MACROECONOMICS

How to cite this paper: Torosyan A. (2024). Job Retention Schemes as a Long-Term Employment Polic. *Messenger of ASUE, 2*(77), 5-19. DOI:10.52174/1829-0280_2024.2-5
Received: 20.09.2024. ***Revision:*** 24.09.2024. ***Accepted:*** 02.12.2024

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JOB RETENTION SCHEMES AS A LONG-TERM EMPLOYMENT POLICY INSTRUMENT

The intervention of relevant government authorities is crucial when a critical situation arises, such as the coronavirus pandemic. They should not be underestimated; job retention schemes are the tools through which the governments shield the most vulnerable population from the adverse effects of massive dismissals. These schemes, which can be used in various ways, can be used to provide a timely and temporary fix to a developing problem in the form of a crisis, or they can be used as solutions that address issues such as structural unemployment in the long run. Across the globe, nations have embraced a variety of job retention schemes, which generally fall into three main categories: short-time work schemes, furlough schemes, and wage subsidy schemes. These schemes are shaped to suit each country since they should address particular problems and situations.

The article explores how employment protection measures affected the unemployment trends during the COVID-19 pandemic, with this classification understandably steering reliance on job retention schemes as either temporary crisis responses or fundamental tools for a sustainable labor plan. More specifically, the article uses a panel model to understand better the relationship between the growth rates of COVID-19 cases and the fluctuations in the unemployment rate. The findings have revealed that governments implementing long-term job retention schemes observe much lower increases in unemployment compared to those relying on short-term solutions. Furthermore, in countries where job retention schemes have become part of sustainable economic development strategies, a higher level of public trust towards *government activities has contributed to more stable consumer behaviour and improved economic stability.*

Keywords: *job retention schemes, labour market policy, coronavirus pandemic, unemployment, economic policy*

JEL: E24, J08, J21

DOI: 10.52174/1829-0280_2024.2-5

INTRODUCTION. In the conditions of the modern economy, state intervention in the labor market plays a crucial role. In recent years, the coronavirus pandemic has posed unprecedented challenges to the labor market, which made it urgent to regulate relations in the labor market with the help of the state. State labor market policies are complex and are not only aimed at counteracting adverse economic developments but are broader in scope and addressed to employees and employers.

One of the useful tools in this set of labor relations regulations is called "job retention schemes." Such schemes are often advertised as temporary stimuli, especially during the crisis, and the possibility of their implementation was seen during the COVID-19 pandemic chaos. The use of job retention schemes during such crises is mainly focused on preventing high unemployment rates, protecting the labor market from complete collapse, and assisting those who are most affected (Mayhew & Anand, 2020). However, job retention schemes are not confined to times of crisis alone. In many countries, they are employed as long-term mechanisms within the broader active labor market policy framework. In these contexts, job retention schemes go beyond mere crisis management; they serve as potent tools to combat structural unemployment and foster the employment of marginalised groupsin the labor market (Park, McQuaid, Lee, Kim, & Lee, 2019). Many studies deal with the effectiveness of job retention schemes, but the question of evaluating their effectiveness in the context of short-term and long-term periods remains open. This research aims to determine the characteristics of the job retention schemes implemented in different countries, their effectiveness, and the long-term and short-term effects on the labor market situation.

LITERATURE REVIEW. In the context of recent crises, the use of job retention schemes has become even more widespread. Almost all countries have started implementing job retention schemes, but they differ from country to country. Each country localizes the implemented job protection scheme by targeting this or that problem. Generalizing, we can distinguish three types of job retention schemes: short-term work schemes, furlough schemes, and wage subsidy schemes (OECD, 2020).

Therefore, the short-time work scheme is a strategic survival tool besides offering monetary assistance to the affected businesses when employees can be idle. This scheme is armor that helps companies avoid experiencing the harshest realities, such as layoffs, especially where employees are “benched” by instrumental conditions such as the recent COVID-19 outbreak.

