

IZA COVID-19 Crisis Response Monitoring  
**Germany (December 2020)**

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### ABSTRACT

Up to the reinstatement of a national (partial) lockdown in early November, unemployment in Germany had increased by 25 percent compared to the previous year. This increase, however, has so far not been accompanied by a similar decline in employment, to which a massive expansion in short-time work certainly contributed. At its peak in April 2020, the number of short-time workers reached almost 6 million or more than 20 percent of all workers subject to social insurance. While this instrument has been successfully applied in previous recessions, various factors could make the use of short-time work in the current crisis more difficult and potentially also less effective. Also the further perspective of short-time workers remains a policy challenge.

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## Labor market impact of COVID-19

Forecasts on the economic impact of COVID-19 released in March 2020 had been rather optimistic, especially concerning the labor market impact (e.g., Michelsen et al. 2020a, Sachverständigenrat 2020a). However, assessments released until June 2020 were significantly more negative: For example, the federal government and the German Council of Economic Experts expected GDP to fall by 6.3 or 6.5 percent in 2020 by that time (Bundesregierung 2020a; Sachverständigenrat 2020b). Forecasts from September and October 2020, which had been released before the reinstatement of a national (partial) lockdown in early November, expect GDP to decline by up to 6 percent in 2020, but these assessments are generally again more optimistic and argue in favor of a V-shaped recession with economic recovery in 2021, involving GDP growth of 4 to 5 percent in that year (Bundesregierung 2020b; Michelsen et al. 2020b; Wollmershäuser 2020).

Table 1 displays selected statistics for the labor market impact of COVID-19 until October 2020 (currently the most recent available data). In that month, the number of registered unemployed stood at 2.75 million persons, an increase by 25 percent compared to October 2019. A decomposition exercise shows that about a quarter of the COVID-19 impact on unemployment is due to relatively fewer underemployed persons (e.g., as active labor market policy measures have been substantially reduced, individuals who would have otherwise been excluded from official statistics are now counted as registered unemployed), an additional quarter is due to increased layoffs, and about one fifth is due to reduced hiring activities (BA 2020a). Employment in Germany, however, has not declined significantly yet; and it appears as if the COVID-19-induced rise in unemployment has been stopped for the time being – there has been practically no additional COVID-19 impact on unemployment since July 2020.

**Table 1:** Labor Market Impact of COVID-19 in Germany.

	Unemployment (Stock)	Unemployment (Inflow)	Unemployment (Outflow)	Posted Vacancies (Stock)	Underemployment (Stock; excl. STW)	ALMP Measures (Stock)	Employment (Stock)
January 2020	0.8%	-2.3%	-3.6%	-11.8%	0.9%	4.3%	0.5%
February 2020	1.0%	-4.0%	-4.2%	-12.0%	0.8%	3.3%	0.5%
March 2020	1.5%	-0.5%	-2.2%	-13.3%	1.1%	2.6%	0.2%
April 2020	18.6%	13.8%	-45.5%	-21.3%	8.5%	-10.2%	-0.5%
May 2020	25.8%	-18.3%	-46.2%	-26.3%	12.0%	-17.4%	-1.2%
June 2020	28.7%	-25.6%	-35.1%	-28.5%	13.9%	-15.0%	-1.5%
July 2020	27.9%	-19.3%	-21.0%	-28.3%	14.6%	-14.2%	-1.4%
August 2020	27.4%	-18.5%	-20.1%	-26.5%	15.5%	-13.2%	-1.3%
September 2020	27.4%	-16.4%	-10.9%	-25.0%	14.7%	-17.6%	-1.4%
October 2020	25.2%	-15.1%	-5.7%	-21.2%	13.4%	-15.2%	n/a

