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What worked well in social protection during the COVID-19 pandemic?

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Abstract

This Working Paper looks at some of the shorter and longer-term impacts of the COVID-19 pandemic on labour markets across OECD countries. It examines how job retention schemes, unemployment benefits, income support to the self-employed as well as sickness benefits and their prompt expansion succeeded in protecting people's jobs and incomes; and how successful countries were in preventing structural increases in labour market inactivity, as indicated by the evolution of disability benefit receipt. The paper confirms the overall significant success in the labour market response to the pandemic across OECD countries, which helps explain why the COVID-19 pandemic has disappeared from the labour market discussion much faster than initially expected, despite an unprecedented shock to labour markets and a sharp decline in working hours at the outset of the crisis. Preventing long-term unemployment and long-term sickness absence has secured jobs and incomes and prevented inactivity.

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Key messages

The COVID-19 pandemic had a severe impact on workers and labour markets across the OECD. Countries reacted quickly to shield workers from some of the impact of the pandemic by expanding sickness benefits, job retention support, unemployment benefits and support for self-employed workers. Overall, the rapid expansion of social protection was successful, and the labour market recovery was swift considering the initial decline in economic activity. Countries also managed to prevent structural increases in labour market inactivity in the mid-term, measured through effects on disability benefit claims and caseloads.

- **Virtually all OECD countries introduced new or extended existing job retention schemes** (JRS), but the extent of their use differed across countries. European countries absorbed the shock mainly through subsidised reductions in hours worked while in countries that relied more on extensions of unemployment benefits (UB), including the United States and to a lesser extent Canada, the adjustment happened mainly via job losses.
- **JRS were effective in protecting jobs**, but programmes in some countries could have been more cost-effective. Countries that had pre-existing schemes were able to scale them up more easily.
- **Temporary UB extensions were also relatively successful;** negative employment effects through decreased job-search efforts were small, given the exceptional labour market situation and the swift recovery.
- **Evidence suggests that JRS may be preferable to extensions of UB during deep recessions** – if large parts of the economy are hit by the same shock, the risk that mostly low productivity firms are inefficiently propped-up by these programmes is small. However, the difference between (temporary) lay-offs and furloughs may be small in countries with low lay-off costs.
- **Self-employed workers were particularly vulnerable.** Countries that already provided UB to self-employed workers were able to shore up support quickly while others struggled with income assessments and lacked a payment infrastructure. This led to coverage gaps, payment delays and overpayments in some cases. As a result, several countries decided to extend the social protection coverage of self-employed workers after the pandemic.
- **The impact on disability benefit caseloads was minor, at least until 2024.** In most OECD countries, longer-term trends in disability benefit caseloads (caseload declines in several cases) continued throughout the pandemic. Caseloads of non-contributory disability programmes experienced increases in most countries during the pandemic, but also these changes were a continuation of longer-term structural developments predominantly.
- **Long-term unemployment sharply increased into the COVID-19 pandemic.** The number of long-term unemployed peaked a year after the onset of the pandemic and gradually declined back to pre-pandemic levels in most countries. However, with long-term unemployment remaining elevated in some countries, some spillover to disability benefits may yet be to come.
- **Sickness absence rates experienced a delayed increase.** Sickness absence peaked about two years after the onset of the pandemic and declined in most countries to close to pre-pandemic levels by the end of 2023. Before the increase, most countries experienced a drop in sickness absence levels, likely due to the increased use of teleworking and the rapid expansion of JRS.
- **Higher long-term unemployment and sickness absence so far did not result in a measurable increase in labour market exit**, proxied by the number of new disability benefit claims. Some countries experienced a temporary increase in the number of new claims during the pandemic, whilst others saw no change or even a small decline in those claims.

Introduction

In the early months of 2020, the outbreak of the COVID-19 pandemic caused profound disruptions to the lives and livelihoods of people across the OECD. Unprecedented restrictions on social and economic activity were implemented to contain the pandemic. This deeply affected labour markets everywhere even if the types and strictness of the restrictions differed significantly across countries. As employees fell ill, reduced their working hours or lost their earnings, countries reacted quickly by expanding sickness benefits, job retention support, unemployment benefits and support for self-employed workers, to protect people's health, jobs and incomes. Existing schemes were extended and reinforced to broaden coverage, raise generosity and reduce the burden on employers.