The furlough scheme is diametrically opposite in concept from the business immunity approach because it translates the paradigm from the companies to the employees themselves, providing cash to those unable to work through no fault of their own. Moreover, such an approach also assists the workers in making their earnings stable during low production periods while allowing companies to temporarily shut down their activities without letting go of most of their employees.

In contrast to both particular forms of short-time work and furlough, the wage subsidy scheme aims to keep companies afloat regardless of employees’ working status. This scheme seeks to restrict the flow of financial assistance only to companies to assist businesses in carrying on their operations and employees in continuing to work as normal without being forced to stop working (OECD, 2020).

Since every country has unique problems, government-supported job retention schemes must fit the national context. For instance, the Czech Republic proposed a short-time work scheme within the framework of what it called "Antivirus" during the coronavirus outbreak. However, this program was an integrated response to the crisis, which included parts such as Antivirus A, A Plus, B, and C and aimed at responding to different barriers for both employers and employees. Antivirus A and A Plus were designed to pay for the employees' expenses during forced isolation or business closure due to the governmental mandate. Antivirus B tied its support to businesses closing down because of such restrictions, while Antivirus C offered funds to deal with the general economic impact (Drahokoupil, 2021).

Another example of a job retention scheme is the one used by the Belgian government, where during the spread of coronavirus, the government began implementing a furlough system to develop a wider system of job retention. As mentioned earlier, the scheme implemented in Belgium differed from the furlough scheme used in other countries. When it comes to a conventional furlough scheme, the employer has to explain to the government why their employees areunable to work. However, the furlough scheme introduced by the governmental authorities of Belgium also let every employer address for state aid without referencing legitimate grounds. Because of this, the furlough scheme used in Belgium expanded and practically extended to nearly every company across all industries (Serroyen, 2021).

The Netherlands chose the wage subsidy scheme, giving money directly to employers, especially during a challenging business climate. The Dutch government's approach was straightforward: endorse any company facing or expecting to have a decline of their turnover ratio by 20% or more. Contrary to the wage subsidies that have been implemented in other countries, including the reduction of working hours for employees, the Dutch wage subsidy did not influence business operations.

Job retention schemes have often been used as tools to prevent unemployment from rising during crises. However, several countries use these schemes as a long-term tool for their labor market policies. One such country is Finland, which has operated a furlough scheme since 1970 as a permanent labor market tool. During the outbreak of the 2020 pandemic, the Finnish government made some changes to its long-standing scheme, thereby making the scheme more inclusive and flexible. Starting in March 2020, the Finnish government decided to provide support through the furlough scheme also to the self-employed and employees of employment agencies who previously could not benefit from financial support (Sippola, 2021).

Table 1

Job retention schemes in different countries

	Pre-existing short-time work scheme	*Pre-existing furlough scheme*	*New short-time work scheme*	*New furlough scheme*	*New wage subsidy scheme*
Austria	X				
Belgium		X			
Bulgaria			X		
Canada	X				
Cypros			X		
Czech Republic	X				
Denmark	X				
Finland		X			
France	X				
Germany	X				
Greece			X		
Croatia				X	X
Hungary			X	X	
Irland					X
Italy	X				
Iceland					X
Japan	X				
Latvia			X		
Lithuania			X		
Luxembourg	X				
Malta					X
Netherlands	X				
Norway	X				
Poland					X
Portugal	X				
Romania			X		
Serbia					X
Slovenia			X		
Slovakia	X				
Spain	X				
Sweden	X				
Switzerland	X				
Turkey	X				
USA	X				
UK			X		

Source: *Eichhorst, Marx, Rinne, & Brunner, 2022*

The table below compares the various job retention schemes implemented across different countries, highlighting whether these nations initiated these schemes during the coronavirus pandemic or had established them earlier as part of their long-term labor market strategies.