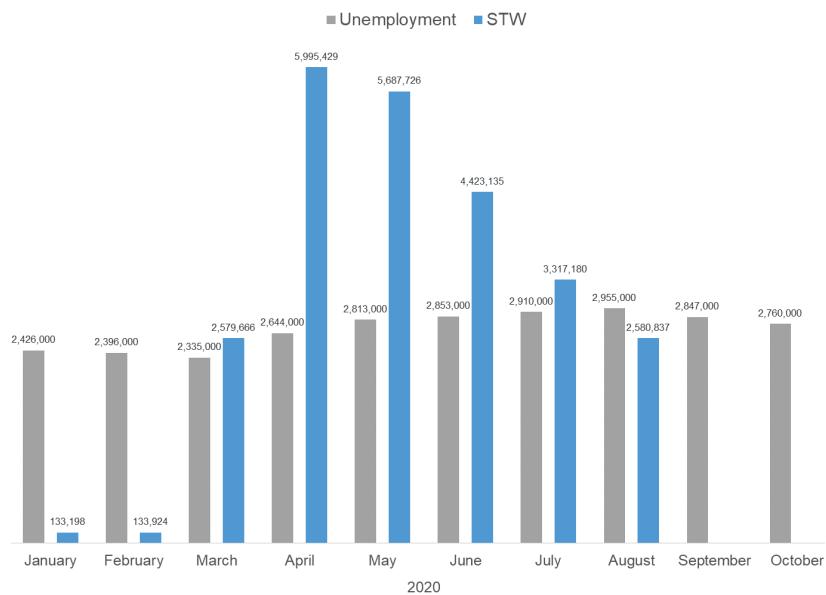
Source: Federal Employment Agency.

Notes: STW: Short-time work. All figures show percentage changes compared to one year before (year-over-year).

However, short-time work (STW) is still extensively used in Germany, and the future employment perspectives of these short-time workers are – at least to a certain extent – unclear. Figure 1 shows that following a peak in April 2020, when the number of short-time workers reached almost 6 million, their number still stood at 5.9 million in May 2020, but decreased to about 2.6 million until August 2020. This also means that STW in the current crisis has reached significantly higher levels than during the Great Recession where the peak was at about 1.5 million short-time workers (Brenke et al. 2013). Although these

numbers still involve a larger degree of uncertainty, are only reported with substantial time lag and may be subject to revisions,<sup>1</sup> also the most recently available updates and forecasts indicate a continuous decline (ifo 2020a), implying that the share of short-time workers among all employees that are subject to social security contributions fell from a peak of 20 percent in April 2020 to about 10 percent in October 2020.

**Figure 1:** Unemployment and Short-time Work (STW) in Germany.



Source: Federal Employment Agency (BA 2020h).

Notes: STW refers to the instrument of cyclical short-time work (STW). Values for STW are still preliminary and may be subject to future revisions. Values for STW in August and September are not yet available from the Federal Employment Agency.

Business confidence stood at a historical low in April 2020. It has been increasing since then until September 2020, when it slightly dropped again in October 2020 (ifo 2020b, ifo 2020c). Yet, unemployment figures not only increased because of increased layoffs, but to a similar extent also because of firms' reduced hiring activities, resulting in fewer exits from unemployment (Bauer and Weber 2020). The demand for new workers had literally collapsed, especially in April and May 2020, when the number of vacancies declined sharply (BA 2020a; Bossler et al. 2020). Compared to one year before, the stock of posted vacancies is still more than 20 percent lower in October 2020 (Table 1). Labor demand is thus low, but it has stabilized for the time being.

Unemployment risks are particularly high in some sectors, including hotels and restaurants, retail, various other service sectors, and to some extent even health and logistics (BA 2020a). These sectors have been either directly affected by restrictions on economic activities and social contacts, or indirectly via disrupted value chains, or simply by a sharp drop in demand. However, quite a few sectors in the German economy remain relatively unaffected (e.g., the public sector, the finance sector, education, and agriculture; BA 2020a). In terms of most vulnerable groups, employment losses can be expected to be particularly concentrated among workers with fixed-term contracts, temporary agency workers, marginal part-time workers, self-employed and freelancers. For example, one in four solo self-employed workers considers it very likely they will have to give up their own solo self-employment within the next twelve months (Bertschek and Erdsiek 2020). The crisis also poses an additional challenge for the labor market integration of the recent cohort of humanitarian migrants that arrived in Germany after 2015.

<sup>1</sup> Such revisions already happened. For example, the number of short-time workers in May 2020 has been revised from 6.7 million to 5.9 million, and later to 5.7 million (BA 2020b, 2020c, 2020h).