This Working Paper looks at some of the shorter- and longer-term impacts of the resulting labour market shock, trying to answer two questions in particular: First, how existing social protection measures and the prompt expansion of some of these measures, including in countries with more limited social protection schemes, succeeded in protecting people's jobs and incomes. Second, how successful countries were in preventing structural increases in labour market inactivity measured through effects on disability benefit claims and caseloads. The paper focuses on 'first tier' income replacement benefits, in particular Job Retention Schemes (JRS), unemployment benefits and earnings-replacement benefits for self-employed workers, as well as sickness and disability benefits. Emergency measures for those not covered by these benefits – including those who were already jobless at the beginning of the pandemic, those with insufficient work history or informal workers. A related paper, (Immervoll and Pasteiner, 2025[1]), looks at emergency measures in the policy areas of safety-net benefits.

It appears that the COVID-19 pandemic has disappeared from the labour market discussion much faster than initially expected. While this is partly explained by the occurrence of a series of other economic challenges such as the cost-of-living crisis, this paper confirms the overall significant success in the labour market response to the COVID-19 pandemic.

The Working Paper is structured in two parts, looking at immediate as well as more structural labour market responses and implications. The first part provides a general overview of the labour market impact of the COVID-19 pandemic (Section 1.1), and of the measures taken by OECD governments to replace earnings losses by workers (Section 1.2) including through Job Retention Schemes (JRS, Section 1.2.1), Unemployment Benefits (UB, 1.2.2), and income support for self-employed workers (Section 1.2.3). It builds on and partly updates earlier OECD analysis, while drawing on impact evaluations where possible to assess the effectiveness of policy measures taken by countries. The second part investigates the impact of the COVID-19 pandemic on disability benefit claims and caseloads, as a proxy for permanent labour market exit. It first summarises the large variation in disability benefit caseloads across OECD countries (Section 2.2) before analysing the effect of the pandemic on overall disability benefit caseloads (Section 2.3), different types of disability benefit (Section 2.4) and on new disability benefit claims (Section 2.6) which in most cases follow a period of either long-term unemployment (Section 2.5.1) or long-term sickness (Section 2.5.2), and concluding with considerations for the future (Section 2.7).

1. How well did job retention schemes, unemployment benefits and income support for the self-employed protect jobs and incomes?

1.1. The labour market impact of the COVID-19 crisis

The labour market adjustment to the unprecedented shock of the COVID-19 pandemic was shaped by policy (OECD, 2021[2]). Many European countries limited job losses with the use of Job Retention Schemes (JRS), meaning that the adjustment was, especially at the beginning of the pandemic, mainly through hours worked, and not joblessness. At their peak in the spring of 2020, they covered 20% of employment across the OECD on average (OECD, (OECD, 2022[3])). Other countries, such as the United States or Canada, mainly relied on reinforced unemployment insurance programmes to cushion job losses, although they also introduced other temporary programmes[1] in response to mandated business closures. This strategy was effective in protecting incomes but lead to job losses early in the crisis. JRS that preserved the employer-employee match and enabled firms to shore up production quickly as health measures allowed, the maybe unexpectedly quick adaptation of workplaces to the virus (including through the use of teleworking), as well as strong government support to households and businesses, resulted in a strong and relatively quick recovery of labour markets across the OECD.

