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# FURLOUGH SCHEMES IN THE COVID-19 CRISIS: AN INITIAL ANALYSIS OF FURLOUGHED EMPLOYEES RESUMING WORK

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## ABSTRACT

This article uses microdata from the Spanish Labour Force Survey (EPA) to conduct an initial analysis of the use of furlough schemes as a temporary employment adjustment mechanism in this crisis. The information drawn from the survey shows there has been an intensive use of furlough schemes since the COVID-19 crisis broke, with more than 20% of dependent employees furloughed in 2020 Q2. This is far higher than the incidence observed in previous recessions. Analysis of the employment transitions of furloughed workers shows that they were much more likely to resume employment in Q3 than workers who lost their jobs but were not furloughed. These schemes have, therefore, been highly effective in allowing workers to resume work once the lockdown measures adopted in spring 2020 were lifted. However, considering the furlough schemes that began in Q3 and those that were longer-lasting, there is less difference between furloughed and non-furloughed workers in terms of the probability of their resuming work. This essentially reflects the ongoing low level of activity associated with the continuation of the pandemic-related restrictions.

**Keywords:** furlough schemes, employment, COVID-19.

**JEL classification:** J23, J63, J08.

# FURLOUGH SCHEMES IN THE COVID-19 CRISIS: AN INITIAL ANALYSIS OF FURLOUGHED EMPLOYEES RESUMING WORK

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## Introduction

After the state of alert was declared in March last year, a series of support measures for the firms and workers most directly affected by the restrictions on personal mobility and economic activity were launched. One of the main measures adopted was the introduction of greater flexibility in the use of Spain's *Expedientes de Regulación Temporal de Empleo* (ERTE) – hereafter, furlough schemes – in the firms affected by the restrictions. This more flexible use was accompanied by incentives for firms, in the form of Social Security exemptions, and increased unemployment protection for the workers concerned, in the form of higher benefit coverage. The attendant regulations have been rolled over in successive extensions which, generally, have retained the basic features approved in March last year. There have been some amendments, essentially focused on the design of rebates on Social Security contributions, to encourage employers to reinstate their workers in the lockdown-easing phase initiated in May 2020 and to target aid on the sectors most affected by the crisis.

This article uses microdata from the Spanish Labour Force Survey (EPA), available up to 2020 Q4, to conduct an initial analysis on the use of furlough schemes as a temporary employment adjustment mechanism in this crisis. A full evaluation of these programmes would require more detailed information providing, for instance, for an assessment of the differences in the incentives to firms according to size and the different changes made over the course of the crisis to such incentives. The following section describes the use of these mechanisms over the past year, focusing on the groups most affected, and compares them with the use made following the 2008 crisis. Next, the employment status in 2020 Q3 of workers who had a job in 2020 Q1 and were furloughed in 2020 Q2 is compared with that of those who were working in Q1 and lost their job in Q2 (then performing the same exercise, lagged by one quarter).

