
Temporary paid furlough in the midst of an unprecedented sanitary crisis: evidence from the Spanish reality

Executive summary

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*Note: This document is a brief and non-technical executive summary of the academic working paper, where further details on the analysis and technical aspects are developed in depth.

Key findings

- We found a robust and positive average effect of furlough schemes in the probability of being re-employed at the short-term.
- This positive re-employment effect was widespread at the regional level everywhere in the country and in every economic sector.
- However, although still significant, this effect lessens at the medium-term, thus, when the furlough scheme was held in time for two consecutive quarters.

Recommendations

- ERTE furlough schemes can be considered as an effective tool to face transitory shocks, increasing the re-employability of the granted and stabilizing the labor market meanwhile.
- These effectiveness is not conditioned to any region or sector, recommending its use at a general level.
- On the other hand, its duration and timing are key determinants for its effectiveness and therefore should be carefully measured.

Principales resultados

- Se ha encontrado un efecto medio significativo y positivo de los esquemas de ERTE sobre la probabilidad de retornar a situaciones de empleo a corto plazo.
- Este efecto positivo habría sido generalizado para todas las regiones y sectores del país.
- Sin embargo, a pesar de seguir siendo significativo, dicho efecto se reduce para el medio plazo, esto es, al considerar esquemas de ERTE sostenidos en el tiempo a lo largo de dos trimestres consecutivos.

Recomendaciones

- El mecanismo de los ERTE puede ser considerado como una herramienta efectiva a la hora de enfrentar shocks transitorios, incrementando la re-empleabilidad de sus beneficiarios y estabilizando el mercado laboral mientras tanto.
- Dicha efectividad no está condicionada a ninguna región o sector, recomendándose su uso a nivel general.
- Por otro lado, su duración y momento temporal son determinantes clave para su efectividad y por tanto deben ser conscientemente considerados.

Temporary paid furlough in Spain (ERTE)

The Covid-19 outbreak has caused an unprecedented sanitary crisis all over the world, forcing the governments to implement restrictive measures as mandatory lockdown and social distancing. Concerned about a boost in unemployment digits, most countries made a massive use of job retention schemes as a way to temporarily protect the employees' positions meanwhile the labor market were adjusting to the shock.

In Spain, it is known as "Expediente de Regulación Temporal de Empleo" or just "ERTE". This policy, consists in a temporary suspension of the labor relationship between the employer and the employee, or alternatively, a reduction of working hours justified by a major cause. This cause must be related to economic, technical, organizational or production issues, including Covid related consequences from March, 2020. During this period of suspension, the employee is getting a social security allowance while the employer only has to assume a social contribution, which is a minor part of the employee's wage. Additionally, under some circumstances the employer's social contribution can be relieved or discharged. As a result, it works as a transitory mechanism of flexibility to adjust the labor market, whose cost is essentially assumed by the public administration. In any case, this policy main purpose is to maintain the employees' position despite not being working, avoiding a sharp boost of unemployment during the shock and encouraging the following quick recovery.

Although this mechanism was available before the pandemic, the Spanish ERTE were only widely used then, reaching around 3 million of workers (more than 20% of the affiliated workers) in the second quarter of 2020 (see Figure 1). The following quarters it covered around 5% of the affiliated workers, which is still a significantly higher proportion than it was during the previous recession. Quite similar patterns are observed in its use at the regional level for Andalusian data (see Figure 2).

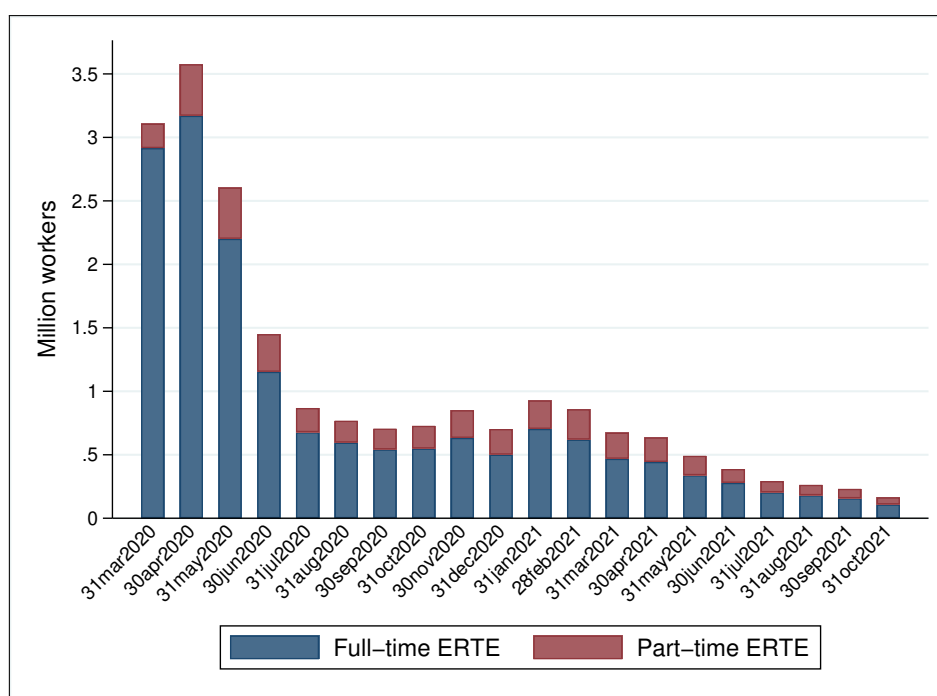


Figure 1: Covid19-related furloughed workers in Spain. Source: Social Security registers.

