

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

- Summary of results for Moldova -

**David Saha and Sebastian Staske**

Berlin, May 2021

# Structure

---

1. Introduction
2. Situation in Moldova
3. Analysis of labour market adaptivity in six transition countries
4. Policy options to foster labour market adaptivity
  1. Increasing labour market flexibility
  2. Short-time work schemes
  3. Wage subsidies
5. Conclusions

# 1. Introduction

---

## Background

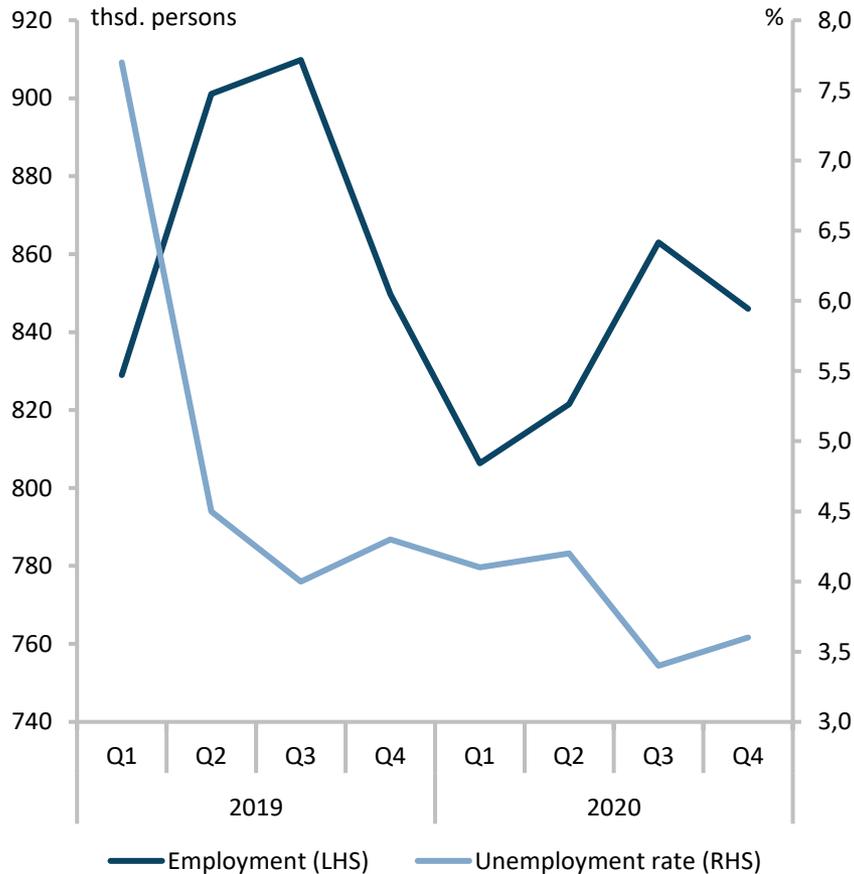
- Coronavirus pandemic led to heavy economic impact around the world
- Need for adaptivity of labour market as companies needed to quickly cut (labour) costs as production had to be stopped/demand collapsed
- In countries with flexible labour law, companies can easily lay off employees, but in many countries, 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 Moldova
- Tentative policy recommendations

## 2. Situation in Moldova (I)

Total employment and the unemployment rate



Source: National Bureau of Statistics of the Republic of Moldova

### Impact of the crisis on the economy

- Twin shock: Corona and drought
- Result: GDP declined by 7% in 2020

### Situation on labour market

- Usually: strong seasonal upturn in employment in Q2
- 2020: no upturn in Q2
- Instead: employment down by 800 thsd. workers compared to 2019Q2 (approx. 10% of total)
- No corresponding increase in unemployment
- Reason: insufficient flexibility for employers, legal barriers to firing

➤ **Reaction on labour market: mostly non-hiring rather than firing**

## 2. Situation in Moldova (II)

---

### Current labour market regulation

- Lay-offs usually only possible for “organisational reasons” (closure of a department, etc.)
- Reduction of working hours (with corresponding salary cuts) require assent by workers
- Transfers of workers to other organisational entities within the company require written consent
- State of emergency (March to May 2020): companies not allowed to lay off any workers
- “Technical unemployment”:
  - Applicable when impossible to continue production (e.g. in a crisis)
  - Firms can then put employees on paid leave for up to 4 months within a calendar year
  - During the leave: employees must be ready to continue working at any time, receive 50% of their basic wage
  - No payments by the state or unemployment insurance → therefore no JRS
- Feedback by firms:
  - Technical unemployment incurs significantly higher hourly labour costs
  - Restrictive labour law makes adjustment to crisis difficult

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

---

- 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)	Short time work 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

## Experience in transition countries

- In most countries, firing was used as main instrument despite firing costs and desire to maintain links with workers
- Rigid labour law prevalent, hard to make flexible as welfare state usually weak
- Fiscal labour market measures rare, a (limited) STW scheme exists only in Ukraine
- **What consequences for labour market policy to permit a better adaption of labour markets to crises?**

## 4. Policy options to foster labour market adaptivity

---

- 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

# 4.1 Increasing labour market flexibility

---

- 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
- **Could improve business and investment climate in general**
- **However: politically contentious, difficult to carry out (esp. in times of crisis)**

## 4.2 Short-time work schemes

---

- 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)

➤ **Attractive way of helping companies and workers**

➤ **Can be designed to suit the respective institutional and fiscal requirements**

# Short-time work schemes: Design options

## Design option

## Effect on

**Scalability:** Flexible cuts in hours or 0/100%

Flexibility

Abuse risks

**Coverage:** Circumstances required for JRS

Costs

Impact

**Eligibility:** Which workers can receive support

Costs

Equity

**Generosity:** Level of benefits

Costs

**Co-payment:** Cost share of companies

Struct. change

Impact

**Duration:** How long

Impact

Struct. change

Source: Own illustration

## 4.3 Wage subsidies

---

- 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
- **Less suitable for transition countries due to low targeting of expenditures**

# 5. Conclusions

---

## General conclusions for transition countries

- Most countries currently in a difficult situation: relatively rigid labour markets, little government support
- Flexibilisation of labour markets likely to be politically difficult
- STW schemes could be worthwhile if designed to suit the specific context

## Points for consideration in Moldova

- Introduction of a short-time work scheme
- Extending the maximum duration for technical unemployment
- Facilitation of transfers of workers to other organisational entities within the company without written consent and long notification requirements

# 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.

## CONTACT

**Carolin Busch**, Project Manager Moldova  
[busch@berlin-economics.com](mailto:busch@berlin-economics.com)

German Economic Team  
c/o BE Berlin Economics GmbH  
Schillerstraße 59  
10627 Berlin

Tel: +49 30 / 20 61 34 64 0  
[info@german-economic-team.com](mailto:info@german-economic-team.com)  
[www.german-economic-team.com](http://www.german-economic-team.com)

Implemented by