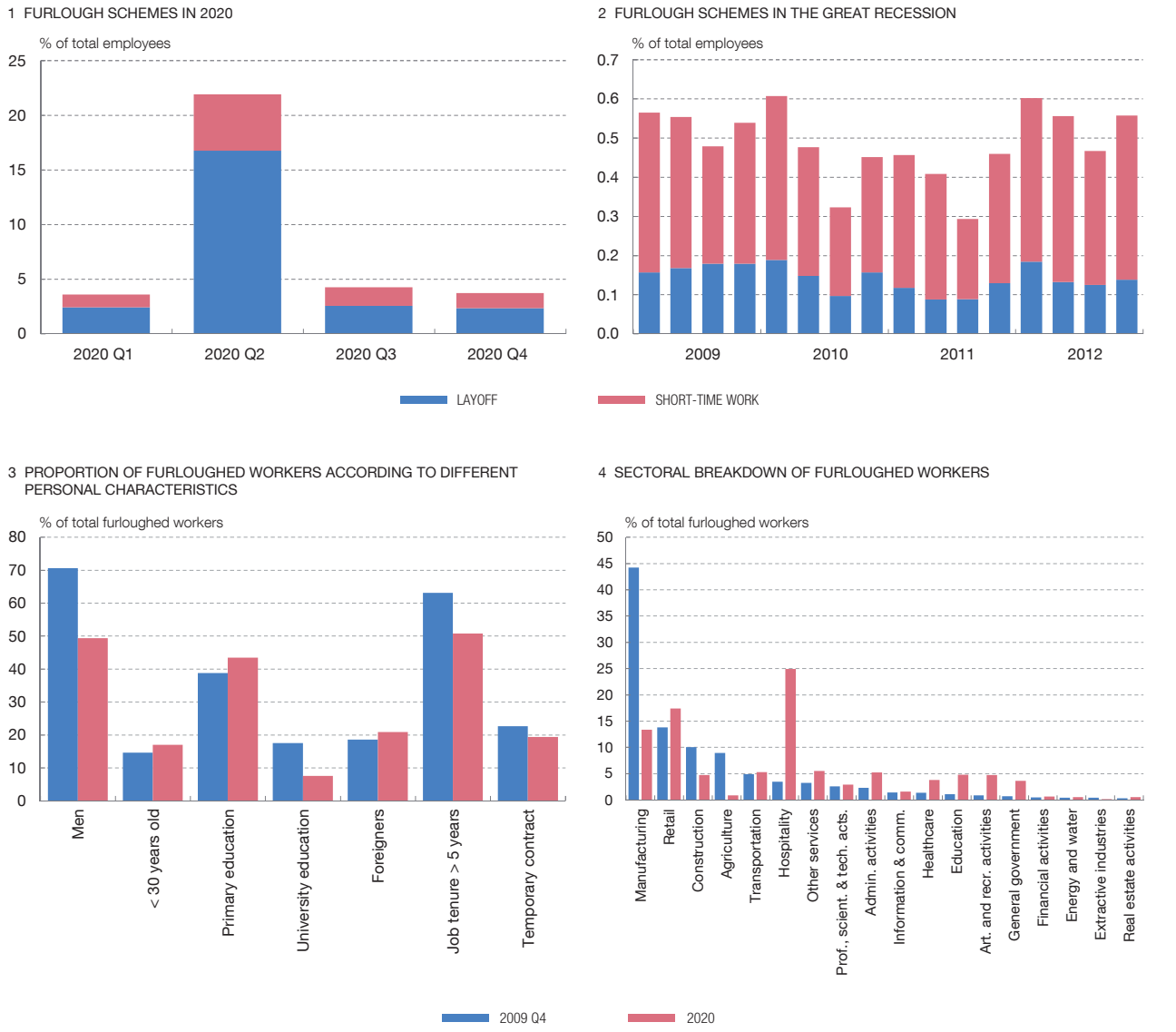
## The use of furlough schemes in the COVID-19 crisis

The information drawn from the EPA shows there has been an intensive use of furlough schemes as a temporary employment adjustment mechanism by firms since the

Chart 1

## FURLOUGH SCHEMES AND BREAKDOWN BY DIFFERENT CHARACTERISTICS OR SECTORS

Firms have used furlough schemes intensively during the COVID-19 crisis as a temporary employment adjustment mechanism. They have done so to a much greater extent than during the Great Recession that began in 2008, reflecting the different nature of the two crises.




**SOURCE:** INE (EPA).

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COVID-19 crisis broke.[1] Chart 1.1 shows the percentage of private-sector dependent employees furloughed in the four quarters of 2020.[2] Although the restrictions in

1 See A. L. Gómez and J. M. Montero (2020). "Impact of lockdown on the euro area labour market in 2020 H1", Analytical Articles, *Economic Bulletin,* 4/2020, Banco de España, for a comparison of the use of these mechanisms in European countries at the onset of the COVID-19 crisis.

2 Employees are considered to be furloughed when, in response to EPA questions on "reasons why you did not work, being employed" or "reasons why you worked fewer hours than normal", they replied that this was because of: a) "Partial halt in work for technical or economic reasons", or b) "Being laid off".

response to the pandemic were introduced in mid-March, almost 4% of dependent employees were furloughed in Q1. This percentage rose to 21.9% in Q2, accounting for almost 3,000,000 employees for the quarter as a whole. The lockdown-easing process in train from May saw this figure fall to 5.3% in Q3. Subsequently, this proportion held fairly stable, ending the year at 4.7%.[3] In terms of the two types of furlough scheme, almost 80% of total furloughed workers in 2020 Q2 were under a layoff arrangement, while the remainder were on short-time work. Although layoffs continued to be the majority arrangement in the second half of the year, the percentage of employees subject to short-time work progressively rose to 38% in 2020 Q4.