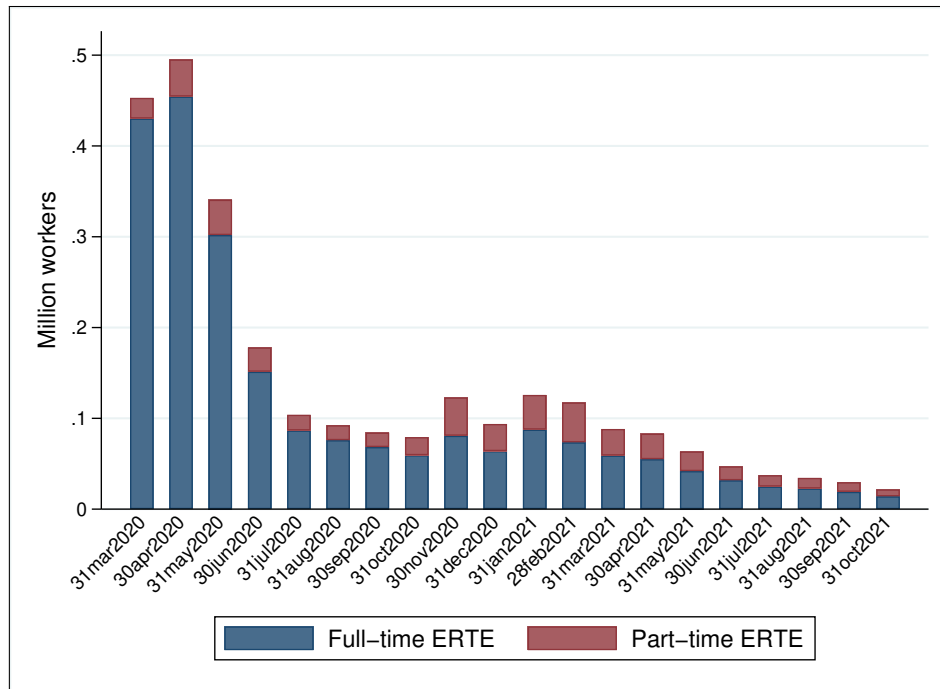


Figure 2: Covid19-related furloughed workers in Andalusia. Source: Social Security registers.

Since the first approval of these Covid-19 related ERTes in March, 2020, their expiration date has been postponed several times, remaining in the current legislation. Therefore, some evaluation of the impact of this policy in all dimensions was urgently needed to improve the design of these programs for the next future. Thus, our contribution assesses their ability to preserve pre-pandemic employment levels after the initial shock, measuring individual return-to-employment probabilities after a full-time ERTE.

“Re-employability bonus” after ERTE

A causal evaluation of the average effects of this policy leads us to conclude a strong and positive effect on re-employment probability after being full-time furloughed, specially when the schemes are held for a short period of time (a single quarter, according to our analysis). These results come from the selection of a representative sample of individuals who were working at the first quarter of 2020, were either displaced/jobless (control group) or furloughed (treatment group) in the second quarter, and whose labor market status is observed in the third quarter in order to determine whether they had returned to work or not (outcome). These data was retrieved from the Spanish Labor Force Survey (SLFS)/Encuesta de Población Activa (EPA).

Eventually, matching techniques were applied in order to ensure the comparability among individuals, passing multiple robustness and sensitivity checks too. As a result, our estimations evidences an average differential effect between both groups that may range from 24 to 29 percentage points. This means that an individual who was temporary furloughed during the initial shock increased significantly their probability to return to a working status regarding to those who were displaced for any other reason.

These results support the idea of temporary furloughs schemes as effective tools to provide stability to the labor market when sudden adjustments are needed due to unexpected but transitory

shocks. Indeed, not only have they proven useful to brake the raise of unemployment, but also to ease a quick return to work afterwards.

Widespread effects

Computing this effect by region (17 Autonomous Communities) and sectors (9 sectors from the National Classification of Economic Activities at one-digit) barely make the difference. By contrast, that “re-employability bonus” shows little regional and sectoral heterogeneity, with no significant differences among them.

The crucial role of good timing and duration

Surprisingly, when we replicated a similar matching analysis but considering two-consecutive-quarters furloughed workers, the magnitude of the aforementioned “re-employability bonus” did drop significantly. This time, the estimations showed a positive effect that range from 17 to 20 percentage points at a national level, far away from the previous scenario, but still highly significant. The comparison of both, the short and medium-term analysis, might indicate that long-lasting furlough schemes result in efficiency losses, reinforcing the need for good timing and carefully planning when considering this policy, as other researchers were suggesting before. Note that if a furloughed scheme is held too much in time (becomes permanent) or the measure is not taken at the right time (when the shock is indeed transitory), a necessary workforce reallocation may have been hampered, so the policy might lose its effectiveness. Unfortunately, the lack of a representative sample of furloughed individuals for more than two consecutive quarters did not allow us to extend this analysis to the long-term in order to validate this hypothesis.