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Policy sequences during and after COVID-19: A review of labour market policy patterns

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POLICY PAPER SERIES

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Policy Patterns**

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ABSTRACT

Policy Sequences during and after COVID-19: A Review of Labour Market Policy Patterns*

After an initial policy emphasis on stabilizing jobs and income through job retention and various types of income support measures, more subsequent country responses to the economic shock generated by the COVID-19 pandemic also include policies to support labour market (re-)entry.

This policy brief tracks the sequential logic of labour market policies across a sample of countries from all world regions. It shows the temporal overlap of many measures and highlights potential lessons for a future-oriented and more resilient institutional set-up.

Although the implementation of policy measures across countries did not follow a clear sequencing as in previous recessions, it is encouraging to see that the latest experiences from policy responses to the COVID-19 crisis already show developments that could be part of a post-pandemic set-up of labour market policies. Some policy responses to COVID-19 also reflect learning from the difficulties and deficits encountered during and after the Great Recession.

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► Policy Brief

June 2022

Policy sequences during and after COVID-19¹ A review of labour market policy patterns

Key points

- After an initial policy emphasis on stabilizing jobs and income through job retention and various types of income support measures, more subsequent country responses to the economic shock generated by the COVID-19 pandemic also include policies to support labour market (re-)entry.
- This policy brief tracks the sequential logic of labour market policies across a sample of countries from all world regions. It shows the temporal overlap of many measures and highlights potential lessons for a future-oriented and more resilient institutional set-up.
- Although the implementation of policy measures across countries did not follow a clear sequencing as in previous recessions, it is encouraging to see that the latest experiences from policy responses to the COVID-19 crisis already show developments that could be part of a post-pandemic set-up of labour market policies. Some policy responses to COVID-19 also reflect learning from the difficulties and deficits encountered during and after the Great Recession.

► Introduction

Active labour market policies (ALMPs), which include measures such as job search assistance, training programmes, wage subsidies or public employment schemes, are a key element in the portfolio of policy tools that are designed to bring unemployed workers back into employment. Increasing their scope and intensity is therefore suggested particularly in economic downturns. The COVID-19 crisis is no exception to this rule.

However, the COVID-19 crisis has particular features that could make the adequate use of ALMPs different than in previous recessions. For example, due to containment measures especially in the early phase of the pandemic, many courses and programmes could not continue as planned, and new courses could not start. Such a temporary halt would imply that at the onset of the COVID-19 crisis, and despite the imminent and actual increase in unemployment figures, ALMPs could have

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been used rather differently and also to a smaller extent than in previous recessions.

Additionally (and understandably), the focus of policy responses at the onset of the pandemic has predominantly been on measures to stabilize labour demand (often involving ad hoc support measures for firms), on measures to stabilize employment (often involving employment retention schemes such as short-time work; Eichhorst et al. 2022), or passive labour market policies (such as easier access to welfare benefits; Marx et al. 2022). Gradually, the focus has shifted towards policy responses involving measures such as hiring incentives or training programmes, or towards measures focusing on vulnerable or particularly affected population subgroups such as youth (Rinne et al. 2022).

Against this background, should the use of ALMPs in the current crisis therefore be assessed fundamentally differently than in previous recessions? A general lesson from the literature appears to be that ALMPs are likely to be more effective in a recession, i.e., they are more likely to show positive impacts during economic downturns (Card et al. 2018).

This result, however, holds in particular when the recession is relatively short-lived – which appears not to be the case for the COVID-19 crisis, given ongoing waves of the pandemic. More generally, Card et al. (2018) argue in favour of countercyclical job training programmes and private employment subsidies, as both measures appear to be particularly effective for the longer-term unemployed in a recessionary climate.

In a recent report, the OECD (2021) highlights the importance of getting the correct balance of ALMPs at different stages of the COVID-19 crisis, and it also underlines the importance to integrate monitoring and evaluation mechanisms in current and future policy design. In a very stylized manner, it sketches how different ALMPs could be most effectively used during different phases of the COVID-19 pandemic, and which measures should be scaled back during recovery and when the economic situation is restored. The approach which was taken by many countries during the initial phase of the crisis, namely, to focus on measures stabilizing labour demand and employment, is assessed as a proper early

policy response (OECD 2021). It is furthermore argued in favour of a gradual shift towards measures focusing on vulnerable or particularly affected population subgroups such as youth. Such a process can indeed be observed in a number of countries (Rinne et al. 2022).