Chart 1.2 depicts furlough schemes during the previous crisis, from 2009 to 2012. As can be seen, the use of these arrangements in that period was far lower, hovering at around 0.5% of total dependent employees. Notably, the legislation prevailing at that time was, with some minor differences, similar to that in force throughout 2020. Specifically, the firms most affected by the crisis also enjoyed incentives in the form of rebates on Social Security contributions and, as at present, broader protection was given to the workers affected.[4] The main difference lies in the nature of the crisis which, on this occasion, is fully exogenous to firms' performance and is more clearly temporary than the situation as from 2008.

Some differences between the two crises also emerge on analysing the characteristics of furloughed workers. Chart 1.3 shows that, in the global financial crisis, furlough schemes predominantly affected university-educated men with long job tenure. By sector, furlough schemes were highly concentrated in manufacturing and, to a lesser degree, in construction and certain services sectors such as retail. However, the figures for 2020 show a broad use of furlough schemes, equally distributed by gender and somewhat higher among young adults, employees with a lower educational level and those with shorter job tenure. Furlough schemes were extensive to all sectors, although their prevalence was high in hospitality, an activity very directly affected by the pandemic restrictions (see Chart 1.4). This comparison highlights, once again, how the particular nature of the COVID-19 crisis has affected the use of furlough schemes as a temporary employment adjustment mechanism.

## Analysis of furloughed workers

This section uses EPA flow microdata, which enable an individual's employment status to be monitored over six consecutive quarters. The flows of workers

3 These figures are similar if the information on furloughed workers provided by the Spanish Ministry of Inclusion, Social Security and Migration is used. This article uses the EPA data so as to take advantage of the information available on the characteristics of the workers affected and the changes during the year in their employment status.

4 For example, Law 27/2009 stipulated a 50% rebate on Social Security contributions for firms availing themselves of layoff or short-time work arrangements. Subsequently, Royal Decree-Law 10/2010 raised this rebate to 80% for firms adopting measures, such as training, to lessen the effects of these schemes on furloughed workers.

furloughed in 2020 Q2 or Q3 returning to effective employment status[5] can then be analysed. The analysis focuses on layoffs, without addressing the transitions of those subject to short-time work. This is because, as earlier stated, layoffs in this crisis have been much more numerous. These flows are compared with those for employees who lost their jobs in that period and became unemployed or inactive, but were not furloughed.

It should be borne in mind that the lockdown measures and the restrictions on mobility meant that some unemployed workers were unable to actively seek employment. Thus, after losing their job in Q2, they were considered to be inactive according to the usual EPA classification criteria. This article does not use the EPA distinction between unemployed and inactive; rather, it only takes into account whether or not the person is employed. The analysis therefore takes as its starting point all workers who were dependent employees in 2020 Q1 and ceased to be so in Q2, either because they lost their job (peer group) or because they were furloughed (interest group).[6] Both groups' employment status in the following quarter is analysed, distinguishing between three possible outcomes: resuming employment status, remaining furloughed or becoming non-employed. The same exercise is conducted for dependent employees in Q2 who lost their job or were furloughed in Q3.

As Chart 2.1 shows, the return to effective employment in Q3 of workers furloughed in Q2 was very high, reflecting the lockdown-easing phase, which enabled many firms and sectors to resume their activity. Indeed, almost 70% of workers furloughed in 2020 Q2 returned to effective employment in Q3. As to the remainder, almost 20% of the total remained furloughed and fewer than 10% moved into non-employment. The resumption of employment was far higher than that observed among workers who lost their jobs in Q2 without being covered by a furlough scheme. That would reflect the sound working of such schemes as a temporary labour cost adjustment mechanism for firms. Specifically, among employees who lost their jobs in Q2 without being furloughed, somewhat less than 40% had returned to a position of employment one quarter later, marking a difference of over 30 pp when compared with furloughed workers.