Firms with liquidity problems already before the current crisis are at a high risk of bankruptcy. This risk may be particularly concentrated among SMEs with severely restricted economic activities, such as restaurants, small retail shops, and travel agencies. But it appears too early for an assessment: Due to changes in insolvency law, the precise extent to which these firms will ultimately go out of business will only become apparent in early 2021.<sup>2</sup>

From the current perspective, a scenario therefore appears plausible – also when considering other factors and ongoing developments – in which the number of unemployed in Germany continues to rise towards 3.5 million by spring 2021 (starting from 2.75 million in October 2020). The volume of STW is likely to decline further in the course of 2020, but may still correspond to around two million employees by the end of 2020. However, this figure could only gradually decline in the course of 2021 because the maximum period during which STW compensations are paid has been extended to 24 months. Hence, also an increase of hidden unemployment can be expected (on the one hand due to STW, on the other hand due to increased withdrawal from the labor market).

## Orientation and targeting of adopted measures

Germany was relatively quick to adopt and, at a later stage, to adjust larger policy packages to mitigate the employment and social impact of the crisis (see KPMG Global 2020 for an overview about government and institution measures in response to COVID-19). While the extension of the long-standing short-time work (STW) scheme can be viewed as a standard response to economic recessions in Germany, STW is in the current situation also being used by firms that were not using it during the Great Recession in 2008–09 or in previous recessions. Preliminary data indicate that, for example, while STW has again been widely used in export-oriented sectors such as the metal industry, especially in the initial phase of the crisis STW has also been extensively used in service sectors (especially by hotels and restaurants where more than 90 percent of all workers had been included in notifications for STW; BA 2020d). This has recently changed as the number of short-time workers in industrial sectors fell only slightly until October 2020, but declined more strongly in service sectors (ifo 2020a).

Next to the increased generosity of STW, there has also been a remarkable (temporary) extension of the contribution-based unemployment insurance benefit duration as part of a social protection package (Deutscher Bundestag 2020a). At the same time, job search requirements have been reduced and activation principles have come to a halt, both for the contribution-based unemployment insurance benefits and the tax-based basic income support.

Including the latest stimulus package, which has been agreed upon in June 2020, Germany's measures – together with liquidity aid and loan guarantees – equal more than 30 percent of the country's annual GDP (BMF 2020a; BMF 2020b). The stimulus package in summer (worth EUR 130 billion) has moreover shifted the focus towards boosting consumption. Important elements are a temporary VAT reduction (from 19 percent to 16 percent and from 7 percent to 5 percent, respectively, from July 1, 2020 to December 31, 2020) and a one-time EUR 300 lump-sum payment per child.

Nonetheless, the particular emphasis on direct ad hoc support measures for small businesses and self-employed by way of lump sum payment, credits and guarantees appears

<sup>2</sup> The obligation to file for insolvency had initially been suspended until September 30, 2020 for firms which are suffering economic difficulties or have become illiquid because of COVID-19 (under specific conditions, see KPMG Global 2020 for details). This suspension will be extended until December 31, 2020 (the legislative process is currently ongoing).

remarkable (DB Research 2020). This novel feature of the current crisis response (when compared to previous recessions) could be due to the increased visibility of freelance work in Germany, but it could also relate to the larger extent to which SMEs and self-employed workers are affected by the contact ban and the shutdown (e.g., creative jobs, restaurants).

Women could be one of the “blind spots” receiving less attention in policy responses so far (OECD 2020). For instance, they are overrepresented in the workforce of crisis-related or “essential” sectors (most notably in the health sector, but also in the food retail sector), and they typically take a major part of the burden resulting from school and child care facility closures. A related issue is that also less attention has been paid to the flexible workforce of marginal part-time workers who are, for example, not included in unemployment insurance and will probably often not register as unemployed.

## Immediate liquidity support to businesses

To stabilize businesses, the federal government and some regional governments in Germany promptly established different emergency measures (see KPMG Global 2020 for details). On the one hand, these programs provide support to larger firms that have been directly affected by the shutdown by way of loans and credit guarantees: The state-owned development bank KfW supports firms by taking over credit risks from commercial banks as to make cheaper loans feasible; in addition, the federal government has set up an economic stabilization fund for the direct recapitalization of firms under certain conditions. On the other hand, these programs provide liquidity and income support to freelance workers and SMEs with up to 10 employees through timely lump-sum payments (PwC 2020).

Federal programs grant an operating subsidy for three months (provided as a lump-sum payment), ranging from EUR 9,000 for firms with up to 5 full-time equivalent workers to EUR 15,000 for firms with up to 10 full-time equivalent workers. State-level programs come on top, implying regional variation in these emergency measures within Germany. These payments are supposed to allow for the continuation of the business at least for three months and can be combined with short-time work for dependent employees. At the same time, access to basic income support without strict means testing was opened up for the target group of self-employed and freelance workers as they often do not have access to contribution-based unemployment insurance benefits.

