Covid-19 Furloughs Helped Firms Not Just Survive, But Thrive

By Morten Bennedsen, INSEAD; Birthe Larsen, Copenhagen Business School; Ian Schmutte, University of Georgia; and Daniela Scur, Cornell University

Even keeping low-wage workers on the payroll yielded benefits after Covid-19 restrictions ended.

During Covid-19 lockdowns, European governments offered furlough schemes to prevent unemployment from rocketing. These programmes were also a public health initiative to keep workers at home and slow the spread of the virus. In many a case, they represented the largest labour market interventions in these countries’ respective histories.

Furloughs raised interesting questions from the firms’ perspective. What economic benefits, if any, did firms get from keeping their workers attached to them? After all, they still had to pay a non-trivial portion of their employees’ salaries. It wasn’t a free lunch.

In research just published in Labour Economics, we looked at the case of Denmark. Workers furloughed under the Danish scheme were barred from working, but the state paid 75 percent of wages for salaried workers and 90 percent for non-salaried workers, up to a cap of 30,000 Danish krones.
(US$4,400) per month.

Of course, firms could choose to just lay off workers. However, in Denmark, termination requires notice – akin to a mandatory severance pay. In the case of white-collar workers, the notice can be several months long. As such, it was usually cheaper for firms to furlough white-collar workers than to fire them.

However, for most blue-collar workers, firms anticipated the opposite: Furloughing was more expensive than firing. Yet, firms chose to keep these workers on the payroll. From this, we can assume that firms saw important value in retaining these workers. Our research showed that they were not wrong.

**The worker-employer ties that bind**

Aside from saving jobs, participating in furlough schemes provided business benefits. Firms that took state subsidies were more likely to survive by the end of 2020 vs. firms that felt they were in a good enough position to avoid taking subsidies. Aid-taking firms also saw higher employment growth and higher sales in December 2020 than they would have experienced otherwise.

Our analysis is based on linked administrative and survey data. In April 2020, we surveyed a vast sample of Danish firms about their use of government aid and their decisions to fire and furlough workers. To study the effects of state policy, we asked firms to report the share of workers they would have laid off and furloughed, had aid not been available.

Managers were unusually eager to respond to our survey. We received 10,642 responses, which represented a quarter of all Danish private sector firms with more than three employees. As economists, of course, we didn’t just take our respondents’ word for it. We linked their answers to actual employment data, firm accounting information and job-level official records. This allowed us to verify that survey respondents had answered accurately.

In all, we found that Danish firms chose to furlough workers that they would have otherwise laid off. They were also willing to spend non-trivial sums to hold on to low-paid workers when it would have been cheaper to fire them.

This may be unsurprising, considering other research showing – directly or indirectly – that firms gain by hanging on to their workers. For instance, firms find it difficult to replace employees that have passed on or taken leave,
even when those workers have less education or possess more general skills.

In recent times, **staff shortages** around the world have brought the value of workers, including hourly workers, even higher. Firms might have had too many staff during the pandemic, but many now find that they need to go out of their way to **attract and keep them**.

**A smoother recovery**

Comparing Danish policy (that sought to preserve job ties) to American policy (that focused on subsidising unemployment benefits), we find that the unemployment rate recovered more quickly in Denmark than in the United States. It probably helped that Danish firms were able to bring furloughed workers back on the job as soon as economic circumstances improved.

Other research showed that much of the rise in US unemployment during the early months of the pandemic was from terminated workers that expected to be recalled by their employers. However, US policy did not tie workers to their pre-pandemic employers as explicitly as the Danish policy did.

It appears that workers, even at the lowest rungs, are not as interchangeable as popular rhetoric might suggest. Once workers are off your payroll, there is no telling whether they will ever return or if replacements will be available. This is not even factoring in the experience and institutional knowledge that is lost when the link between an employer and an employee is dissolved.

As *The Economist* pointed out in 2021, “Fifty years of data from America, Australia, Canada and Japan suggest that **increases in unemployment happen 50 percent faster than declines**. A worker can clear her desk in minutes, but searching, applying and interviewing for a job takes time.” The same logic applies to firms: It takes minutes to fire someone, but searching for, interviewing and signing a new worker takes time and substantial resources.

This is something for firms to keep in mind as disruptive events (including climate and health crises) are expected to intensify in times to come.

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About the author(s)

Morten Bennedsen is a Visiting Professor of Economics at INSEAD. His main research area is the governance of family firms and other closely held corporations in a global context.

Birthe Larsen is an Associate Professor of Economics at Copenhagen Business School.

Ian Schmutte is a Professor of Economics at Terry College of Business, University of Georgia.

Daniela Scur is an Assistant Professor of Strategy at Dyson School of Applied Economics and Management, Cornell University.

About the research

"The effect of preserving job matches during a crisis" is published in Labour Economics.

About the series

Covid-19
Covid-19 is no longer a global health emergency but its impact on public health, the global economy and the future of work cannot be overstated. INSEAD’s thought leaders — both faculty and their close collaborators in the practitioner and entrepreneurship communities — give their informed perspectives that could help us not just weather the crisis but emerge from it stronger than ever.