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COMPARING EUROPEAN LABOUR SUPPORT SCHEMES

Berenberg Macro Flash

The virus containment measures cripple economic activity in Europe. Real GDP could fall by more than 10% in some countries this year. To soften the hit to the labour market, governments across Europe have introduced un-/underemployment on-the-job schemes, made them more generous and/or broadened access to them. For an overview of the various schemes, please see the table below. The schemes are mostly based on the German “Kurzarbeitergeld” designed to cushion a sharp but temporary drop in demand. The schemes are comparatively generous in the Netherlands and less so in Italy and Spain.

Powerful automatic stabiliser for demand ...: Workers who have been put on reduced or even zero hours continue to receive the regular wage for the hours they still work, if any, and regular or enhanced unemployment benefits for the hours they no longer work. Because of this subsidy, businesses can more easily hold on to their workers. Workers benefit because they do not get sacked and continue to receive a compensation which, while usually below their regular pay and capped at a maximum, exceeds the standard unemployment benefits.

... and supply: The subsidies also make supply more flexible. Having held on to their workers, businesses can easily ramp up production once the recovery is on its way. In addition, businesses save money on firing (severance pay, long notice periods, law suits etc.), hiring and training. Employers and employees often have to negotiate over hours and wages. The subsidy for underemployment on the job facilitates this process by making its result more palatable for both employers and employees. Given the unusually sharp but temporary nature of the Covid-19 recession, the risk that government subsidies will prevent a necessary re-allocation of human capital to more productive uses currently looks relatively slim.

Lessons from 2008/09: Partly due to the “Kurzarbeitergeld” scheme, German employment fell by just 1% during the financial crisis of 2008/09 despite a 7% peak-to-trough plunge in real GDP. In the US, where output contracted by just 4%, employment plunged by a much bigger 5.4%. If German employment would have responded to the drop in GDP to the same degree as US employment did to the fall in US output, it would have declined by c1.9m people instead of a mere 400k (see chart below). As many European governments today encourage (even more) firms to retain their workers while authorities tackle the coronavirus medical emergency, Europe limits the risk of a protracted downturn caused by a more persistent shock to demand from high unemployment.

This time is different: During 2008/09, the German job retention scheme helped to avoid job losses mostly in Germany’s export-oriented manufacturers. This time, small- and medium-sized enterprises (SMEs) in the service sector as well as self-employed and temporary workers are hit even harder than most parts of manufacturing except for the car industry. Most countries have therefore expanded their job retention schemes to the latter groups which are particularly vulner-



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able. Countries with a large portion of fixed-term contractors may have to reinforce their steps. Temporary workers could otherwise suffer from both the drop in economic activity and companies using them less when their permanent staff is working short-time. Amid the unprecedented number of wage subsidy applications, authorities are more lenient than in the past to provide support fast rather than risk livelihoods while pursuing a time-consuming, bureaucratic screening process.

Differences across Europe:

- **Relative size and maximum cap:** The Netherlands are at the high end in terms of both the maximum monthly cap of €9,538 and the compensation relative to the wage (90%). Italy and Spain are at the low end with a maximum monthly amount of €1,129 and €1,412 per worker, respectively. While in Germany the government only covers 60-67% of the lost wage, this is in after-tax terms, on the basis of higher average wages than in Italy/Spain and is capped at a monthly amount of €6,700. Germany's SPD, part of the ruling coalition, wants to raise the subsidy to 80%.
- **Strings attached:** In some countries, the government's help is conditional on businesses maintaining their work force during and after the subsidy is paid, for example in France and Italy. In some countries such as Germany, a political debate has started to hinder businesses to pay dividends while receiving "Kurzarbeitergeld".
- **Temporary workers:** The economies of Italy, Spain and the rest of Southern Europe depend a great deal on the tourism, especially in the summer months. A high share of seasonal workers characterises their labour markets. While the schemes of Italy and Spain include support for seasonal workers, they will likely only earn half of what most permanent staff can expect to receive.

