Designing Short-Time Work Insurance: The Impact of Financial Incentives

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Short-Time Work (STW) schemes have been at the heart of crisis responses in Europe—most visibly during the Great Recession and the COVID-19 pandemic. These programs protect jobs by subsidizing temporary reductions in working hours rather than layoffs. For workers, they cushion income losses and help avoid the long-term scars of unemployment. For firms, they preserve valuable skills, lower adjustment costs, and ease liquidity constraints in downturns. At a macro level, STW helps stabilize demand and employment relationships.

Yet, the success of STW hinges on its design. By subsidizing reduced hours, STW creates a natural risk of overuse, which can undermine efficiency and strain public finances. To address this, many countries, including Belgium, have introduced financial incentives for firms—such as co-financing or "experience-rated" premia that increase with past use. Despite their importance, we still know little about how these incentives shape firm behavior and labor market outcomes.

This thesis investigates:

- Do employer-borne financial incentives effectively discourage excessive reliance on STW?
- What are the consequences for firms' employment, liquidity, and financial health?
- Do firms shift these additional costs onto workers through lower wages or bonuses?

The analysis focuses on Belgium, a country where STW use remained unusually high even outside crises. Two major reforms—first in 2005 (construction sector) and then in 2012 (all sectors)—introduced experience-rated premia: additional contributions that rise with the intensity of STW use. These reforms created quasi-natural experiments. Using large-scale administrative data on firms and workers, I apply modern econometric techniques (bunching analysis and regression kink design) to isolate the causal effects of these reforms.

Key Findings

1. Firms adjust behavior at the margin: Many firms strategically reduce STW intensity per worker to stay below the premium threshold, but the overall effect on STW use is modest.
2. Distributional effects within firms: Firms respond more strongly when higher-wage workers are involved, and sometimes spread reduced hours across more workers, reinforcing the work-sharing dimension of STW.
3. Limited unintended consequences: The reforms had no impact on overall employment or firm survival. Some costs are partially shifted to workers through lower base wages, but effects are small.
4. Financial outcomes: The main detectable impacts are on firms' leverage and profitability, especially among those heavily exposed to the premium.

Contributions

This thesis makes three contributions:

- It provides the first causal evidence on how financial incentives at the intensive margin of STW affect firm decisions.
- It shows that such incentives can discipline excessive reliance on STW without undermining the program's core role as a job-preservation tool.
- It informs ongoing policy debates on the design of STW systems, bridging gaps between labor economics, social insurance design, and public finance.