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GLOBAL DEAL
TOGETHER FOR DECENT WORK
AND INCLUSIVE GROWTH

SOCIAL PARTNERSHIP

**IN THE TIMES OF THE
COVID-19
PANDEMIC**

Social Partnership in the times of the COVID-19 Pandemic

The COVID-19 pandemic and the social distancing measures taken in response raise the prospect of a steep downturn for numerous economies. A key concern is to prevent this initial shock from turning into an even deeper and prolonged recession. This brief stresses that social dialogue has the capacity to help. For example by shaping compromises whereby employers maintain jobs, workers accept shorter working hours while governments provide compensation, social dialogue functions as a crisis “circuit breaker”. Social dialogue can do so because it has both the capacity to coordinate different actors and because it tends to build trust. The brief illustrates this by referring to several recent cases where social partners, in collaboration with government, have quickly stepped up to the challenge by expanding short time work systems. The Global Deal partnership is pleased to offer its initial contribution to the struggle to address the COVID-19 crisis in the form of this short brief and the best practice examples of social dialogue that it showcases.

Disclaimer Note:

The opinions expressed and arguments employed herein do not necessarily reflect the official views of the OECD member countries, ILO member states or the Global Deal partners.

The danger: An unchecked recession

With a substantial part of the labour force immobilised because of the “social distancing” measures required in the fight against the corona pandemic, numerous economies are currently facing the prospect of a steep downturn.

While the latter is unavoidable, the key question is how to prevent this initial shock from translating itself into an even deeper and prolonged recession leaving permanent scars and making a robust rebound of the economy more difficult.

Economies are interrelated and complex systems: A shock to one part of the economy creates feedback effects that spread the initial shock to other parts of the system and back. In this case, what initially starts as a labour supply shock will quickly turn into a labour demand crisis. With reduced or little revenue coming in, businesses can find it hard to afford to retain all workers and pay their wages. When workers are made redundant or start worrying about losing their jobs, economic activity is served another blow, as aggregate demand is reduced by households holding back on their spending.

Unfortunately, recessionary forces do not stop there. A key lesson learned from the 2008-2009 Great Recession is that finance can short-circuit economic activity further in times of crisis. As businesses and households get into financial trouble and start defaulting on loan payments, bank capital is eroded by a rising stock of non-performing loans. This causes banks to squeeze credit at the exact moment business and households need more, not less, of it. Limiting this doom loop between finance and the real economy is crucial, as corporate debt currently constitutes the Achilles heel of many economies. With global corporate debt having doubled to 13 trillion dollars since the financial crisis and with the quality of underlying collateral being rather poor, ([OECD 2020](#)), a severe downturn raises serious risks to the financial system, risks which would then spill back over into the real economy.

It is therefore important to stop the crisis from feeding upon itself once the recession breaks out. Just as public health policy aims to flatten the curve of Covid-19 infections, policy makers should flatten the recession curve as well ([Gourinchas, 2020](#)).

Social dialogue: Stepping up to the challenge

Social dialogue is key to mitigate the impact on the economy, business and workers. Through social dialogue, agreements can be shaped that function as a crisis circuit breaker. By keeping workers in their jobs and stabilising household income flows, aggregate spending and economic activity are shielded from further second-round effects. As part of such compromises, agreements can be negotiated such that employers engage not to fire workers, trade unions accept to shorten working weeks and to moderate wages while the public actor steps in to make up for part of the difference between the former monthly wage and the reduced wage. These agreements are thus part of one of the key policy responses recommended by the ILO to mitigate the impact of the crisis on the world of work, which is to develop “employment retention schemes, including short time-work/partial unemployment benefits” ([ILO, 2020 a](#)). Social partners in several countries have understood the need to act urgently in order to try to break this recessionary chain reaction. Indeed, over the past week or so, a series of such short time work agreements and similar tripartite arrangements have been negotiated quickly in several countries, offering the economy this protective shield guarding against the risk of a recession spiralling totally out of control.

Overview of the most striking agreements

In Denmark, a tripartite agreement (“Temporary [Scheme](#) for pay compensation”) was struck on the 15th of March, incentivising business to retain workers instead of firing them. Companies that otherwise would let go 30% of their staff or more than 50 workers can receive 75% of the wage (up to a certain limit) provided they continue to pay the full wage and do not lay off any worker for financial reasons during the period public support is being received. In return, workers need to take [five](#) days of mandatory vacation or time off from work. The terms of the agreement are valid for 3 months, from 9th March to 9th June 2020.

Another significant example comes from [Austria](#) where the government on the 14th of March set aside a 4 billion Euro fund to fight the COVID-19 crisis. Part of that budget will be used to finance a new and expanded form of *Kurzarbeit* (short time work) that was agreed to by the social partners. In this new model, the notification period is reduced from 6 weeks to 48 hours and the working week can be reduced to zero. Moreover, whereas *Kurzarbeit* otherwise is limited to large industrial companies, SMEs and micro-firms now get access to the system. Net wages are guaranteed between 80-90%, with low wage earners being entitled to the higher replacement rate. This compensation is mostly paid by unemployment insurance with the employer paying an additional but small part, thereby making the system attractive for the employer. In the social partner agreement, current holiday entitlements do not need to be taken immediately. However, if the crisis lasts longer than three months, three weeks of holidays will need to be used.