An important challenge that may arise during the current stage of the pandemic is how to adequately (re-)adjust the portfolio of ALMPs when more permanent structural demand shifts become evident. Indeed, the pandemic is likely to speed up transformative processes, such as the digitalization of work, which could challenge some business models sooner than expected. Such structural shifts require a much stronger focus on measures facilitating labour mobility, and on measures through which workers acquire the skills, competencies and qualifications that will be in demand in the future.

Considering the broader picture, however, one should not have overly optimistic expectations concerning the effectiveness and efficiency of ALMPs in general. While Card et al. (2018) conclude that short-term average impacts are close to zero, and more positive impacts unfold only over a longer time period of two to three years (with larger average impacts for programmes focusing on human capital accumulation), the picture that is sketched by Crépon and van den Berg (2016) is more pessimistic. They conclude that on the whole, evaluations have not shown ALMPs to be particularly effective. Grounds for hope exist in their view nevertheless, as many studies detect heterogeneous impacts of ALMPs, which leaves scope for improvement with better-targeted approaches.

Against this backdrop, an ideal type of policy sequence (as exemplified with reference to the pandemic, shown in Table 1) would first stress the initial and immediate importance of a) job retention policies to secure existing job matches, and of b) stabilizing income of individuals through unemployment benefits and ad hoc payments if jobs are lost during an acute phase of crisis. However, as the recovery starts, a subsequent (but not too late) shift of focus becomes important. The emphasis should be on a) youth measures to avoid long-term exclusion and scarring and b) ALMPs, in particular adult (re-)training and hiring incentives to support employment recovery and adaptation of workers/skills to post-crisis period.

► **Table 1: A sequential logic of labour market policies during crises**

Phase of the crisis	Main priorities			Timing
	Income support and job retention	Training (incentives)	Hiring incentives and job search assistance	
Entry	***	*	*	When containment measures get more stringent and vacancies decline
Tunnel	***	***	*	During containment at plateau level, limited labour market dynamism, uncertainty
Exit	**	***	***	When reopening, economic recovery
General concern	More resilient, adaptable labour market setting, moving beyond structural weaknesses			Never too early

Note: The higher the number of asterisks (*), the larger should the relative importance of the respective policy measures in the given phase of the crisis be.

Source: Own representation

► The actual use of active labour market policies during COVID-19

As argued above, ALMPs may have been used differently or less intensive than in previous recessions due to the specific nature and particular features of the COVID-19 crisis. But how did expenditure levels and participant numbers in ALMPs actually evolve during the pandemic? And how do these numbers compare to those that had been recorded during the Great Recession?

As shown in Eichhorst et al. (2022), countries in all world regions adopted a strong focus on job retention policies at the beginning of the COVID-19 crisis. Compared to previous recessions, in particular to the Great Recession, job retention policies were more generous in design, both regarding short-time work and wage subsidy schemes. As a consequence, the take-up was much higher than a decade ago. Furthermore, countries tried to increase coverage by enlarging target groups, e.g., towards non-standard workers. However, the further development of the pandemic led to a postponement of steps towards phasing-out job retention policies. In some cases, they were even extended or re-introduced several times in response to further containment phases. The experiences of job retention phase-out were characterized by a wide array of approaches, ranging from the simple termination of temporary assistance schemes for employers to reduced employer labour cost relief, tighter limits to the compensation of working hours and moves towards temporary or sectoral schemes. Steps to include stronger

incentives or even requirements to train workers while in retention schemes were, however, very limited.

While phases of job retention continued through 2020 and 2021 and are not yet fully over, a parallel emphasis on emergency income support emerged over the last two years, as analysed in Marx et al. (2022). This issue was particularly pressing and urgent for all those workers who lost their jobs or income from (solo) self-employment and who were not protected through entitlements to unemployment insurance benefits. While self-employment and some forms of non-standard employment not integrated into unemployment insurance created considerable protection gaps in high-income countries, in many countries of the Global South, informal employment created a similar, but even more difficult challenge. In any case, the existence of large categories of workers and citizens without proper social insurance coverage created a scenario of widespread (relative or absolute) poverty.