As regards the flows observed in 2020 Q4, the chart also shows that the probability of workers furloughed in Q3 resuming effective employment decreased very significantly, to 32%. This reflects the slowdown in the labour market recovery in the final stretch of the year, which is associated with the resurgence of the pandemic and the new restrictions introduced. In addition, this observed probability of furloughed workers resuming work after one quarter was slightly lower than the probability of workers who had lost their jobs resuming work. That could be indicative

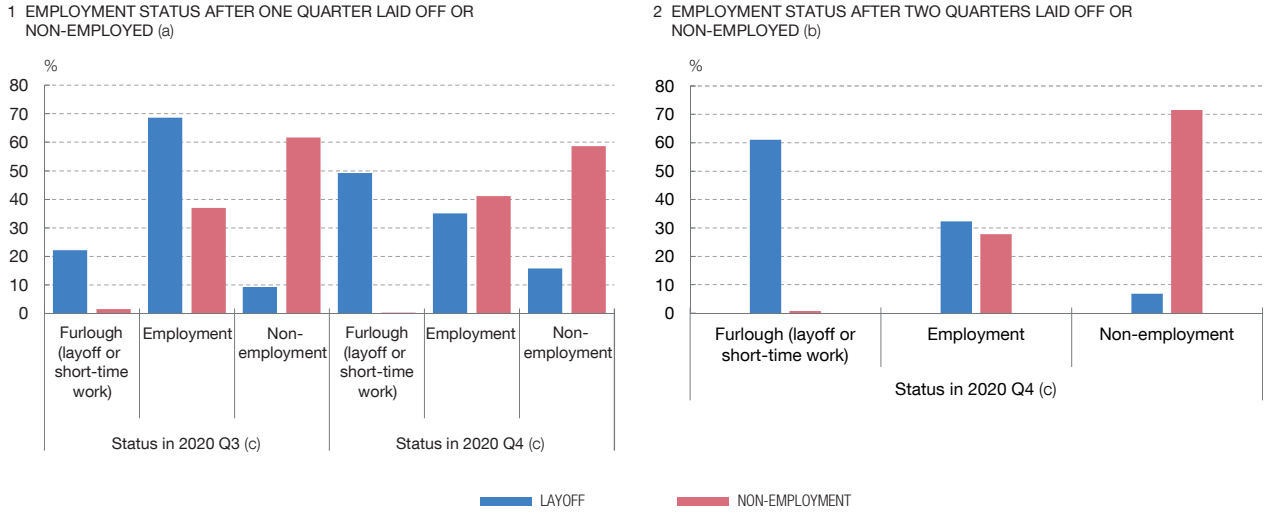
5 That is to say, employment not affected by a layoff or short-time work scheme.

6 Employees subject to a short-time work arrangement – a group which, as noted, is much less numerous – are included along with those subject to a layoff arrangement. Given the small size of this group, the findings presented in this article remain unchanged under other, alternative statistical methods of treatment.

Chart 2

**LABOUR FLOWS IN 2020 AFTER ONE OR TWO QUARTERS WITHOUT WORKING, OWING TO LAYOFF OR UNEMPLOYMENT/INACTIVITY**

The return to employment in Q3 of workers furloughed in Q2 was very high, and far higher than that observed among those not furloughed. In Q4, this probability diminished substantially among those furloughed, standing slightly below that observed among those not covered by these schemes.




**SOURCE:** Banco de España. Own calculations drawing on EPA flow microdata.

**a** Persons who did not work in Q2 and Q3, respectively, either because they were laid off, or because they were unemployed or inactive but not furloughed.
**b** Persons not working in Q2 or Q3, either because they were laid off in both periods, or because they were unemployed or inactive but not furloughed in both periods.
**c** In this case, persons who are subject to a short-time work arrangement are classified as furloughed, and only those who have resumed work doing a normal working day are considered to be in employment.

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of the persistently very low levels of activity in certain sectors as a consequence of the successive waves of the pandemic.

The findings are similar if we analyse the employment status in 2020 Q4 of workers furloughed in Q2 and Q3, compared with those who were non-employed during that period (see Chart 2.2).[7] Once again, the probability of resuming effective employment was quite low, in this case only slightly higher than that observed for workers not furloughed in those two quarters.