In a global landscape where labor markets face constant fluctuations, countries like France, Germany, and Sweden have long utilized job retention schemes as cornerstone tools of their labor market strategies. These schemes are woven into the fabric of their economic policies, standing as long-term fixtures. Yet, for some nations, the adoption of job retention schemes came only as a reaction to the sudden, unprecedented turmoil triggered by the coronavirus pandemic–a desperate bid to stave off unemployment and stabilize a reeling workforce.

However, the effectiveness of such labor market interventions is far from uniform and hinges greatly on an often-overlooked variable which is, of course, the question of public trust. Despite the perceived optimism, the degree of trust people have in their government is a strong force that has the potential to yield significant influence over the economy, especially in terms of spending. Bachmann and Sims have shown that when a recession occurs, or in other words, when the government conducts expansionary fiscal policy, the multiplier is more significant when people's trust in institutions is higher. So when the government requires them to think that the actions are going to create an environment for future productivity improvements, people are likely to continue their expenditure or even expand it to make a future economic recovery (Bachmann & Sims, 2012).

Another line of research that emphasizes the role of trust in different economic times is the contention that people who trust the government will not cut down their expenditures so much, believing that the government will do enough to handle the situation (Foster & Frieden, 2017). Therefore, trust emerges as the focal factor in the effectiveness of policies made by the government (Han et al., 2021). But what creates this trust? Some of the factors stated include the long-term nature of the government policies in relation to development. Measures that are taken during crises extend a line of steady and continuous support to the public at large, thus creating confidence (Hetherington, 1998).

In contrast, the coronavirus pandemic introduced a crisis of a completely different level that indicated several essential changes in consumers' behavior. Normally, during business cycles, consumers decrease their expenditure towards durables as part of cost-cutting exercises. However, in the context of the pandemic, an interesting shift happened. Service consumption dropped dramatically, and the consumption of durables either slowed or rose (Charalampidis & Guillochon, 2021). The explanation lies in the pandemic's structures: given that people were ordered to stay home and cases of social distancing became a norm, the possibility to consume services was gone. However, consumers shifted all their money towards long-lasting products that offered them comfort during a period of social distancing (Tauber & Van Zandweghe, 2021).

In conclusion, although Job Retention Schemes are used cross-nationally as policy tools to manipulate labour markets, the way they are employed is very different. While some countries integrate these schemes as permanent tools in their fiscal policies, others utilize them as one-time measures to address exigencies. To what extent these government interventions work is linked to people's confidence in their government- confidence supported by the long-term and stable policies at play. In the end, it is this trust that can either enhance or hinder the effectiveness of government attempts to navigate their economies through the turbulence of crises.

RESEARCH METHODOLOGY. The main purpose of the present research is to investigate certain facets of job retention schemes, the efficiency of these measures, and how the consecutive continuation of policy affects efficiency. Labor market policies focus on reducing unemployment; therefore, the effectiveness of these schemes was assessed based on actual changes in unemployment rates. The timeline selected for this evaluation focuses on the coronavirus outbreak and its consequences.

In pursuit of understanding how the duration of a policy impacts its success, the countries under study were categorized into two distinct groups: those that have long-integrated job retention schemes into their labor market policies as standard strategies, and those that have recently incorporated such schemes into their labor market policies in reaction to a dynamic labor market environment. The study then examined how the increase in the coronavirus continued to impact employment rates among these two groups.

To achieve this, a panel model was meticulously crafted. In this model, the independent variable was the quarterly growth rate of coronavirus infections, while the dependent variable was the quarterly unemployment rate. A fixed-effects estimator was integrated into the model, allowing for the control of unobserved variables that might otherwise skew the dependent variable, thereby refining the accuracy of the final results. There are various reasons why a fixed-effects model was employed in this study rather than other methods given the study characteristics. It is most appropriate to use the fixed-effects model in this research since this model takes into account the unquantifiable random effects that might be lurking in the choice of countries. In this analysis, the selected countries considerably vary in terms of the institutional framework, labor market regulation, and economic context that anyhow could influence job maintenance programs as well as unemployment levels. Such country-specific characteristics are likely to be time-invariant but could otherwise introduce sample selection bias to the estimates if not controlled for. Thus, by adopting fixed effects, we eliminate the bias from those unobservable characteristics and focus on the impact of job retention schemes on unemployment during the COVID-19 pandemic.