Countries reacted in different ways to this urgent problem as it arose in the second quarter of 2020. First, as part of ad-hoc support measures, targeted grants were paid out under certain conditions to categories of workers not covered by social insurance, either as (repeated) lump-sum payments or proportional to previous income or revenue. This pattern can be observed in many countries with particular relevance to economically vulnerable self-employed persons. Second, many countries with existing

formal minimum income support schemes could provide an income floor as an “automatic stabilizer.” But in many cases, to reduce barriers for take-up and speed up benefit distribution, means testing was suspended or relaxed, additional categories of needed citizens included, or benefits were increased. Third, and particularly relevant for the Global South, active labour market policies were used as a means of income support, in particular via public works or training programs that targeted non-covered workers without current income. Fourth, and finally, in-kind benefits were provided to prevent absolute poverty and social exclusion in some countries. All in all, however, the emergency income support schemes implemented during the pandemic also show the difficulty in tackling potentially more lasting income risks through ad hoc interventions that often lasted not long enough or face difficulties in reaching a substantial share of those in need. This was the case despite widespread efforts, notably also in countries in the Global South, to make progress in the deployment of digital administrative tools.

While these two clusters of measures – job retention policies and emergency income support – were rolled out mostly in the early phase of the pandemic, also a need for more targeted policies emerged to support those at risk of getting stuck in difficult transition from education to work, i.e., young labour market entrants, and those who lost their jobs and income and required some support to find new employment opportunities. However, we generally do not see a clear-cut sequencing with respect to more active labour market policies for the young and for unemployed adults, but rather some overlap with an increased emphasis on ALMPs for both groups while stabilization efforts continued to some extent. The protracted and unpredictable nature of the current crisis seems, in many cases, work against a pragmatic sequencing of policies.

As shown in Rinne et al. (2022), youth employment was once more affected disproportionately by the crisis. Potentially, COVID-19 could create long-term disadvantages for current graduates and lasting scars for younger workers. Given the depth and length of the crisis, the legacy of a difficult start could be even more severe than in previous recessions. As noted above, the initial focus of policy responses was on the rather general stabilization of the economy in terms of demand and supply, primarily via broader support measures to firms and private households. Although these measures were mostly not targeted at specific groups, younger workers were often underrepresented in measures aimed at stabilizing existing jobs, such as short-time work. Hence, it

seems fair to say that youth employment was often not the primary focus of policy responses at the onset of the pandemic. Notable exceptions could be found in early measures to stabilize vocational training in countries where it is a main gateway from school to work (e.g., Austria) and/or adjustments of previously implemented youth measures such as hiring or training subsidies (e.g., in line with the long-standing policy pattern found in France).

But as the crisis unfolded, the focus has gradually shifted towards the needs of specific population groups. Where this is the case, younger workers are often a primary concern. However, available evidence on youth-oriented policies shows a large heterogeneity. The pre-existing institutional context seems to play a crucial role in the form of strong path dependence. As of today, it is still very unclear how youth-targeted policies affected employment outcomes of the target group. In addition, as it is the case with other policy areas, some countries report problems in implementation or coordination, even more so when there is a large and growing group of young people in a difficult transition from education to work and when governance structures are not strong enough to deliver appropriate support.

In parallel to the roll-out of youth measures, active labour market policies for broader target groups at risk of (long-term) unemployment were re-activated and intensified in many countries, with first steps undertaken mostly in summer and fall 2020. Still, given gaps in policy monitoring, it is hard to identify the exact importance and intensity of ALMPs during the pandemic. Many European and OECD countries introduced employer incentives to maintain existing jobs – outside the relief granted when working hours were reduced or turnover had fallen – or to hire new workers. This often took the form of reduced (or deferred) social insurance contributions and targeted private sector employment incentives as well as some additional support granted to start-ups (OECD 2021a; OECD 2021b).

Furthermore, job search assistance and tailored support to the unemployed was provided. Public sector job creation or public works – partly to be categorized as income support schemes – were more prominent in low-income and medium-income countries such as the Philippines or South Africa (Gentilini et al. 2020/ 2022). There was also a re-emergence of training policies in a situation characterized by potentially greater needs to ensure timely mobility from sectors affected negatively by

the pandemic to sectors experiencing labour shortages. Specific to the pandemic, digital technologies played a more prominent role as the situation evolved. Initially, many active labour market policy measures such as training courses were disrupted and postponed in response to containment measures, and the same happened with the intensity of contacts between the PES and job seekers (OECD 2021a). After some period of adaptation, a shift towards digitally enabled activation policies and to the online delivery of training courses occurred. In many countries, additional courses and places could be made available in this way (OECD 2021a).

