Since the first cases of COVID-19 contagion, the European Commission has been extensively engaged in monitoring the situation in the Member States and offered different forms of support. On 1 April, the President of the European Commission, Ursula von der Leyen, announced the proposal to create a new instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), to allow for financial aid in the form of loans from the Union to those Member States which are facing sudden increases in public expenditure for the preservation of employment. Notably, in the proposal of the Commission, ‘the SURE instrument will act as a second line of defence, supporting short-time work schemes (STW) and similar measures, to help Member States protect jobs and thus employees and self-employed against the risk of unemployment and loss of income’ (Commission 2020: 2). On 10 April the finance ministers welcomed the Commission’s proposal, called for the swift adoption of the measure without delays and committed themselves to make the instrument operational as soon as possible.
This focus aims to evaluate the potential rationales, the value added and the principal limitations of the SURE facility, based on the proposal of the Commission and the Eurogroup conclusions.

What are the STW schemes?

STW are public programmes that allow firms experiencing economic difficulties to temporarily reduce the hours worked while providing their employees with income support from the State, covering the hours not worked. STW schemes involve either a partial reduction of the weekly working hours or a full suspension of the employment contract. In both cases, the employment relationship continues and is not terminated. The aim of these schemes is twofold. On the one hand, preserving employment in firms temporarily experiencing weak demand, by encouraging them to adjust labour input along the intensive margin (reduction of working hours) rather than the extensive margin (layoffs). On the other hand, STW are used to cushion the social consequences of mass redundancies as they are used as shock absorber. In this way, STW schemes have a pronounced solidarity dimension, since they redistribute the negative effects of economic shocks between workers, government and employers.

If approved, SURE will be providing temporary financial *assistance to Member States to address sudden severe increases in public expenditure for the preservation of employment caused by the COVID-19 outbreak*

At the moment of writing, almost all the European countries have national public STW schemes in place. Twelve of them already had STW schemes before the outbreak of the Great Recession, nine Member States introduced them between 2008 and 2009 (Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, the Netherlands, Poland, Slovakia and Slovenia), while only five countries (Cyprus, Estonia, Greece, Malta and Sweden) do not have any public STW scheme. There is considerable institutional variation in short-time work programmes across Europe. STW schemes vary indeed according to the *coverage* (i.e., who is eligible for STW support), the *type* (i.e., income support through employers to workers or via deductions from social security contributions) and *level of wage compensation* (i.e., maximum share of workers' wage that can be paid by the STW scheme) and *financing* (i.e., contribution by firms and government), *duration* (i.e. for how long can the support last) and *procedures* (i.e., application procedures, included consultation with work councils).

The Commission proposal: a loan-based European STW scheme

The European Commission's support for STW schemes emerged well before the Covid-19 crisis. In the midst of the 2012 financial crisis, the Commission explicitly encouraged Member States to provide financial support for temporary flexible work arrangements. Nevertheless, the Commission limited its action to a Communication, while no further concrete action was envisaged.

This time, the story is different: the new SURE instrument has been proposed by the Commission, along with increased national investments in STW, to act as a second line of defence. If approved, SURE will be providing temporary financial assistance to Member States to address sudden severe increases in public expenditure for the preservation of employment caused by the COVID-19 outbreak and directly related to the creation or extension of STW schemes organised in response to it, including for self-employed persons. According to the Commission's proposal, SURE will take the form of a lending scheme up to 100 billion Euros underpinned by a system of guarantees from Member States to the Union's budget, representing 25% of the loans granted.

As a temporary instrument, the new SURE is created under article 122(2) of the TFEU, like the former European Financial Stabilisation Mechanism (EFSM), and it will allow the European

Union to provide financial assistance to Member States which are in difficulty because of circumstances that lie beyond their control. Interestingly, the Commission does not indicate how long the SURE will be in function, since it states that the unpredictability of the Covid-19 crisis and its economic consequences might require SURE to be in place for a long time. The assistance provided by SURE will take the form of loans. The procedure for receiving financial assistance is not automatic and implies two steps. First, the Member State needs to request the activation of SURE from the Commission, which will be the only direct manager of the scheme. Second, once verified the fulfillment of the prudential rules, the Commission will make a proposal for an agreement between the Member State and the Commission itself on the financial assistance, which will be formally approved by the Council with a qualified majority vote.

SURE: added-value and limitations

SURE constitutes a significant innovation in the context of the EU social policy, since it is the first EU financial instrument with the explicit aim of protecting jobs and workers during an economic downturn. In this respect, SURE represents a novelty for two reasons. Firstly, it shifts the target of the Commission from activation of unemployed people to protection of jobs, as a sort of 'employment insurance' scheme. Secondly, although SURE is not an automatic instrument, its centralised management by the Commission should allow for quasi-immediate support to be given Member States experiencing budgetary difficulty implementing national short-time work schemes. In this way, it can provide financial relief.

SURE is an unconditional loan, potentially large, to Member States that have short-term work schemes in place.

The second significant innovation of SURE is that it is unconditional. Some commentators have wrongly associated the SURE to the EFSM since they share the same legal basis (Art. 122(2) TFEU). The ESFM assistance was linked to an adjustment programme and a Memorandum of Understanding (MoU) with the Council and the Commission (Art. 3 Regulation 407/2010), and it was limited to the Euro area Member States. In contrast, SURE is extended to all the Member States, and no MoU is to be signed by the beneficiary Member

State. The agreement to be signed between the Commission and the Member State in need concerns provisions regarding controls and audits that ensure the financing provided has been properly used to support short-time work schemes. This should obviate any reluctance to apply for financing on the part of governments, and the stigma often associated with conditionality.