However, observers point to the fact that some funds were exhausted relatively quickly and that some target groups were not reached at all. Despite the quick and significant policy response, it is also not yet clear to what extent these measures can effectively stabilize the economic situation of those affected. For example, while around 60 percent of the self-employed report a loss of income as a result of the COVID-19 pandemic, this figure is around 15 percent for dependent employees (Kritikos et al. 2020). In addition, there are some concerns that no appropriate screening of applications took place in the early days of implementing the support programs and that information was lacking on the proper use of funds provided. Finally, also cases of fraud behavior were reported and criminal charges have been filed (Deutscher Bundestag 2020c).

Additional support measures for affected businesses and self-employed are also part of new measures that have been introduced during the national (partial) lockdown in November. Notably, these measures are not only intended to cover operating expenses, but to some extent also include an entrepreneurial remuneration. For this purpose, these support measures are based on previous year’s turnover in November 2019 (or average turnover in 2019) and cover 75 percent of that amount (BMF 2020). However, the

disbursement of these measures is slow and the application and implementation process is rather bureaucratic.

## Support of dependent workers

Although still only preliminary administrative data are available, it is clear that there has been a massive inflow into short-time work (STW) schemes during the initial phase of the COVID-19 crisis in Germany. The well-established instrument of STW was one of the main factors contributing to Germany's resilience to the 2008–09 crisis (Rinne and Zimmermann 2012; Balleer et al. 2016). During the Great Recession, STW helped preserve permanent employment to a particularly large extent in Germany, while it had essentially no impact on temporary employment (Hijzen and Venn 2011; Cahuc 2019).

However, since the 2008–09 crisis was characterized by a temporary external demand shock that almost exclusively affected predominantly larger, export-oriented manufacturing firms, and economic activity picked up again relatively soon, the situation appears entirely different this time. In the current crisis, a broad range of sectors is affected by the demand slump, also many SMEs are at risk, and uncertainty about the speed of economic recovery is large and widespread. In addition, the current recession is accompanied by a structural transformation due to ongoing technological change and digitalization – not limited to, but also in manufacturing and in the automotive industry.

These factors could make the use of STW in the current crisis more difficult and potentially also less effective. For example, the management and implementation of STW is probably easier within larger firms and with works councils that have already acquired experience in using this instrument. In the current situation, firms in the service sector and many smaller firms that are affected may be confronted with unfamiliar bureaucratic obstacles and practical challenges when implementing STW. Furthermore, the temporal scope of using STW appears limited if the crisis interacts with structural change, e.g., in retail (online vs. offline) or in the automotive industry, as a return from STW to “regular” work may not be taken for granted. Skepticism also seems to be justified to what extent the existing subsidies for training and qualification measures during STW are actually used, to what extent they can accommodate workplace mobility, and to what extent they are ultimately effective (Eichhorst and Rinne 2019).

Easing the conditions governing the use of STW was among the first policy responses to the COVID-19 crisis in Germany (Deutscher Bundestag 2020b). The new rules, which came into force retroactively as of March 1, 2020, made the instrument more accessible for firms as only 10 percent (previously: one-third) of workers need to be affected by a minimum reduction in working hours of 10 percent. In response to trade union complaints about insufficient STW allowances, especially during longer periods of STW, the generosity of these allowances has been temporarily increased (until December 31, 2020; BA 2020c): While the compensation still amounts to 60 percent of the missing net remuneration (67 percent for parents) in the first 3 months, it increases to 70 percent (77 percent for parents) from month 4 onwards and to 80 percent (87 percent for parents) from month 7 onwards. Next to that, some firms decided to voluntarily top up STW allowances for their workers.

