1 Increasing labour market flexibility

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- The approach of classical economic theory
- Permit quick and costless firing of employees to allow companies to quickly adjust production and costs to changed conditions

### **Advantages**

- Permits quick response of companies to crises
- Enhances reallocation of workers in structural change
- Low firing costs incentivise quicker hiring
- Prompts workers to negotiate other terms with employers
- No state involvement = no abuse risks or capacity issues

### **Disadvantages**

- High income risks for workers, associated political difficulties
- Alternative: “Flexicurity” approach with more welfare state activity
- Emphasis on firing may slow down recovery as companies need to replace workers in recovery

## 2.2 Short-time work schemes

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- Approach made popular by usage in Germany during GFC
- State intervention: Companies can put workers on “short time” unilaterally, wage is (mainly) paid by state

### Advantages

- Companies can quickly reduce costs in crisis (if qualify)
- Workers interests reflected
- Retaining workers in crisis aids recovery after temporary crises
- Reconciles high employment protection with company flexibility = easy to implement politically

### Disadvantages

- Fiscal costs, but high interaction with unemployment insurance
- Emphasis on worker retention may delay adjustment to structural change
- Abuse risks (working despite state benefits, time-shifting of work)

# Short-time work schemes: Design options

Design option	Effect on	
<b>Scalability:</b> Flexible cuts in hours or 0/100%	Flexibility	Abuse risks
<b>Coverage:</b> Circumstances required for JRS	Costs	Impact
<b>Eligibility:</b> Which workers can receive support	Costs	Equity
<b>Generosity:</b> Level of benefits	Costs	
<b>Co-payment:</b> Cost share of companies	Struct. change	Impact
<b>Duration:</b> How long	Impact	Struct. change

Source: Own illustration

➤ **Design options allow fine tuning to capacities and needs**

## 2.3 Wage subsidies

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- Used e.g. in AUS, NZL, CAN, POL, EST
- Subsidies not linked to employees not working
- Hence usually strict qualification criteria (difficult economic conditions of companies)

### Advantages

- Financial support to companies in distress
- Incentive to keep working supports economic performance/GDP
- Fewer abuse risks as no need to monitor non-work

### Disadvantages

- Higher fiscal costs often necessitate strict conditionality, trade-off between coverage and costs
- Adjustment to structural change disincentivised, very attractive for unviable companies to use as a general subsidy and stay in business



### 3. Analysis of labour market adaptivity in six transition countries

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- Analysis for Ukraine, Belarus, Moldova, Georgia, Uzbekistan and Armenia
- All transition countries with limited fiscal means, limited social assistance, prevalence of informal employment and often constraints on state capacity

#### Similarities and dissimilarities in labour market regulation:

- Soviet legacy impact on Labour Codes lists permissible grounds for firing workers, high rigidity of labour market regulation
- Typical: Only “organisational reasons” such as closure of a division, not general economic situation of the company
- Reducing working hours only possible with employee consent (int. normal)
- Often long notification periods for firing, severance pay = companies have firing costs and cannot immediately cut costs during crisis
- Main exception: Georgia with highly flexible labour law
- Often, workarounds to rigidity exist (fixed term contracts, informal methods to induce employees to resign)

# Comparison of key aspects of labour market regulation

	Economic grounds permissible for termination of employment	Regular notification period for dismissals, months	Severance pay after regular termination, regular monthly wages	Technical unemployment (reduced salary payment by company)	STW scheme (paid by state)
Ukraine	-	2	1	+	+
Belarus	-	2	3	-	-
Moldova	-	2	one weekly wage per year worked	+	-
Georgia	+	1	-	-	-
Uzbekistan	+	2	1	-	-
Armenia	+	2	1	+	-

Source: German Economic Team

## Government measures

- Only Ukraine has a (limited) furlough scheme – only applicable for SMEs when closed due to government lockdown regulations
- In other countries often “technical unemployment”/“idle time” when unable to work – company pays reduced salary

## 4. Conclusions

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- In most countries, firing was used as main instrument, but imperfectly:
  - Relatively high costs for companies,
  - Companies would have often liked to maintain links with workers
- Rigid labour law remains prevalent, hard to make flexible as unemployment insurance systems usually weak
- Hence considering to implement or extend JRS, especially short-time work schemes appears worthwhile
- Design options allow adjustment to fiscal and administrative constraints

# About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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