By dissecting the relationship between infection rates and unemployment, this study sought to uncover the nuanced role that policy continuity plays in bolstering the effectiveness of job retention schemes during crises and beyond.

$$UNEMPLOYMENT_{RATE_i} = \beta_0 + \beta_1 * COVID_{GROWTH_i} + u$$

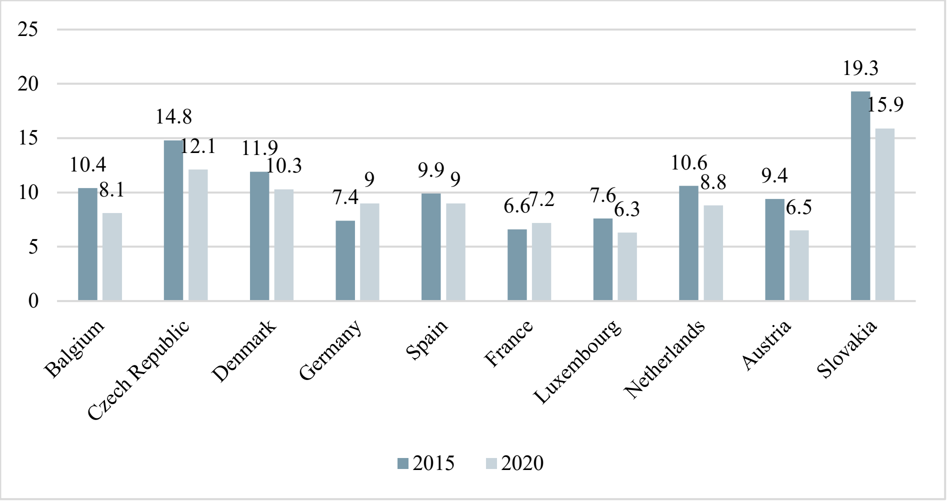
Where $COVID_{GROWTH}$ is the growth rate of people infected with coronavirus in country i,

$UNEMPLOYMENT_{RATE}$ is the unemployment rate in country i, u is a fixed effects estimator, and i is the countries included in the above groups.

The panel model, carefully estimated using the least squares method, harnessed a wealth of quarterly data spanning from the first quarter of 2020 to the third quarter of 2023. For European countries, the model drew from the extensive databases of the European Statistical Office(Eurostat, 2024d), ensuring a robust and consistent dataset. Meanwhile, data for Canada(Canadian Statistics Advisory Council, 2024), Japan(Statistics Bureau of Japan, 2024), and the United States(Bureau of Labor Statistics, 2024) were meticulously sourced from the archives of their respective National Statistical Services, weaving together a comprehensive tapestry of information from across the globe. This approach provided a solid foundation for analyzing the intricate relationships at play, allowing the model to capture the dynamic and multifaceted effects of job retention schemes during a period of unparalleled economic turbulence.

RESULTS. As explained in the previous sections, public trust is at the center of the issue that determines how viable government policy really is. A crucial factor that strengthens such trust is the stability and the fact that the policy is a long-term one. Job retention schemes, in essence, exist to make sure that people who have lost their employment do not cease to spend, therefore preserving total demand within the economy. However, this objective can be greatly compromised if the public lacks confidence in the government policies. Under such circumstances, instead of continuing with excessive spending, people would adjust their behavior by saving, and hence blunting the intended effect.

To illustrate these behavioral shifts, the European Statistical Office published data in both 2015 and 2020 that reveals the share of household disposable income allocated to essential consumer goods and services. By analyzing these figures, we can gain valuable insights into how the coronavirus pandemic altered public spending habits, offering a window into the broader impact of trust–or the lack thereof–on economic behavior during times of crisis.