Recently, the temporary regulations governing the increased generosity of STW allowances have been prolonged until December 31, 2021 (Bundesregierung 2020c). Also the maximum duration of STW allowances has been extended to 24 months (limited until December 31, 2021; Bundesregierung 2020c). In contrast to other (European) countries and

despite the fact that the number of short-time workers has been declining since spring 2020, Germany is thus still in “crisis mode” with regard to the rules for the use of STW. In Austria or France, for example, the envisaged entry into a “second phase” of STW is characterized by the fact that this instrument is gradually becoming less attractive and less “passive” (e.g., through the integration of further education and training). In Germany, strengthening the incentive to combine STW and further education and training is only taking place gradually: Starting in mid-2021, the full refund of employers’ social insurance contributions will depend on further education and training of workers in STW. This means that during a transition period in the second half of 2021, only 50 percent of the employers’ social insurance contributions will be unconditionally reimbursed during STW, while the remaining 50 percent are only reimbursed if STW is combined with further education and training (vbw 2020).<sup>3</sup>

Unemployment insurance benefits are most accessible for workers with longer employment spells. Despite some relaxation of benefit requirements over the last years, coverage by unemployment insurance benefits will likely be lower for workers with interrupted careers and fixed-term contracts. Unemployment benefit levels are low in absolute terms for those with low hourly wage rates or part-time workers. As a response to the crisis, the duration of unemployment insurance benefits has been extended temporarily for those unemployed whose benefits would expire soon.<sup>4</sup>

At the same time, participation in active labor market policy measures and the activation of jobseekers has been substantially reduced. The reduction of active labor market policy measures, in combination with substantially lower hiring rates by employers, will most likely lead to prolonged unemployment spells. This issue might become more severe if some providers of active labor market policy would ultimately have to terminate their business and if the capacity of active labor market policy measures cannot accommodate potentially large and more heterogeneous target groups after the initial crisis phase.

## Working conditions and work organization

The shutdown period led to an expansion of working from home in Germany. This concerns both the share of workers who started working from home, at least partially, and the intensity of working from home of those who already had experiences before. During March and April 2020, about one in four German employees had been working from home, with substantially larger shares among workers with higher education and higher earnings (Möhring et al. 2020).

Germany used to be a relative laggard in terms of working from home. This has quite suddenly changed during this crisis as immediate health concerns as well as contact bans put pressure on both employers and employees to encourage and accommodate working from home. Quite often, it has also been the only option to ensure continued business activity in occupations and jobs where (regular) physical presence was not absolutely necessary. Besides the positive aspects of reduced risks of infection and the ability to continue operations, work from home tends to create stressful situations and entirely new challenges regarding the reconciliation of work, care obligations (especially during school and child care facility closures) and private life in general.

<sup>3</sup> In January 2022, the unconditional refund of employers’ social insurance contributions during STW will end completely. However, 50 percent can still be reimbursed if STW is combined with further education and training (until July 31, 2023).

<sup>4</sup> Unemployment insurance benefit duration has been temporarily extended by 3 months for those workers whose benefits would otherwise expire between May 1, 2020 and December 31, 2020 (BA, 2020e).

In the current situation, the latent policy debate about which rules should apply to work from home has re-emerged in Germany. In particular, the discussion circles around the question if there is need for a binding legal framework, or if this can be left to negotiations between employers and employees (or within teams at the workplace). Moreover, a new divide in the labor market could emerge between those workers that are able to work from home (with differences between workers with or without care obligations) and those working in the service sector, i.e., frontline workers (with higher risk of infection) and those at a high risk of losing their jobs (e.g., in restaurants). In this regard, low-skilled workers could suffer the most in the current crisis as they spend less time working from home and are simultaneously more likely to work reduced hours or lose their jobs (von Gaudecker et al. 2020).

Some observers also fear that working from home might reactivate more traditional gender roles regarding care responsibilities, thereby creating obstacles for women and especially mothers to focus on paid work (OECD 2020). However, there is no consistent evidence on a return to more traditional gender roles in Germany so far. In some cases, bonus payments in (female-dominated) occupations such as retail trade and nursing have been announced as a compensation for extraordinary workload during the crisis. But regular wages in these occupations continue to be rather low. At the same time, working time regulation in sectors that are regarded as essential, such as logistics, the health sector, energy supply and administration, had been relaxed from April 2020 to June 2020 to ensure business continuity in critical situations (BMAS 2020a).

## New labor market entrants

It is likely that new labor market entrants in Germany will face particular difficulties this year. Firms' hiring activities are reduced, either because of direct demand effects or general economic uncertainty (Klös and Schäfer 2020). However, given persistent skill shortages and continued demographic change with an ageing population, reduced hiring could only be temporary – at least in the German context. This is particularly the case if product demand recovers relatively quickly or expectations become more optimistic soon. But a scenario of a deep and long-lasting recession could result in persistently weak labor demand and hiring, with long-term disadvantages for current graduates (Kahn 2010; Oreopoulos et al. 2012).