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Table 1: Short-time working schemes in major European countries (and US)

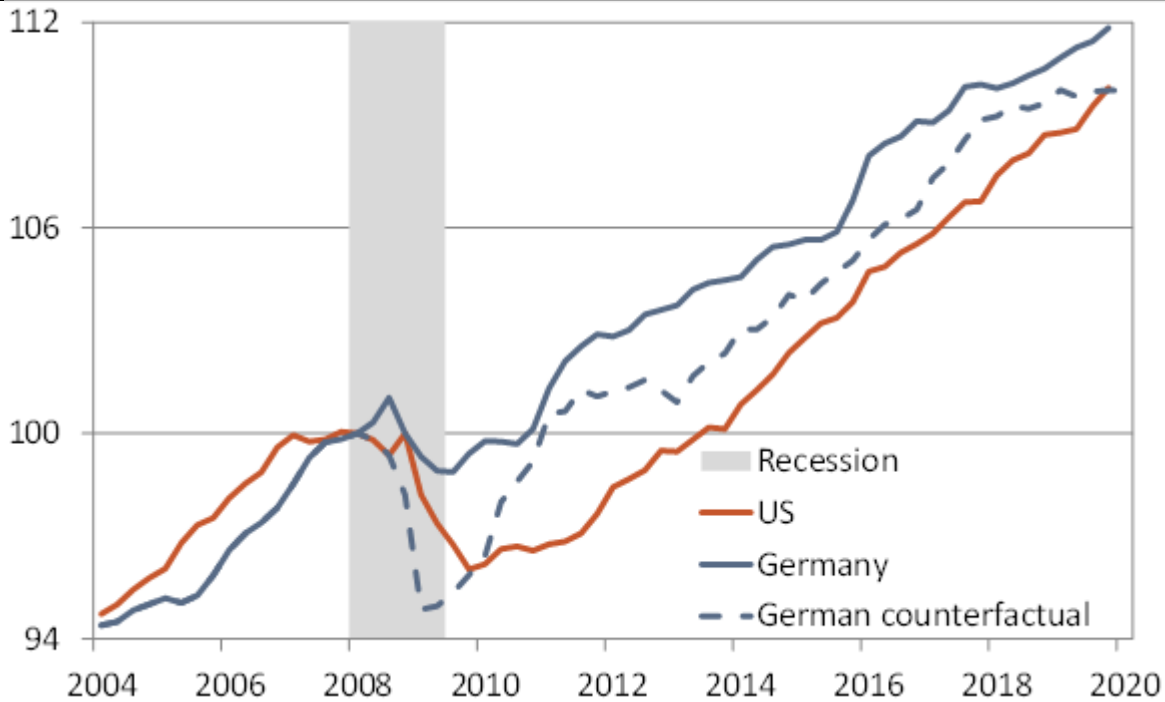
	Name	Max. % of wage	Net/gross	Max. monthly amount	Max. length (months)	Number of applicants so far	Details	Eligibility	Self-employed/temporary workers	Other support
Germany	Kurzarbeitsgeld (KUG)	67	net	€ 6,700	12	*c725,000 businesses (as of 15 April)	*60% for workers without a child *Full compensation of social security contributions to employer *Can be extended to 24 months *Parental compensation - up to 67% of net income (up to €2,016/month) for up to 6 weeks *SPD looking to raise subsidy to 80%	*10% of employees in business affected by loss of earnings (pre-crisis: 30%) *Employers banned from making redundancies during period *Works' council or all employees have to give consent	*Self-employed and SMEs (<10 employees) can receive one-time emergency aid grants of up to €15,000 *Temporary workers included	*Eased requirements for access to job seekers' income support and child supplements for 6 months *Rental protection for late payments between April-June
France	Chômage partiel	70	gross	€ 6,927	2	*c785,000 businesses, with 9.6 million workers involved (as of 20 April)	*Employees on minimum wage to receive 100% of their salary *Emergency aid of €150 per family for those receiving income support, with additional €100 per child to be paid on 15 May	*Employers banned from making redundancies during period	*Self-employed and small business owners (<€1m annual turnover and <€600,000 annual gross profit) are eligible for a €1,500 help package *Additional €2,000 supplementary package for those most impacted *Temporary workers included	*Extension of expiring unemployment benefits and preservation of benefits under disability and income schemes *Most vulnerable households to receive €150 each, with an extra €100 per child *Healthcare workers will each receive bonus of €500-1,500
UK	Coronavirus Job Retention Scheme (CIRS)	80	gross	£2,500	4	*More than 140,000 businesses, with 1 million workers involved (as of 20 April)		*Both employers and employees have to agree *Employee must be furloughed for minimum of 3 weeks	*Self-Employed Income Support scheme for those earning up to £50,000, offering taxable grant of 80% of previous monthly earnings (up to £2,500) over last 3 years. First grants paid in June for at least 3 months.	*Eased requirements for universal credit, including suspension of minimum floor and increase in allowance by £1,000 for next 12 months *Statutory sick pay from day 1 of absence (originally day 4)
Italy	New CIGO (Ordinary Wage Guarantee Fund)	80	gross	€ 1,129	c2	*250,000 businesses, with 4 million involved (CIGO, as of 7 April), 3.5 million applications by self-employed)	*Includes full social security contribution	*Sufficient to indicate the specific cause "emergency COVID-19" *Trade union approval *Available for firms with at least 15 employees *Employers banned from making redundancies on economic grounds	*CIGD €500-600/month payment for businesses not eligible (< 15 employees)/self-employed and seasonal workers	*€100 bonus for workers in essential services *€300 by municipalities for poor without income or pension *Suspension in repayment of mortgages for workers who have lost their job *Parental leave of up to 15 days at 50% of salaries for families or, alternatively, €600 transfer for childcare service