The individual information provided by the EPA allows us to analyse the differences in these transitions by workers' individual characteristics and sectors. Chart 3 shows that the furlough schemes were highly efficient across the board in Q2 for all the groups and sectors considered, in that the probability of resuming effective work was much higher among furloughed workers than among all the other non-employed. Likewise, the lower level of efficiency of these schemes for workers who were furloughed in Q3 was also widespread among most groups. The schemes were

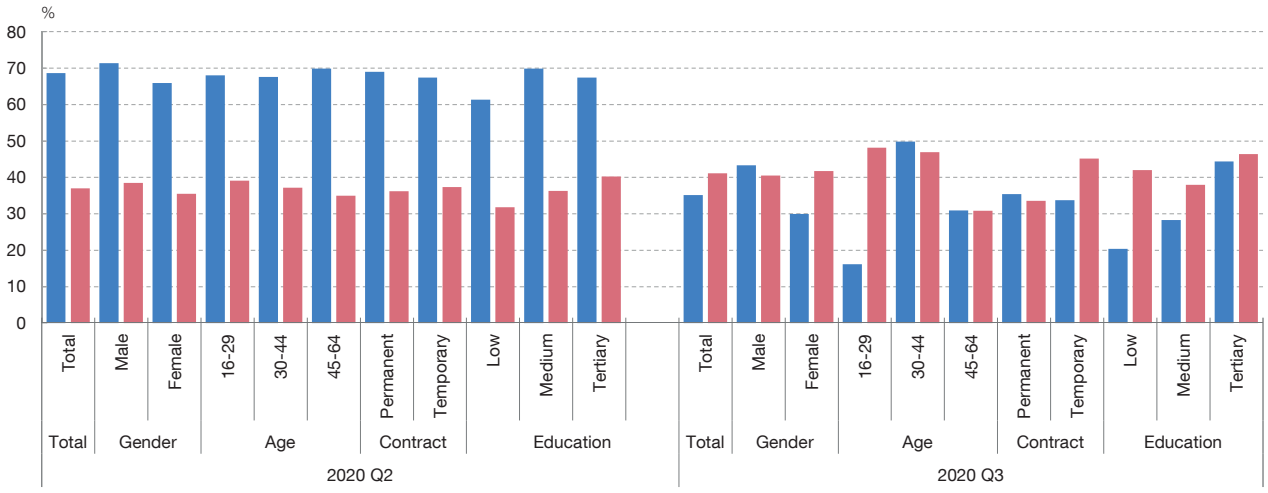
7 In both cases, the sample is limited to workers who were employed in Q1.

Chart 3

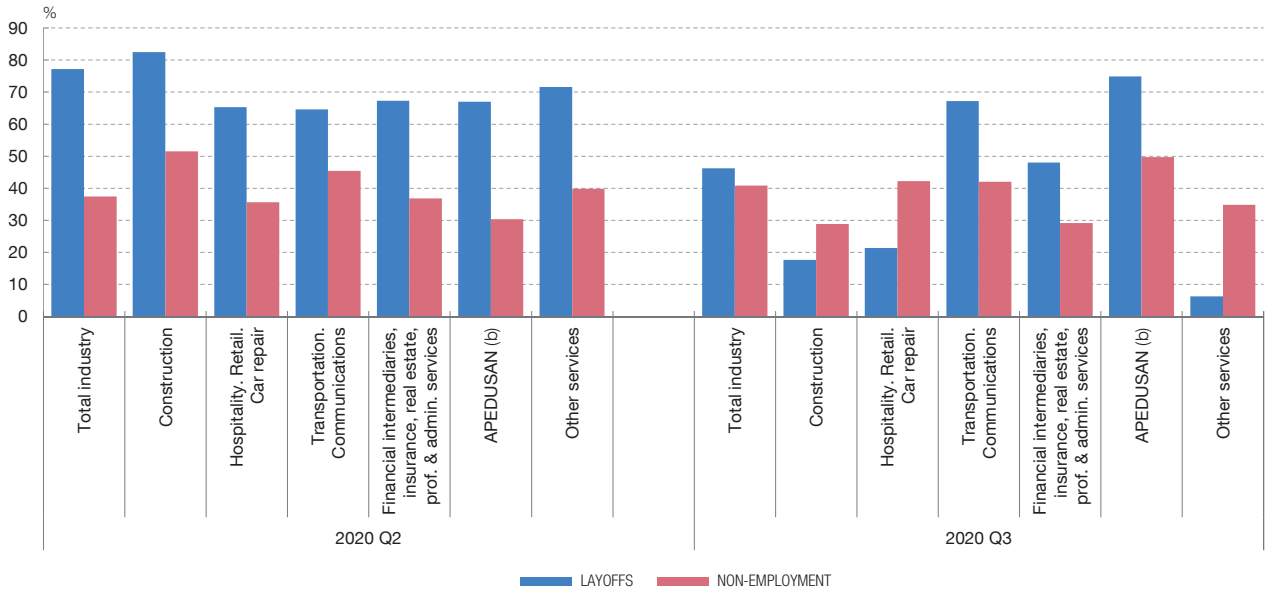
## RETURN TO WORK FLOWS AFTER ONE QUARTER LAID OFF OR UNEMPLOYED/INACTIVE (a)