Beyond these average effects, the crisis impacts are likely to be quite heterogeneous across sectors and firms. First, it is possible that some sectors will be more substantially affected and will thus shrink in the medium or long run (e.g., hotels and restaurants, tourism, local retail). This would also result in very limited hiring in these sectors. Second, other sectors could experience a structural and thus permanent increase in labor demand (e.g., health care). Third, firms that entered the crisis in relatively good shape or that follow a longer-term strategic approach might take advantage of the reduced competition for talents. These companies could even increase their hiring activities, especially focusing on younger workers with sought-after skills. To avoid time-consuming and costly staffing in the near future, it could be a rational approach, at least for some firms, to hire employees even when product demand is weak (Sachverständigenrat 2020a). Finally, implementing actual hiring has not proved to be a bottleneck in the current situation. Many firms relatively quickly adapted to new standards, for example, by using digital hiring tools more intensively.

The potential problems of current graduates might be amplified in the German labor market because of the crucial role of the dual apprenticeship system. This core mechanism and structural strength of the German employment model not only effectively provides the labor market with skills and qualifications in demand, but it also acts as an important counterbalance to hiring barriers in school-to-work transitions (Schneider and Rinne

2019). According to recent data, a substantial slowdown of the matching process between applicants and apprenticeship positions can be observed (BA 2020f). Displaying selected statistics for August 2020 (currently the latest available data), Table 2 shows that both supply and demand decreased by about 8 percent compared to August 2019. This ultimately resulted in roughly 11 percent more applicants who had not been placed yet.

**Table 2:** The Apprenticeship Market in Germany (as of August 2020).

	August 2020	YoY*
Supply of Apprenticeships (Positions, total)	513,704	– 7.7%
Demand for Apprenticeships (Applicants, total)	457,544	– 7.9%
Open Apprenticeship Positions	153,911	– 2.1%
Applicants Not Yet Placed	99,750	+ 10.6%

Source: Federal Employment Agency.

Notes: YoY: Percentage change compared to one year before.

Against this background, it is increasingly reported that potential young labor market entrants stay longer in education than they would have done otherwise. Either continuing with their school education or enrolling in universities appears to some extent as a rational approach in the current situation, albeit this may result in increased competition after the crisis.

In addition, there is a substantial risk that a low willingness or capacity of firms to hire apprentices (and new workers in general) – given economic uncertainty, lack of business activity and high pressure to cut costs could result in a further decline of apprenticeship training, especially in some sectors and occupations. As the majority of apprenticeship training only commences in August in September, figures for the next months should be closely monitored and will provide the basis for a more detailed assessment.

Stakeholders such as trade unions and employer associations asked for governmental support to firms providing training during the crisis via the highly institutionalized German dual apprenticeship system (e.g., DIHK 2020). In cooperation with some Federal Ministries, a larger number of stakeholders published a joint declaration in which they support needs-based and targeted support measures (Allianz für Aus- und Weiterbildung 2020). This has led to the adoption of a joint federal support initiative to make apprenticeship capacities more resilient in times of crisis. Small- and medium sized firms that provide apprenticeships, despite being currently in economic difficulties, can receive EUR 2,000 per new apprenticeship contract as a subsidy if they keep the number of their apprentices constant, or EUR 3,000 per new apprenticeship contract if the firm raises the overall number of apprentices. The same applies if a current apprentice is taken over from a firm that has gone bankrupt during the crisis. The program also provides for support to avoid short-time work among apprentices, and for training in facilities outside individual firms.

Whether these measures ultimately helped to stabilize the apprenticeship market this year remains to be seen. At least according to preliminary evidence, the negative impacts appear less severe than initially expected (Bellmann et al. 2020).

## Policy innovations and labor market trends

In Germany, the COVID-19 recession may not only result in a departure from the long and rather stable path of employment growth (Schneider and Rinne 2020), but the crisis may also accelerate structural change and digitalization. At the worker level, working from

home may become more frequently at least a realistic option. In Germany, about one in six jobs may be permanently suitable for working from home (Pestel 2020). At the firm level, digital tools may be increasingly viewed as a hedge and reinsurance against external shocks. In this respect, the crisis is also an endurance test of firms' past digital achievements, and their past omissions become very visible (Engels 2020).