1.1.1. The initial labour market shock was largely absorbed by reduced hours

Across 31 OECD countries with available[2] data, total working hours fell by 15.5% during the initial lock-down phase. European countries absorbed the heavy blow dealt by the COVID-19 pandemic not primarily via job losses but through major reductions in hours worked of those who remained in employment (Figure 1.1, Panel A) – across European OECD countries on average, joblessness only accounted for one in six unworked hours. Hours reductions accounted for over 90% of the decline in total working hours in

[1] The United States introduced the paycheck protection programme, that provided small and medium-sized businesses with fewer than 500 employees forgivable, low-interest loans to pay their employees even if they did not work, see Section 1.2.1. It is not classified as a JRS since it was not available to all firms (and hence workers), see (OECD, 2021[82]). Canada introduced an additional JRS programme, in addition to a pre-existing one, although receipt rates were lower than in European countries, and lower than the receipt rate of Unemployment Benefits, see Section 1.2.1. The Canada Emergency Response Benefit, and its successor, the Canada Recovery Benefit, are classified as Unemployment Benefits since their recipients are on temporary layoff, and therefore the employment contract is not maintained, see also (OECD, 2021[82]). Workers on temporary layoff can be called back, however, such that the employer-employee match is not fully lost.

[2] See note to Figure 1.1.

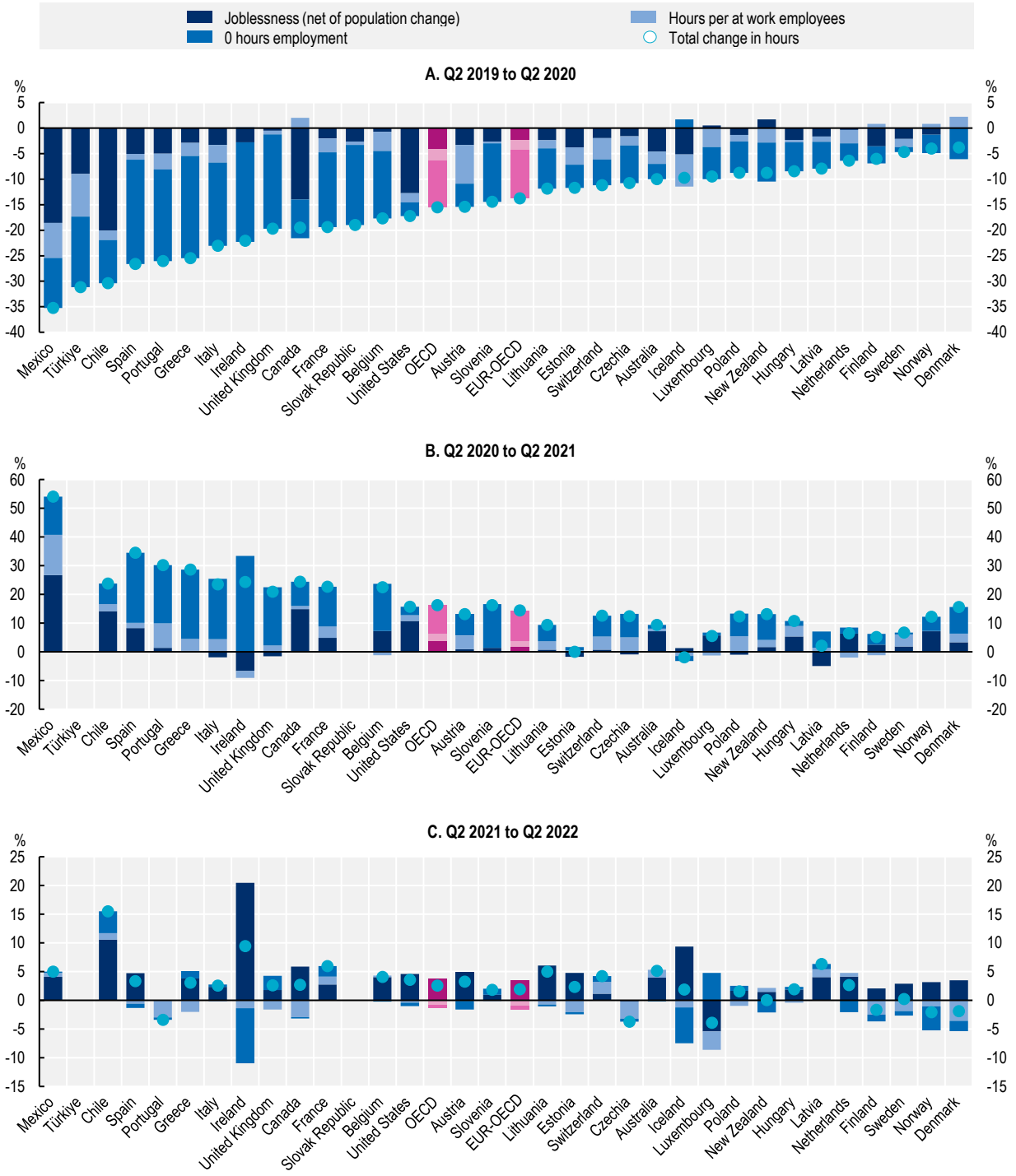
Greece, Italy, Ireland, France, the Slovak Republic, Belgium, the Netherlands and Denmark. Joblessness even decreased in Luxembourg compared to the second quarter of 2019.