The high proportion of return to work flows in Q3 from layoffs in Q2 was widespread across sectors, as was the decline in these flows with a one-quarter lag. In the latter case, the schemes were especially less efficient among female and young workers and those with a low level of education, and by sector in construction, other services, and retail and hospitality.

1 BY WORKER CHARACTERISTICS OR TYPE OF CONTRACT




2 BY SECTOR




**SOURCE:** Banco de España. Own calculations drawing on EPA flow microdata.

**a** Persons without work in Q2 or Q3, respectively, either because they were laid off or because they were unemployed or inactive (but not furloughed) and who in the following quarter were employed and not furloughed.
**b** The aggregation of the sectors "Public administration and defence; compulsory Social Security", "Education", "Human health activities" and "Social work activities".

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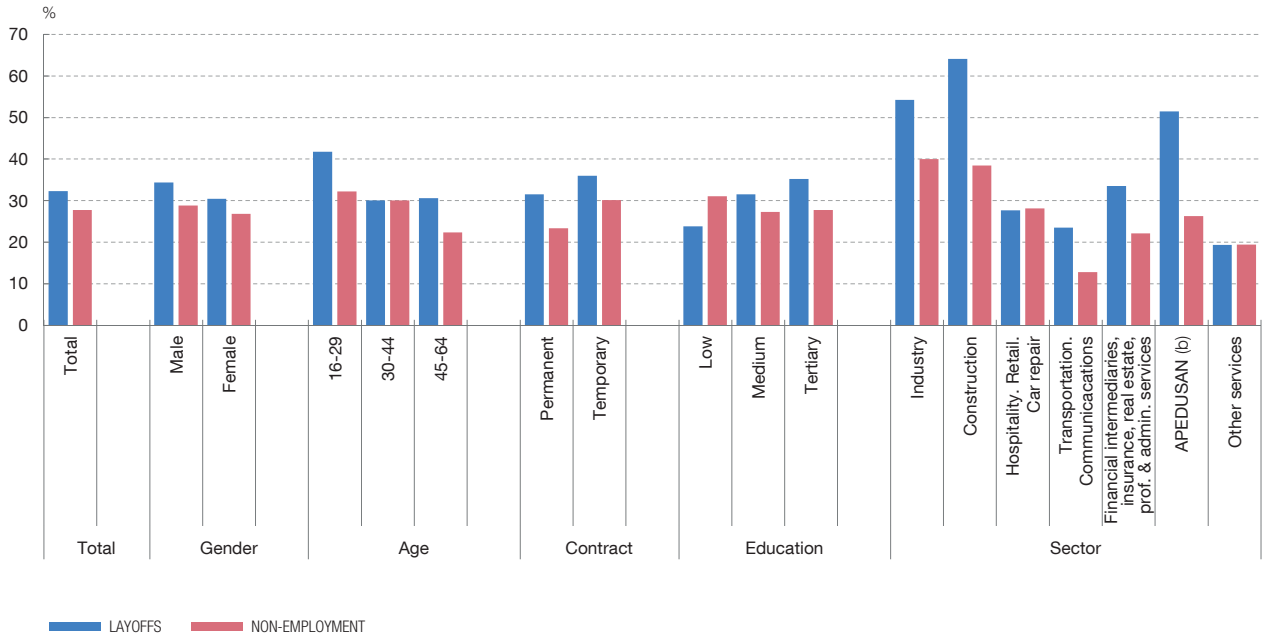
Chart 4

**RETURN TO WORK FLOWS IN 2020 Q4 AFTER TWO QUARTERS FURLOUGHED OR UNEMPLOYED/INACTIVE (a)**

The return to employment in 2020 Q4, after two quarters without working, was slightly higher for furloughed than for non-furloughed workers. The difference was greater among young and older workers and those with a university education; by sector it was quite widespread, except in retail and hospitality and in other services.