Spain	ERTE (temporary employment adjustment schemes)	70	gross	€ 1,412	6	*More than 620,000 businesses (as of 2 April) *More than 2.5m businesses expected by late April	*After 6 months entitled to 50% unemployment benefit *Businesses with <50 employees do not have to pay social contributions, those with >50 must pay 25% towards it	*Eligible if hours have been reduced by 10-60% *No requirement for prior minimum contribution or reduction of accumulated entitlement	*€661/month extraordinary benefit for self-employed who have seen business suspended and/or a 75% loss in earnings (mom vs. last 180 days) *€430/month allowance for temporary workers whose contracts have expired and do not qualify for UB (for at least 2 months)	*Increased sick pay from 60-75% of base salary *Automatic extension of social benefit for energy provision until Sept 15 *Reduced working times permitted for workers caring for children or dependent persons *6 month suspension of rent for vulnerable groups
Netherlands	NOW (temporary emergency measure bridging for work retention)	90	gross	€ 9,538	3	*100,000-500,000 businesses expected to apply	*Compensation depends on turnover (examples: if turnover down by 100%, 50% or 25%, compensation of 90%, 45% and 22.5%) *Government will cover 30% of pension contributions and employers' premium *After 3 month period, one-off 3 month extension can be requested *Childcare compensation for parents	*Businesses expecting to lose at least 20% turnover from March to May, as compared to 2019 *Employer commits to not making redundancies on economic grounds	*Self-employed workers can receive social benefits for 3 months though accelerated procedure *Self-employed to receive €1,050/month over next 3 months (or €1,500 for couples and/or with children)	*Childcare compensation for parents who continue paying for childcare during lockdown
US	CARES Act, Families First Coronavirus Response Act (FFCRA) and State Unemployment Insurance						*Fully refundable tax credit for employers equal to 50% of qualified wages *Crisis lending by the Small Business Administration to small businesses will forgive the amount of principal on eligible small business loans equal to the sum expenses for payroll, and existing interest payments on mortgages, rent payments, leases, and utility service agreements if small businesses retain workers. *2 week paid sick leave and up to an additional 10 weeks of paid expanded family and medical leave	*Tax credit only to those businesses who maintain employment and adversely affected	*Unemployment insurance coverage expanded to freelancers and gig economy workers	*One-time payment of \$1,200 for eligible individuals earning up to \$75,000, less for individuals earning up to \$99,000 (\$2,400 for married couples and \$500 per child) *Enhanced unemployment compensation: for workers who lose their jobs, unemployment insurance pays 50% of wages plus they receive an additional \$600 per week for up to four months. This programme lasts 39 weeks.

Sources: IMF, OECD, ILO, Reuters national government websites, Berenberg



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Chart 1: A very different response to the 2008 shock: US and German employment



Employment levels, Q2 2008 = 100. The German counterfactual gives the hypothetical employment level if the German labour market had reacted in the same way to a change in real GDP as the US. Sources: BLS, Destatis, Berenberg calculations

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