In terms of disruptions or structural breaks at the sector level, it is very likely that the crisis will accelerate the long-term decline of local retail, often delivered through smaller shops, while all forms of online retail will experience an extra boost. As digitalization also continues in the health sector and in education, the skill needs of workers in these sectors will change accordingly. The ongoing transformation of manufacturing, in particular of car manufacturers and their suppliers, may proceed more rapidly than expected before the crisis.

At the same time, however, and contrary to widespread beliefs, significantly shorter or less complex global value chains in industrial production are unlikely to occur. Firms in the post-crisis situation may even rely to a larger extent on cost-saving initiatives, which typically include outsourcing and offshoring. The crisis will by no means reverse this development and it will not trigger a trend to bring production back to Germany – for a simple reason: the level of automation in German manufacturing is already very high (Krzywdzinski 2020). This assessment may, however, differ from “essential” sectors: Here, too, there are discussions about reshoring production back to Germany, but mainly because of security concerns and to guarantee the supply of the German population even in emergency situations (e.g., in the areas of infrastructure, energy supply, and in the medical sector).

Last, but not least, restrictions to migration and to EU mobility may have lasting effect on the functioning of the German labor market. Beyond its often controversially discussed labor market impacts, immigration from EU member states has certainly increased labor supply in Germany and, in comparison to many years ago, has led to more employees, but also to more unemployed and benefit recipients from these countries (BA 2020g). Nonetheless, it helped cushion the imminent problem of labor shortages in the German labor market. The country's demographic challenge could thus intensify in the future.

## Next steps and fiscal viability

After an initial phase of slightly less than two months with a rather strict lockdown, many restrictions had been removed during summer. This approach had followed the general policy strategy of a careful and, depending on the local COVID-19 situation, potentially regionally differentiated revival of economic activities, in combination with close monitoring efforts, continued social distancing and widespread testing. Given increasing infections rates and to avoid overloading the healthcare system in Germany, a national (partial) lockdown has been reinstated in early November.

At the same time, the rather controversial debate about the costs of forgone economic activities and governmental spending to mitigate the immediate effects of containment continues. In this context, it seems advisable to avoid too broadly targeted and too generous governmental subsidies.

In certain constellations additional targeted compensations may be necessary if companies and employees are particularly affected by the specific nature of the current COVID-19 crisis. This includes, for example, the cultural and event industry (and possibly the tourism industry) with an unclear time perspective during which economic restrictions to maintain the applicable hygiene and distance regulations need to be in place. In addition,

the situation in “essential” sectors and medical professions with an often greatly increased workload should be closely monitored.

However, sectors and industries that have been significantly affected by the current crisis as well as by long-term structural changes, such as the automotive and retail industries, should be clearly distinguished from these areas. Here, the current COVID-19 crisis acts as a catalyst that unexpectedly accelerates ongoing transformation processes. Although it appears necessary in the short term to cushion the social consequences of these now accelerated processes in a suitable manner – primarily with measures of the welfare state that are already in place – additional measures that aim to preserve existing structures should be avoided.

An open question in the German context concerns the further perspective of short-time workers. In the current crisis, the extension of the period for which short-time work compensations are paid to up to 24 months is generally considered appropriate. However, rising wage replacement rates, which increase with the duration of short-time work, dampen the necessary adjustment reactions to crisis-induced structural change, and declining entry wages during the crisis reinforce this effect. Current data point towards the development of a stock of long-term short-time workers – especially in industrial sectors and in sectors with long-term structural challenges, but also in companies that were already in a rather difficult economic situation before the current crisis. In this way, short-time work compensation granted over a longer period can lead to an excessive stabilization of employment relationships that are no longer sustainable.

Therefore, in a “second phase” of short-time work, it could make sense to combine short-time work more strongly with instruments of active labor market policy. The longer the individual or company short-time work has already been in place, the stronger the combination with elements such as training should be. The core idea is to gradually dissolve the link to the current employer. This should be the case in particular for employees for whom it is increasingly likely that they will not be able to resume their previous employment in their original company after the end of their entitlement period to short-time work compensations.

Finally, the German situation also depends on the ability to stabilize the European and global economy. The German economy relies to a large extent on foreign demand for goods and services, on reliable and efficient global value chains as well as on free labor mobility. However, with regard to the European stabilization efforts, the German position looks more accommodating or showing solidarity than perceived at first glance.

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