In contrast, in countries that mainly relied on extended unemployment benefits and supplementary programmes, including the United States and Canada, the adjustment happened mainly at the extensive margin (via job losses). Joblessness accounted for almost three out of four unworked hours in the United States and Canada, and for over two out of three in Chile. Also in Mexico, job losses were the main margin of hours reductions in the initial lockdown phase.

A distinctive feature of the COVID-19 crisis was its highly sectoral nature. In the hospitality sector, hours worked dropped by more than half compared to the previous year across the OECD on average, in the arts and entertainment sector by 42%. While also in these sectors, JRS meant that unworked hours were mostly absorbed by working time reductions, the hospitality industry as well as arts and entertainment saw job destruction increase in the second half of 2020 (OECD, 2021[2]).

Figure 1.1. Fall in hours worked was largely attributable to working time reductions

Decomposition of the year-on-year change in working hours, Q2-2019 to Q2-2022



Note: The figure reports the contribution of each category to the change in total hours. See Annex 1.A of the 2021 OECD Employment Outlook (https://doi.org/10.1787/5a700c4b-en) for details on the decomposition. Zero hours employment: working time reduction of 100% while continuing to be employed with the firm. Time series comparisons for Mexico require caution: in Q2 2020, the National Survey of Occupation and Employment (ENOE) was suspended and replaced with telephone interviews (ETOE) due to the domestic epidemic-related restrictions in place at the time. OECD is the unweighted average of 34 countries shown. Data for the Slovak Republic and Türkiye are missing for 2020 and 2021.

Source: Extended from OECD 2023 *Belgium's labour market and social policy response to the COVID-19 crisis* and OECD (2021), *OECD Employment Outlook 2021: Navigating the COVID-19 Crisis and Recovery*, OECD Publishing, Paris, https://doi.org/10.1787/5a700c4b-en, Figure 1.10.

1.1.2. … but joblessness did increase

Across the OECD on average, unemployment rose by over 2 percentage points at the beginning of the crisis (Figure 1.2, Panel A). This increase was partly driven by countries where temporary layoffs inflated unemployment figures (notably the United States and Canada). The increase in unemployment was more subdued across the European Union where many countries operated large JRS (1 percentage point increase in the unemployment rate up to the peak in mid-2020). However, this increase likely understates the true extent of underemployment, as many unemployed workers gave up actively looking for a job amidst the subdued economic activity of the lockdowns, and thus were recorded in labour force surveys as counted as inactive instead of unemployed (OECD, 2021[2]).

Non-standard workers were most at-risk of job loss

While job losses were low considering the extent of economic contraction, the job losses that did occur were concentrated among vulnerable groups, particularly those in non-standard forms of work. Across European OECD countries on average, temporary workers were about ten times more likely to lose their jobs than their colleagues on permanent contracts (OECD, 2021[2]; Cavalleri and Cuasa, 2020[4]). While temporary workers often bear the brunt of adjustment in economic downturns, the strong reliance on JRS in European countries during the COVID-19 pandemic has intensified this effect: JRS are often less accessible for temporary workers, either statutorily or practically, as contracts cannot or may not be extended while on layoff. In addition, firms may have less incentive to keep temporary workers – who by definition have a weaker attachment to their employer – on JRS.