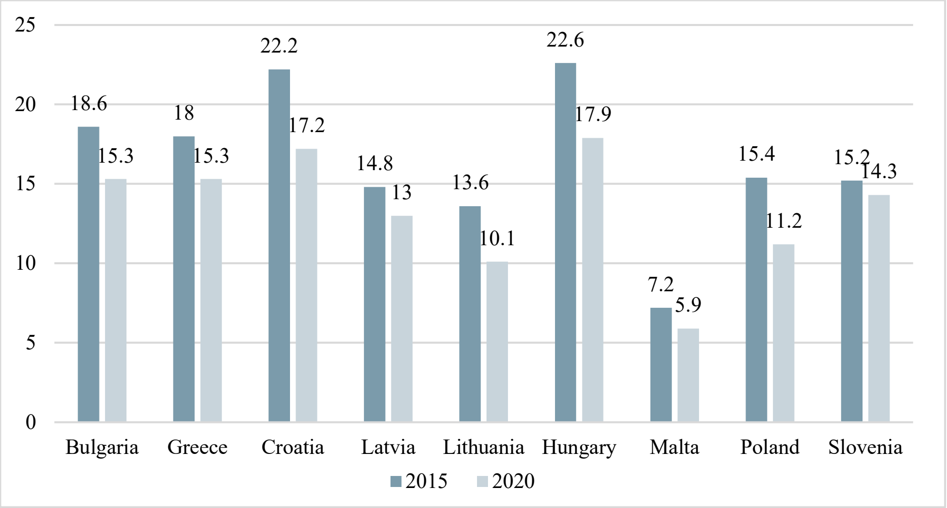


Source: *(Eurostat, 2024b)*

Figure 1. ***Shares of basic consumption goods and services in household income in countries using job retention schemes as a long-term policy tool in 2015 and 2020***

As revealed by the data in Figure 1, an intriguing pattern emerges among countries that have woven job retention schemes into the fabric of their long-term policy toolkit. Before the coronavirus pandemic, these nations saw a higher share of household income devoted to essential consumer goods and services. However, this trend shifted during the pandemic, with spending in this category generally declining–though not without notable exceptions. In France and Germany, households increased their spending on essential goods and services, bucking the broader trend. Between 2015 and 2020, the average shift in the share of income allocated to these essentials across this group of countries was a modest yet telling 1.47%, highlighting the nuanced ways in which long-term policy frameworks can influence consumer behavior even in the face of unprecedented disruptions.

As illustrated in the data from Figure 2, a stark contrast emerges between countries that employ job retention schemes as short-term versus long-term policy tools. In nations where these schemes are merely a temporary fix, the share of household income allocated to essential consumer goods and services experienced a significant shift, averaging a 3.04% change between 2015 and 2020. This drop is more than double that observed in countries where job retention schemes are part of a long-term strategy, underscoring the profound impact of policy continuity on consumer behavior.