BY WORKER CHARACTERISTICS, TYPE OF CONTRACT OR SECTOR




**SOURCE:** Banco de España. Own calculations drawing on EPA flow microdata.

**a** Persons who were laid off in Q2 and Q3, or who were unemployed or inactive (but not furloughed) in both quarters, and who in Q4 were employed and not furloughed.
**b** The aggregation of the sectors "Public administration and defence; compulsory Social Security", "Education", "Human health activities" and "Social work activities".

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especially efficient, as per this definition, among female and young workers and those with a low level of education, and by sector in construction, retail and hospitality, and other services, i.e. the sectors most affected by the restrictions in force during the period.

When these characteristics are analysed for non-employed or furloughed workers in Q2 and Q3, the findings show that the probability of resuming work is slightly higher for young and older furloughed workers and for those with a university education (see Chart 4). By sector, the probability of resuming work in Q4 for workers on furlough in the two previous quarters is generally higher, save in retail and hospitality and in other services. Once again, this probably reflects the greater impact of the restrictions on these activities in the final stretch of the year.

This descriptive comparison of the return to work does not take into account the effect of other characteristics that may vary between furloughed workers and those

who lost their jobs and which could have an impact on the observed probability. In consequence, Table 1 presents the results of a *logit* model in which the dependent variable is the probability of resuming work in the following quarter, with control variables relating to the individual characteristics of workers and the jobs they held previous to being furloughed or to becoming unemployed. The variables considered are: gender, age group, level of education, type of employment contract, training received (whether or not formal training), region of Spain, job tenure, professional category, sector of activity and public/private sector. The variable of interest is an indicator of whether the workers were furloughed. In the different versions of the model this variable interacts with the workers' characteristics to identify any significant differences between the groups.

The results of the estimation (see Table 1) are broadly similar to those obtained from the descriptive analysis. In particular, even taking into account the different characteristics of the furloughed/non-furloughed workers, the probability of resuming work in Q3 after being furloughed in Q2 was 30 pp higher than the probability of becoming employed for those transitioning from unemployment or inactivity. This difference remained positive and slightly significant, although it narrowed to 9 pp, for the furlough schemes that began in Q3. The higher probability of the workers furloughed under the schemes that extended through Q2 and Q3 resuming work, compared with the probability of those who were unemployed or inactive during both quarters becoming employed, was mid-range, at 16 pp.

Analysing the different impact of the furlough schemes by group of workers, we see that the positive differential effect of the schemes that began in Q2 is very high for all groups, as in the previous descriptive analysis. The difference is somewhat larger for older workers with permanent employment contracts and a lower level of education. By sector, the probability of resuming effective employment after one quarter is higher in the case of furloughed workers in industry. This is consistent with the more temporary nature of the impact of the lockdown restrictions on this sector.

Regarding the efficiency of these schemes for workers who were furloughed in Q3, the table shows that, in this case, the positive effects are not widespread but are concentrated among certain groups. In particular, the schemes beginning in Q3 only increased the probability of a return to work for men, workers over 45, those with permanent employment contracts, those with secondary education and workers in transportation and communication.

Lastly in the case of the furlough schemes that extended over two quarters, the positive effects are mid-range, with almost all groups of furloughed workers having a higher probability of resuming work.[8] By sector, retail and hospitality, which

8 Workers with a low level of education are the exception. In this case the effect is similar in size to that of other population groups, but it is not significant.

Table 1

**INCREASE IN PROBABILITY OF RESUMING WORK AFTER ONE OR TWO QUARTERS WITHOUT WORKING, FOR DEPENDENT EMPLOYEES LAID OFF COMPARED WITH PERSONS WHO ARE UNEMPLOYED/INACTIVE (a)**

The probability of resuming employment in 2020 Q3, after being without work in Q2, was 30 pp higher for furloughed than for non-furloughed workers, controlling for different worker characteristics. This difference narrowed to 9 pp in the case of workers who lost their jobs in Q3.