In Spain, the social partners joined forces on the 12th of March requesting government to simplify access to temporary unemployment benefits by clarifying when companies can make use of such a system and by reducing corresponding legal procedures from 15 to 7 days. To advance measures of internal flexibility, the social partners agreed to shorten consultation procedures with workers on these matters while at the same time confirming the principle that all of these actions need to be negotiated with worker representatives. SMEs that do not have an enterprise council should turn to majority trade unions in the sector. Moreover, employer social security contributions are to be postponed while workers who are in lockdown because of the virus should receive full compensation and not 75% as initially proposed by the government.

The German government, in [concertation](#) with the social partners, has also introduced more generous modalities in its existing system of short time work. The contribution from unemployment insurance is increased from 60 to 67% of the wage, business can make use of it from the moment 10% of staff (previously 30%) is concerned and employers are no longer obliged to pay social security contributions for workers on short time work. Some sector and company agreements exist whereby the employer tops up the unemployment benefit so that workers can have a higher replacement rate. A company can resort to this short time work scheme only after reaching an agreement with the enterprise council.

[Sweden](#) has introduced an expanded system of short time work, providing for 90% of the wage with working time reduced to 40% and with government paying [75%](#) of the cost of the operation (previously 33%). The aim is to save jobs. Just a few hours after the government decision, a collective agreement on this was signed in the hotel and restaurant sector.

In Pakistan, tripartite social dialogue at the provincial level has led the Labour Department to issue two notifications. Workers in the Sindh province will be treated as

on paid leave and are not to be laid off during the time of shutdown. Tripartite social dialogue is ongoing as the situation in the province develops.

The National Economic Development and Labour Council (NEDLAC) of South Africa has held an emergency meeting with President Ramaphosa to discuss a national response in the area of employment and labour. As a result, a response task team has been established to draft proposals on measures to protect workers and support enterprises.

Similarly, in Botswana, the High Level Consultative Committee has convened to discuss a national response. Several of the Committee's recommendations, such as the reconfiguration of hours of work, have been included in the government's programme.

Why social partnership makes a difference

Many of the cases described originate from economies with a strong tradition of social partnership. This is not a coincidence. It has to do with the fact that social dialogue can deliver two things that are of the essence in these types of arrangements: Fairness and trust.

In times of crisis, people and societies tend to pull together and contribute to solutions. "Free-rider" behaviour however, where some are trying to freeload the responsibility of addressing the problem to others, is not tolerated. A crisis response can therefore only be effective when it is perceived as being fair and efforts are broadly shared. Social dialogue is instrumental in this as it works as a coordination device by allowing all involved to agree on similar action and behaviour. In the case of short time work, cutting working hours and giving up on (part of) monthly revenue is more likely to be accepted if workers know that this is for the common good and that all are contributing to the effort.

Taking this a step further, this also implies that social dialogue systems that have a wider reach will be more capable of negotiating and reaching compromises. This is exactly the finding of the 2017 OECD's [Employment Outlook](#), which concludes that "more coordinated and more centralised collective bargaining systems limit the short-term unemployment impact of economic downturns" (OECD 2017, page 63). As centralised or multi-employer collective bargaining arrangements tend to have wide coverage, the knowledge exists that efforts will be broadly and thus more equally, shared. This in turn increases employment resilience by promoting adjustment in terms of wages and working time rather than in terms of jobs in case of economic downturns.

Moreover, commitments do not only need to be widely shared, there also needs to be some assurance that what has been committed to will be respected in practice. The key word here is "trust". Trust is of the utmost importance to reach social agreements between actors that do not always share identical interests and priorities. Social dialogue creates that trust. By regularly discussing, consulting and/or involving workers and their representatives in the management of the company and the labour market in general, business and worker representatives get to know each other and improve their understanding of the problems with which each side is struggling. In times of crisis, as is the case right now, the trust exists that makes it possible to reach agreements that are both adequate and balanced.

Social dialogue: The longer term

Finally, collective arrangements that keep workers in their jobs despite the economic situation do not only allow economies to break this damaging crisis chain reaction, they also have the advantage of maintaining productive capacity. Good worker/job matches

are preserved and experienced and skilled workers are kept on board. When the economy does eventually escape from the doldrums, these businesses and economies will not have to go through the process of searching for and re-hiring new workers. Instead, they will be the first to be able to respond to recovering demand.

The Global Deal was established to promote social dialogue and social partnerships precisely because of their capacity to achieve such win-win-win outcomes, and at this time of the global COVID-19 crisis the need for such partnerships is stronger than ever before. Many of the commitments that Global Deal partners entered into when they joined the partnership included reference to promoting social dialogue in one form or another. As was highlighted at the Global Deal [conference](#) that took place on 4th February 2020, social dialogue is not always easy and often takes much effort and time. However, it is also an investment bringing substantial benefits. As emphasized by the ILO, a climate of trust, built through social dialogue and tripartism, will be essential in the effective implementation of measures to address the COVID-19 outbreak and its impacts ([ILO 2020 c](#)). The social deals currently being struck in this dreadful time of the COVID-19 pandemic vividly testify to this.

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