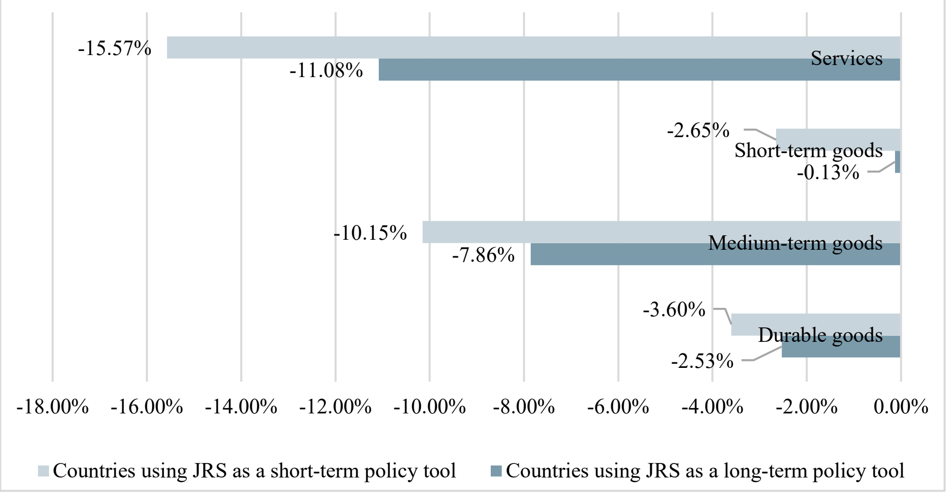
Source: *(Eurostat, 2024b)*

Figure 2. ***Shares of basic consumption goods and services in household income in countries using job retention schemes as a short-term policy tool in 2015 and 2020***

One of the features of the crisis caused by the coronavirus pandemic was that the consumer behavior of the population changed in a different way than in the case of the previous crises. In the past, during crises, the population mainly reduced spending on durable goods, which significantly affected the country's industry. During the coronavirus pandemic, when governments restricted the movement of people and people spent more time at home, demand for durable goods such as refrigerators, televisions, and furniture increased. Instead, the demand for services decreased sharply, which was due to the lack of opportunities to use these services.

The European Statistical Office divides the goods consumed by the population into three groups: durable goods, medium-term goods, and short-term goods. Household appliances, furniture, cars, etc., are considered durable goods. Clothing, footwear, jewellery, watches, etc., are considered medium-term goods. Short-term goods include food, non-alcoholic beverages, fuel, electricity, etc. Thus, to understand the changes in consumer behavior of the population under the influence of the coronavirus pandemic, we studied the change in consumer spending on durable, medium-term, and short-term goods and services in the two groups of countries that we study: countries that use job retention schemes as a long-term tool and countries that use them as a short-term tool in 2020 compared to the previous year.

In 2020, as the world grappled with an unprecedented crisis, a predictable yet disconcerting trend emerged: the consumption of all types of goods and services declined when compared to the previous year. This drop was expected, a natural consequence of economic uncertainty. However, not all categories were affected equally. The most pronounced decline was seen in the demand for medium-term goods and services, while the appetite for durable and short-term consumer goods proved to be somewhat more resilient.



Source: *(Eurostat, 2024a)*

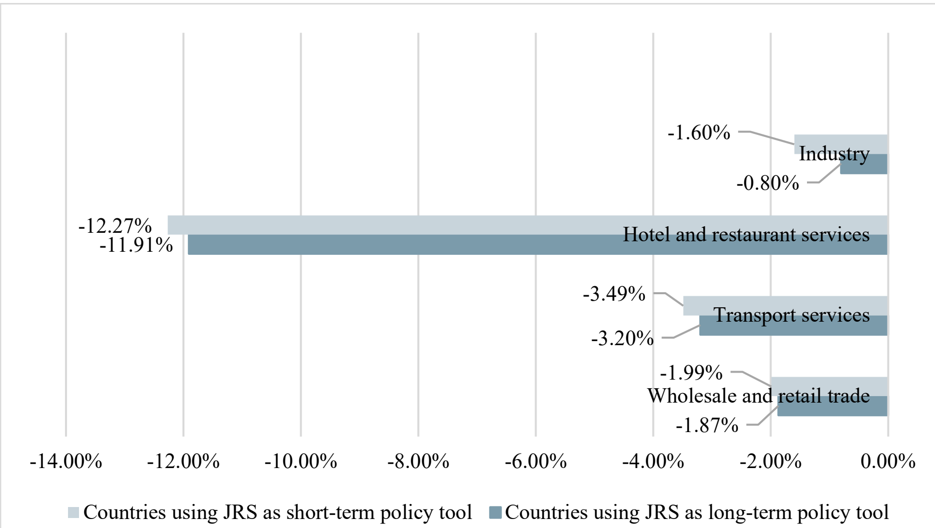
Figure 3. ***The change in goods and services consumed by the population in European countries in 2020***

One trend that becomes clear from the analysis of these data is that in countries where short-term employment support measures were used, the decline in spending for all types of goods and services was significantly higher. This observation shows that trust in government policy is instrumental, especially when trust is lost, consumers are likely to change their behavior more significantly, hence escalating the effects of the crisis on the economy.