pp

| | Workers who are laid off or lose their jobs in 2020 Q2 | | Workers who are laid off or lose their jobs in 2020 Q3 | | Workers who are laid off or lose their jobs in 2020 Q2 and remain in the same situation in 2020 Q3 | |
|---|---|---|---|---|---|---|
| Variables interacting with layoff indicator | Employment resumed in 2020 Q3 | | Employment resumed in 2020 Q4 | | Employment resumed in 2020 Q4 | |
| No interaction | 30.2 | *** | 9.1 | * | 16.1 | *** |
| By gender | | | | | | |
| Male | 31.5 | *** | 19.8 | *** | 18.6 | *** |
| Female | 29.3 | *** | -0.1 | | 14.0 | *** |
| By age group | | | | | | |
| 16 to 29 | 26.9 | *** | -7.7 | | 14.9 | ** |
| 30 to 44 | 29.5 | *** | 7.3 | | 13.1 | *** |
| 45 to 64 | 32.9 | *** | 16.1 | ** | 18.7 | *** |
| By contract type | | | | | | |
| Permanent | 34.9 | *** | 10.6 | ** | 16.6 | *** |
| Temporary | 25.6 | *** | 3.2 | | 14.8 | *** |
| By education level | | | | | | |
| Primary | 34.0 | *** | 11.4 | | 15.1 | |
| Secondary | 32.6 | *** | 12.1 | ** | 17.0 | *** |
| University | 24.3 | *** | 4.1 | | 14.5 | *** |
| By sector | | | | | | |
| Industry | 40.4 | *** | 17.9 | | 24.8 | *** |
| Construction | 31.0 | *** | 25.8 | | 25.4 | * |
| Retail. Hospitality. Car repair | 29.0 | *** | -0.1 | | 7.4 | * |
| Transportation. Communications | 16.2 | *** | 38.0 | *** | 12.6 | |
| Financial intermediaries. Insurance. Professional & administrative services | 30.8 | *** | 13.0 | | 20.8 | ** |
| Public administration, education and health | 26.4 | *** | 15.6 | | 37.4 | *** |
| Other services | 32.5 | *** | -18.9 | | 11.7 | |
| MEMORANDUM ITEMS | | | | | | |
| Average probability of resumption of employment | 60.4 % | | 39.8 % | | 29.9 % | |
| Number of observations | 7,045 | | 1,197 | | 1,376 | |
| Proportion of furloughed workers in sample | 66.2 % | | 9.4 % | | 34.0 % | |

**SOURCE:** Banco de España. Own calculations drawing on EPA flow microdata.

**a** Marginal effects of the layoff indicator variable (in percentage points), in different logit regressions that model the probability of a return to work (at a rate of 100 %, not including short-time work schemes), after one or two quarters without working, either on account of layoff or non-employment (unemployment or inactivity, excluding workers laid off), for a sample of dependent employees who had a job and had not been laid off in the previous quarter. Also, of the layoff indicator variable, alone or in interaction with the variables listed (each interaction corresponds to a different model). All the regressions include the following control variables: gender, age, level of education, type of employment contract, sector of activity, training received (whether or not formal training), job tenure, occupation, region of Spain and public sector employment indicator.

accounts for 57% of the furlough schemes in the sample, stands out. Here the effect is very low and is barely significant, which reflects the difficulties for returning to work in this sector given the protracted restrictions on this activity. Similarly, the differential effect is not significant in other services sectors that have been harshly impacted by the confinement measures (such as transportation and communications and other services).

Overall, the results obtained show that the furlough schemes have been highly effective in allowing workers to resume work once the lockdown measures and the restrictions on economic activity imposed on many sectors in 2020 Q2 were lifted. In the face of this temporary exogenous shock, these schemes provided an effective way for firms to adjust their employment costs, and one that has encouraged a return to work after the gradual lifting of restrictions. However, the findings obtained for the furlough schemes that began in Q3, and for those that were longer-lasting, are less conclusive as to their implications for economic policy. The shock proved to be far more persistent than was expected at the start of the health crisis. Accordingly, the lack of differential effects in terms of workers who were furloughed in Q3 resuming effective employment compared with those who were unemployed or inactive will feasibly essentially reflect the protracted nature of the pandemic-related restrictions. From an economic policy standpoint, this advises concentrating these support programmes on firms in the most severely affected sectors until the health crisis is over. A more direct link could be established between these protective measures and training activities – which to date have been relatively limited[9] – for the workers concerned.

In any event, this analysis should be regularly updated to assess subsequent developments, with a view to redesigning the protection measures for workers and firms to address two aspects: the differences between groups of workers identified by these findings; and the potential structural changes that may require workers to transition towards sectors or firms with better prospects in the post COVID-19 world.

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9 According to EPA data, 11% of furloughed workers have undertaken some kind of training; this compares with 14% among the non-employed.