This was in line with the expansion of ALMP budgets and staffing observed (or planned) in 2020 and 2021 (as reported by the OECD in OECD 2021a), e.g., in France, Germany, Sweden or the UK. The evidence is less clear for non-OECD countries. Table 2 provides additional evidence on notable cases of pandemic-related active labour market policies. All in all, it seems fair to say that activation policies and active labour market policies, in particular training, job counselling and hiring incentives, regained in significance and were even intensified in the later stages of the crisis in most countries included in this sample.

► **Table 2: Examples of ALMP initiatives during the COVID-19 pandemic**

Country	Category	Measure
Austria	Employment incentives	Re-start bonus for unemployed taking up a part-time job that pays less than the previous one (June 2020-end of 2021); deferral of social insurance contributions (Spring 2020).
	Training	Education bonus for completion of training measures (within the broader “Corona Job Initiative”) (since October 2020).
Canada	Employment incentives	Canada Recovery Hiring Program, providing incentives for employers in severely affected sectors, following up on earlier wage subsidy (2021-22); regional programs, e.g. B.C. Increased Employment Incentive (2020).
Denmark	Training	Additional funds for training in regions particularly affected by the pandemic (2021).
	Other ALMPs	Additional support for start-ups, job search support and activation of those at risk of long-term unemployment (2021/22).
France	Employment incentives	Program supporting employment in commercial and non-profit or public sector, additional schemes for young people and workers with disabilities and for hiring in the entertainment sector (2020, running until end of 2021 and early 2022); temporary exemptions from employer contributions (since early 2020, extended in 2021), in particular for firms affected by closures and restrictions.
Germany	Employment incentives	Full reimbursement of employer social insurance contributions during short-time work (since March 2020, extended several times), phased out in early 2022.
Hungary	Employment incentives	Wage subsidy when hiring a registered job seeker, revised and extended several times (May 2020-end of 2021); suspension of social security contribution for employers in heavily affected sectors, with some extension and revisions over time (March 2020 – end of 2021).

Country	Category	Measure
Korea	Employment incentives	Emergency support payments to small businesses and their workers affected by turnover losses (spring 2020); additional hiring incentives with several renewals, in particular for small firms, and for hiring young people (2020-21); deferral of social contribution payments for small firms (2020).
	Other ALMPs	Job search promotion combining an individual allowance for low-wage earners with job search.
	Training	Expansion of support for vocational training; creation of individual training accounts (2020).
	Public works	Digital public jobs, in particular for the young; public works for low-income households.
Netherlands	Training	“NL Keeps Learning” as a major initiative to provide better training to diverse groups of workers, self-employed and non-standard employees (started in March 2020 and was extended and adjusted over time into 2021; later on complemented by more individualized career counselling (2020-22).
	Employment incentives	Some adjustments and deferrals in employment contributions in 2020.
New Zealand	Training	Expansion of training capacities.
	Employment incentives	Creation of short-term jobs to support regional recovery.
Peru	Employment incentives	Wage subsidies to private sector employers to maintain existing and hire additional staff while being affected by the pandemic; some deferral of employers' contributions (2020).
Philippines	Training	Early start of online courses for skill development and adaptation of workers displaced or affected by the pandemic (since March 2020, extended to 2022).
	Public works	Temporary employment program for informal workers who lost their livelihood during quarantine periods (since spring 2020, continued in 2021).
Serbia	Training	Additional funds for training through educational vouchers.
	Employment incentives	Deferral of taxes and contributions in spring 2020.
Spain	Employment incentives	Hiring subsidies targeting older workers (2020); social security contribution relief in particular for the self-employed, small firms, and for firms using short-time work, and tax deferral.
	Training	Intensified vocational training initiatives starting in fall 2020.
	ALMPs	More integrated and updated activation policies (2021).
Sweden	Employment incentives	Expansion of subsidies for introductory and extra jobs; deferral of social security contributions and temporary reductions (spring 2020).
	Training	Subsidies for training provided during short-time work (2021).
	ALMPs	Expansion of budget for the Public Employment Service (starting in 2020).
United Kingdom	ALMPs	Job search assistance for benefit recipients by way of Job Entry Targeted Support Program and Restart Scheme (2020-22).
	Training	Additional training capacities, in particular online (fall 2020 and spring 2021).