Traditionally, when it came to the contraction of demand, it was the category of consumer goods that received the biggest impact. However, the coronavirus pandemic turned this narrative upside down. It was spending on services that fell without fail greatly – a change that affected many countries and their economies; especially in those sectors where human interface was the most essential. This was most evident in the service sector employment where most citizens who lost their sources of income could least afford it.

As the focus shifts to the two groups of countries of this analysis – those that use job retention schemes as long-term policies against those that use them as short-term solutions, the service sectors' weakness presents a very sharp picture. In the first group, where long-term policies reign, 4.9% of the population is engaged in transport services. In contrast, in the second group, where job retention schemes are seen as temporary, 6% of the population is employed in transport services. The hotel and restaurant sector shows a similar picture: 4.3% of workers in the first group are employed in this sector, compared to 4.6% in the second group. The trade sector shows an even sharper divide, with 12.8% of the workforce in the first group engaged in trade, versus a notable 14.7% in the second group (Eurostat, 2024c).

To understand to what extent the coronavirus pandemic in two groups of countries affected the number of people employed in the service sector, we also studied the change in the number of people employed in the service sector in two groups of countries in 2020 compared to the previous year.



Source: *(Eurostat, 2024c)*

Figure 4. ***The change in the number of people employed in services and industry in European countries in 2020 compared to the previous year***

The data presented in Figure 4 reveals a clear and unsettling trend: the hotel and restaurant sector bore the brunt of the employment reduction triggered by the coronavirus pandemic, with the transport services sector following closely behind. In stark contrast, the industrial sector experienced a comparatively milder decline in employment, highlighting the differential impact of the crisis across various sectors.

A deeper dive into the data shows that in the first group of countries, the reduction in employment due to the pandemic was notably less severe than in the second group of countries, where such schemes are employed as short-term measures. This distinction underscores the protective effect of long-term, stable policies on the labor market during a crisis.

To further quantify the pandemic's impact on unemployment levels, we calculated the influence of the coronavirus infection growth rate on unemployment across these two groups of countries. The results provide a nuanced understanding of how different policy approaches can either mitigate or exacerbate the economic fallout of a global health crisis.

Table 2

The impact of the growth rate of the number of coronavirus infections on the unemployment rate in countries using job retention schemes as a long-term tool

Dependent Variable: UNEMPLOY_RATE
Method: Panel Least Squares
Sample (adjusted): 2020Q1 2023Q3
Periods included: 15
Cross-sections included: 21
Total panel observations: 315

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
COVID_GROWTH(-1)	0.001544	0.00087	1.77491	0.0771
C	6.149156	0.057957	106.0987	0
Cross-section fixed (dummy variables)				
R-squared	0.895538	**Mean dependent var**		6.158971
Adjusted R-squared	0.886764	**S.D. dependent var**		2.827554
S.E. of regression	0.95149	**Akaike info criterion**		2.815848
Sum squared resid	226.3331	**Schwarz criterion**		3.107493
Log likelihood	-360.955	**Hannan-Quinn criteria.**		2.932933
F-statistic	102.0582	**Durbin-Watson stat**		0.458182
Prob(F-statistic)	0			

The findings from the panel model present a nuanced picture of the relationship between public health and labor market dynamics. In countries where job retention schemes are embedded as a long-term policy instrument, the model reveals that a 1-point increase in the growth rate of coronavirus infections correlates with a 0.0015-point uptick in the unemployment rate. This subtle yet telling shift underscores a critical connection: as the virus spread, unemployment in these nations inevitably edged upward, reflecting the intertwined nature of health crises and economic stability.