Young and disabled workers suffered a larger loss of employment

Unemployment also surged among people with disability (see Section 2.1) and young people. The youth labour market is very sensitive to economic crises – as new labour market entrants, young people are more likely to work in temporary contracts, and they tend to have shorter tenure with their employers than the average worker, and therefore lower firm-specific human capital. Having been hired relatively recently, they are also more likely to be the first released. In addition, young workers are concentrated in sectors like hospitality and other in-person services that were most affected during initial lockdowns – in 2019, 13% of workers aged 15-24 worked in accommodation and food services on average across OECD countries, compared with 5% among workers prime-aged, and 4% among older workers (OECD, 2021[2]).

Hours worked by under-25-year-olds dropped by a quarter across the OECD on average at the beginning of the pandemic, compared to fewer than one-sixth for prime-aged and older workers. About three out of five unworked hours were due to joblessness among young workers, compared to one out of five by prime-aged and older workers, again pointing to the fact that young people were less covered by JRS (OECD, 2021[2]).

The labour force impact was similar for women and men

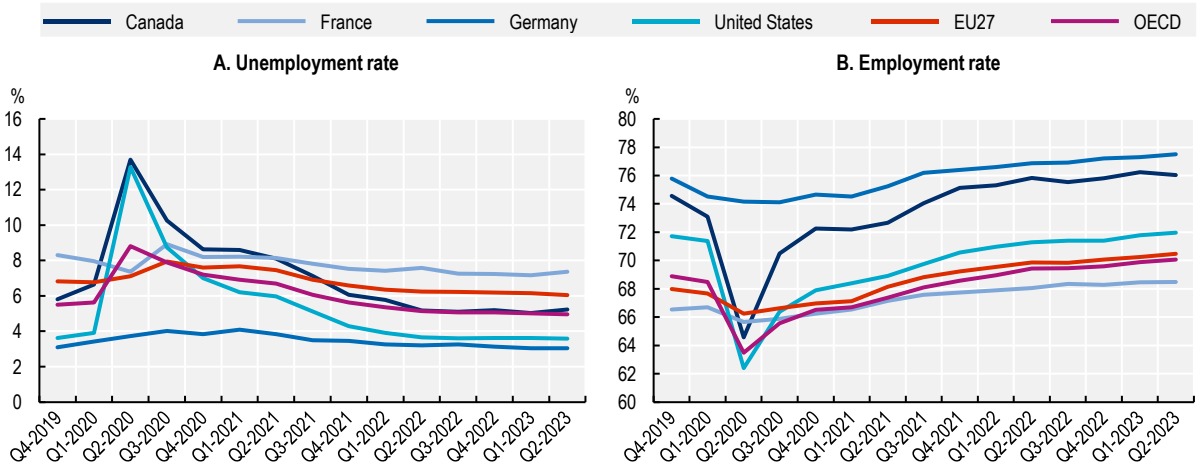
At the onset of the COVID-19 crisis, its unequal sectoral impact caused concern that women would be more heavily affected. But this concern was largely not borne out. Women are overrepresented in in-person service roles, particularly in hospitality and retail, which were very heavily affected, but also among 'essential' or 'key' workers in health and social services, as well as among 'teleworkable' jobs, e.g. in education (OECD, 2021[2]). While the decline in hours worked by women was slightly higher (16.5%)

compared to men (14.9%) at the beginning of the crisis, this disparity was short-lived, and the hours decline of men and women was similar by late 2020.

However, women were more likely to be laid off than to reduce their hours – job loss accounted for about one in three unworked hours by women, compared to one in four by men during the initial lock-down phase, this share remained stable until the end of 2020 (OECD, 2021[2]). Compared to men, women's employment, however, also recovered more quickly, and strongly. By the first quarter of 2022, the female employment rate was 1 percentage point higher than before the onset of the crisis in quarter one of 2020, while male employment only increased by 0.1 percentage points. Much of this increase was due to job creation among workers who had previously been inactive (Salvatori, 2022[5]).

