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Economic Perspectives on Societal Challenges: Equality of Opportunity, Market Regulation, and Financial Stability - EPoS

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PRESS RELEASE

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Why Extending "Short-Time Work" Will Not Save Jobs

- **Economists compare short-time work extension with wage cuts**

Bonn, Mannheim, 25.11.2024 – **Germany is in economic crisis. According to the latest figures from the Federal Employment Agency, the number of people in short-time work programs has risen by around 55 per cent to 215,300 within a year (April 2024). In the past, the government often extended the duration of short-time work benefits with the objective to save jobs. Yet, a recent study by economic researchers shows when this does not happen. These findings are published by the EPoS Economic Research Center at the Universities of Bonn and Mannheim in the discussion paper "Short-Time Work Extensions".**

In difficult economic times, German governments have regularly extended the benefit duration of short-time work schemes to avoid redundancies and save jobs. Yet, economists disagree on the effectiveness of such extensions. "Our results show that extending short-time work is not suitable for saving jobs as long as employers and employees also have other options, such as reducing wages in times of crisis," says Moritz Kuhn from the EPoS Economic Research Center.

The researchers examined an unexpected extension of the benefit period for short-time work under the Federal Labour Minister Ursula von der Leyen in 2012: They looked at how employment developed in companies that opted for 6 or 12 months of short-time work. Surprisingly, there were no differences between the two groups in terms of employment changes within one year.

Lower salaries also secure jobs

The reason: In companies that do not extend their short-time work programs, lower wages subsequently ensure job security. "What we are seeing is that employers and employees are trading off wages against employment stability," says Kuhn. "After all, it is in the self interest of both employers and employees to keep good jobs during temporary downturns."

According to the study, there is no need to extend short-time work programs if companies can reduce wages during the economic crisis in order to save jobs. The researchers therefore recommend that policymakers should not overestimate the potential of short-time work schemes: "Short-time work is first and foremost a subsidy and our results suggest that there are large deadweight effects. Policymakers should be aware of this if they want to avoid unnecessary costs for the social security system," says Kuhn.

Regulation of short-time work in Germany - international role model

In principle, short-time work in Germany is now limited to 12 months. Working hours and pay are reduced during this period. Part of the loss of earnings is compensated by the Federal Employment Agency: As in the case of unemployment, employees receive part of their lost net pay, i.e. 60 per cent, as a short-time allowance. The government can extend the duration. An extreme example is the extension to 28 months in 2022 in an attempt to mitigate the consequences of the COVID-19 pandemic. Germany's system of short-time work is considered to be an international role model.

PRESS RELEASE

The presented discussion paper is a publication without peer review of the Collaborative Research Center

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Authors
Christina Brinkmann, Ph.D. Candidate, Department of Economics, University of Bonn and member of EPoS Economic Research Center
Simon Jäger, Professor of Economics, MIT
Moritz Kuhn, Professor of Economics, University of Mannheim and member of EPoS Economic Research Center
Farzad Saidi, Professor of Economics, University of Bonn and member of EPoS Economic Research Center
Stefanie Wolter, Institute for Employment Research, Nuremberg

The Collaborative Research Center (CRC) Transregio 224 EPoS
Established in 2018, the Collaborative Research Center Transregio 224 EPoS, a cooperation of the universities Bonn and Mannheim, is a long-term research institution funded by the German Research Foundation (Deutsche Forschungsgemeinschaft, DFG). EPoS addresses three key societal challenges: how to promote equality of opportunity; how to regulate markets in light of the internationalization and digitalization of economic activity; and how to safeguard the stability of the financial system.

Press Contact
econNEWSnetwork
Sonja Heer
Tel. + 49 (0) 40 82244284
Sonja.Heer@econ-news.de

Contact
Moritz Kuhn
University of Mannheim
mokuhn@uni-mannheim.de