Table 3

The impact of the rate of growth of the number of coronavirus infections on the unemployment rate in countries using job retention schemes as a short-term tool

Dependent Variable: UNEMPLOY_RATE
Method: Panel Least Squares
Sample (adjusted): 2020Q1 2023Q3
Periods included: 15
Cross-sections included: 14
Total panel observations: 210

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
COVID_GROWTH(-1)	0.030014	0.00934	3.213527	0.0016
C	6.056821	0.080288	75.43843	0
Cross-section fixed (dummy variables)				
R-squared	0.888795	Mean dependent var		6.143846
Adjusted R-squared	0.879473	S.D. dependent var		2.937102
S.E. of regression	1.019674	Akaike info criterion		2.955666
Sum squared resid	173.6359	Schwarz criterion		3.219733
Log likelihood	-253.966	Hannan-Quinn criter.		3.062715
F-statistic	95.33831	Durbin-Watson stat		0.677354
Prob(F-statistic)	0			

The panel model results for countries employing job retention schemes as short-term labor market tools reveal a striking sensitivity to the coronavirus outbreak. A 1-point increase in the growth rate of infections corresponds to a 0.03-point rise in the unemployment rate–a response nearly 20 times more pronounced than in the countries where these schemes are woven into the long-term policy fabric. This stark contrast highlights how short-term policy measures can leave economies more vulnerable to the immediate shocks of a crisis.

The implications of these findings are profound: Here, the durability and stability of government policy remain essential factors in influencing the behaviour of the various economic agents, which in turn affects the efficiency of such policies. The research provides a strong indication that when the job retention schemes were adopted as long-term solutions in the countries, their effectiveness in addressing the COVID-19 crisis was indeed higher than in the countries that used the schemes only in emergencies. It supports the idea that policy stability is an important factor in enhancing economic stability given the challenges that come with disruptions in the global marketplace.

CONCLUSION. The analysis of job retention schemes, including periods of crisis such as the coronavirus pandemic, exposes the huge importance of these mechanisms in stabilizing the economy. In this study, various methods applied in retaining jobs in various countries were differentiated into managing crisis methods and long-term policy measures. The analysis reveals a compelling narrative: nations that incorporate job retention schemes into their national business plans exhibit an astounding level of flexibility in their labor markets. These nations not only reduced the severity of the pandemic, particularly in terms of employment, but also influenced people's behaviour in a world full of grey areas.

The findings are clear: This paper concludes that the effectiveness of job retention schemes is compounded when they are included in long-term policy interventions. This long-lasting approach fosters a higher level of trust between employers and employees, thereby strengthening the economy. By contrast, countries that implemented JR schemes only in the form of 'temporary supports' witnessed a steeper contraction in HSp for all categories of goods and services, highlighting the contingency of short-term measures.

These insights point to a critical conclusion: integrating job retention schemes into government labor market policy as a permanent feature greatly improves the efficacy of such policies, which is quite a bit higher than in cases where it is considered a one-off solution. When integrated into active labor market policy, these schemes work as fabrics to increase the resilience of countries' economies to future shocks. The information published in this study sheds light on the further discussion of the need for a rational, long-term perspective for policy development – the approach that would not only respond to the multifaceted crises of the present but also would make the groundwork for the fight against future problems.

This study provides important insights into the role of job retention schemes, but several limitations should be noted. First, the analysis retains no control variables, including general fiscal policy and social security, that also impact unemployment. Subsequent studies should include these factors to improve the specificity of job retention scheme effects.

Similarly, there could have been an effort to discover more counter-arguments, such as concerns about the long-term viability of employment retention plans. Future research should compare the advantages that derive from the application of the examination with the unfavorable impacts they might have on the labor market.

In conclusion, this paper has identified several weaknesses in using job retention schemes as a solution to unemployment during crises, further research should overcome these limitations to produce concrete and more conclusive findings on the effectiveness of job retention schemes.

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