The third important novelty of SURE is that it explicitly extends its action to measures for the self-employed. In the Member States most hit by the Covid-19 crisis, *ad hoc* measures have been adopted to support self-employed workers, beyond traditional short-time work schemes; these measures will be prolonged for the next months, weighing heavily on national budgets. The decision of the Commission to include measures for self-employed – usually not covered by short-time work schemes – is among the ones eligible for financial support of the SURE is therefore of utmost importance.

In sum, because money is fungible, SURE is an unconditional loan, potentially large, to Member States that have short-term work schemes in place. However, four main limitations may reduce the impact of the current proposal for SURE.

The first concern is about its lending capacity: while 100 billion Euros is a significant figure, there is a tangible risk that – as already stressed by Spain and Italy – this will be not enough to handle the budgetary crisis that many Member States are facing and will face in the following months. A protracted lockdown in Italy, Spain and France and an increasing number of Member States applying for the scheme may quickly exhaust the available funds. Of course, Member States could agree to increase their guarantee beyond the 25 billion Euros and increase the overall size of the instrument. However, this scenario seems to be very unlikely, given the conclusions of the Eurogroup. Indeed, while the Commission's proposal explicitly calls on Member States' guarantees to protect the Union budget, the finance ministers already called on SURE to build on the EU budget as much as possible and then on guarantees provided by Member States to the EU budget.

Differences in the institutional set-up significantly affect the effectiveness of the STW schemes, as well as their stabilisation function capacity.

A second limitations concerns the policy instrument adopted: given the constraints imposed by the Treaties, the loans-based financial support programme is the only feasible and quick solution that could have been put in place to address the emergency situation. Nevertheless, some limitations may reduce its impact. Firstly, it is very unlikely that a country like Germany will be able to borrow at a lower cost and at a longer maturity than the Commission can do itself. These countries will be very unlikely to be attracted by SURE. On the contrary, countries in a weaker fiscal position, such as Spain and Italy, can benefit from it but its impact may be limited to the short term. In the long term, national public debt will continue to increase, and may do so abruptly once the support comes to an end.

A third limit concerns the considerable institutional variation in STW schemes across Europe. Differences in the institutional set-up significantly affect the effectiveness of the STW schemes, as well as their stabilisation function capacity. For instance, one of the key functions of STW schemes is to protect jobs. To do so, STW schemes must imply some advantages for both employee and employer. In the first case, what the employee earns during short-time work must be higher than with s/he could get via unemployment benefit in the event of dismissal. In the second case, the cost of dismissal for the employee must be higher than what the employer pays during short-time work. This requires a strong co-ordination and no overlap between legislation on short-time work and on unemployment benefits. For instance, in Italy such co-ordination is limited only to open-ended contracts, which are usually the most protected by short-time work schemes. Other governments in EU have put in place extraordinary measure to protect workers with temporary contracts. While we cannot imagine any conditionality attached at the access to SURE-loans, soft guidance towards best practice would be an added value in order to make sure that the largest number of workers in Member States in need could access to temporary income support.

To fully exploit the potential of SURE, it should be accompanied by complementary measures at the European level, such as a European Unemployment Reinsurance Scheme

Finally, as said above, if the crisis persists, STW schemes will not be sufficient any more and the priority will shift from employment protection to unemployed protection. National unemployment insurance schemes, especially in those countries most hit by the Covid-19 crisis, will likely be under severe stress as well as their national budgets. For this reason, it is important that the Commission keeps on working on the proposal for a European Unemployment Reinsurance Scheme (EURS), which was announced in January 2020 and is expected to be presented by the end of this year. Indeed, while certainly SURE and EURS target two different groups of people (employers, employee and self-employed with the SURE and unemployed with the EURS) and they are designed in completely different ways (loans-based on-request temporary vehicle with the SURE and automatic grants-based permanent mechanism with the EURS), they are two complementary measures and share very similar objectives (macroeconomic stabilisation and income support for the most hit by a financial downturn). In this respect, it is important that the Commission stressed in its proposal that SURE 'should be seen as an emergency operationalisation of a European Unemployment Reinsurance Scheme in the specific context of the COVID-19 crisis, without prejudice to the possible subsequent establishment of a permanent instrument under a different legal basis in the TFEU' (European Commission 2020).

Conclusion

This assessment shows that SURE is a positive innovation, which nonetheless presents some limitations. On the one hand, SURE is a timely and necessary instrument to support Member States in facing the short-term challenges of the Corona crisis. Its value-added consists in the focus on jobs protection, the lack of conditionality and the broad scope that includes also self-employed. On the other hand, however, some 'internal' and 'external' limitations appear in the current design of SURE. Firstly, the limited amount of guarantees from the budget, which makes it impossible to extend the size, unless other guarantees are added. Secondly, the fact of being a temporary loans-based vehicle, which does not prevent national debt to continue increasing. Thirdly, the considerable institutional variation in short-time work programmes across Member States, which might imply different outcomes in different Member States. Finally, we argue that to fully exploit the potential of SURE, it should be accompanied by complementary measures at the European level, such as a European Unemployment Reinsurance Scheme.

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