Country	Category	Measure
United States	ALMPs	Intensified job matching via labour exchange programs, in particular at State level (starting in 2020)
Viet Nam	Employment incentives	Temporary suspension of social insurance contributions in severely affected sectors (since March 2020, extended to 2021), reduced contribution in some industries (since mid-2020).

► Assessment and outlook

When looking back at two years of crisis responses triggered by the COVID-19 pandemic, we can see an initial phase that was characterized by many temporary policy interventions with the aim of stabilizing jobs and income. Where unemployment insurance and short-time work, but also minimum income support systems were available, they could be used as automatic stabilizers. Still, adjustments often had to be made to existing measures to increase their access and generosity and to close protection gaps.

The situation was more difficult with respect to socio-economic groups and in world regions where coverage by existing social protection schemes was patchy or missing. Here, ad hoc measures were taken to provide at least some support, although at a more limited scale and with more severe difficulties in delivery. This points at the fact that in order to prepare social protection for future economic shocks and provide reliable support in due course, it would be important to reconsider the design and coverage of social protection. Mostly in developed countries, this concerns existing unemployment insurance schemes (and related short-time work schemes) with a view to non-standard workers, especially the self-employed. In low-income and medium-income countries, on the other hand, the focus should be on establishing more regular schemes for those in informal employment and for micro enterprises. The crisis has certainly highlighted once more the need for more reliable and universal solutions across categories of workers that can also be implemented and delivered when in need of a quick reaction.

Given the multi-wave character of the COVID-19 crisis, we have not seen a clear sequencing of policy measures. The ideal sequence of moving quickly from income and job protection to active labour market policies was difficult to implement in the context of recurring lockdowns. Rather,

policy makers saw the necessity to extend stabilization measures when faced with continued economic difficulties and pandemic waves. In particular, emergency job retention policies through short-time work and wage subsidies were in place for longer periods than initially expected. Still, many countries restarted active labour market policies for adults and young people at risk of (long-term) unemployment after an initial disruption. Most importantly, digital solutions could be rolled out over time and have been made available to ensure some continuity of ALMPs during the pandemic. Also increased support for job search assistance, training and incentives to hire or maintain staff was mobilized at some point and to some extent in most countries.

From a conceptual point of view, it is still important to stress the usefulness of a broader set of tools that could be used and adjusted in line with the development of the labour market in different phases of a crisis. Building upon advancements during the pandemic, this would also have to include assistance by digital technologies and better access to policy-relevant short-term economic indicators. Such technologies enable a more immediate monitoring of labour market problems in terms of declining sectors or occupations, but also of opportunities in terms of labour shortages and hard-to-fill vacancies. This would allow the identification of pathways, and adequate support measures, for workers who need to change their employer, sector or occupation. Hence, it is important to establish such a repertoire of instruments, and a reliable labour market monitoring system in “normal times”, which can then be used and recalibrated in a timely fashion during hard times.

In fact, it is encouraging to see that the latest experiences from policy responses to the COVID-19 crisis already show some positive developments that can in principle be part of a post-pandemic set-up of labour market policies. Some

of the labour market policy responses to COVID-19 can also be seen as some kind of learning from the difficulties and deficits encountered during and after the Great Recession. First, it is important to acknowledge the expansion of job retention policies across sectors and countries. These policies have shown to effectively avoid premature dismissals and steep increases in unemployment at the beginning of a recession, while they are still mostly confined to standard and formal workers. Second, compared to the Great Recession many countries were faster in rolling out youth policies, including also policy responses inspired by youth guarantee frameworks. Third, we can see some increase in attention to protection gaps and measures to ensure a better inclusion and

targeting of non-standard and informal workers in unemployment insurance schemes, job retention policies and active labour market policies, albeit this is far from complete. To make further progress along this line, additional policy efforts and policy innovations are needed that can work in a given institutional and economic context. Fourth, steps towards a digitally enabled ALMP and benefit administration can also be part of a more permanent post-crisis set-up, as they help maintain inclusive and activating policies on the one hand and provide solutions regarding a quick and targeted delivery of public support to those in need on the other hand.

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