Figure 1.2. Unemployment was back at the pre-COVID-19 level in early 2022

Seasonally adjusted quarterly unemployment and employment rates, 15-64, Q4-2019 to Q2-2023



Note: OECD and EU27 are unweighted averages
Source: OECD Data Explorer • Infra-annual labour statistics.

1.1.3. The labour market recovery was swift given the depth of the crisis

The heavy labour market shock experienced during the first pandemic wave in 2020 was followed by a rapid recovery as the public health situation improved and economic activity quickly resumed (Figure 1.1 Panel B). A number of European countries that operated comprehensive JRS saw a massive expansion in hours worked in the second half of 2020 and early 2021, particularly through a drop of zero-hours employment. Declines in zero-hours employment was also sizable in Mexico and Canada. During this period, many workers resumed their activity as the first pandemic wave subsided, employers adapted workplaces to physical distancing requirements, and ultimately the first vaccine became available. Hours worked further rose in the second half of 2021 and early 2022, with the change coming mainly from new employment. By the second quarter of 2022, hours worked had fully rebounded across the OECD (Figure 1.1 Panel C) and labour shortages began to appear. These were not limited to skills shortages in high-tech sectors, but also in lower-paying and high-contact industries particularly affected by the pandemic such as hospitality and manufacturing, reflecting moves towards higher-quality jobs in a tight labour market (Causa et al., 2022[6]; OECD, 2022[7]).

Two years after the start of the COVID-19 crisis, most OECD countries had largely recovered from the labour market shock caused by the pandemic. The employment rate in all but 10 OECD countries had surpassed its pre-crisis level in the first quarter of 2022 (Figure 1.2, Panel B). The unemployment rate was below its pre-crisis level across the OECD on average (Figure 1.2, Panel A), and only significantly above

it in Colombia, Estonia and Latvia. Similarly, the increase in inactivity that took place in all countries in 2020, as the pandemic discouraged active job search, had largely been reabsorbed by early 2022. Long-term unemployment (12 months or more), that had fallen in many countries as jobseekers stopped actively looking for work during 2020 and became inactive, also returned to pre-pandemic levels by early 2022 (Salvatori, 2022[5]) (see more in Section 2.5).

The labour market situation of young people, as one of the groups most heavily affected by the crisis, substantially improved immediately following the COVID-19 shock: 12.5% of 15-29 year-olds were not in employment, education or training (NEET) in 2022, down from 15.2% in 2021 (OECD, 2024[8])). The labour market outcomes of people with disability, another vulnerable group severely affected by the crisis, also recovered quickly (see more details in Section 2.1).

This quick rebound of the labour market is in stark contrast to the protracted labour market slack during the 2008 Great Financial Crisis (GFC) that in particular affected young people. It took more than a decade for transitions from education to unemployment to revert to their pre-GFC levels. This led to long-term negative 'scarring' effects on employment and wages for young people who graduated into the recession (Causa, Luu and Abendschein, 2021[9])

1.2. Policies to protect jobs and incomes during the COVID-19 crisis

Most OECD countries shored up income support following the initial shock of the COVID-19 restrictions. Nearly all OECD countries introduced or expanded pre-existing Job Retention Schemes (JRS), that became the first line of defence against the pandemic-related income losses. The second main reinforcement of was extensions of unemployment benefits, including the introduction or expansion of benefits for self-employed workers.

1.2.1. Job Retention Schemes

JRS help preserve jobs at firms experiencing a temporary decline in business activities by subsidising labour costs, and thus encouraging firms to temporarily cut hours instead of laying workers off. This preserves the quality of the worker-firm match and enables firms to quickly shore-up production when conditions improve. It is also an efficient policy to prevent the bankruptcy of viable companies. For instance, using a sample of almost a million European firms, (Demmou et al., 2021[10]) estimate that without any government intervention – including JRS, tax deferrals, debt moratoria and state loan guarantees – 26% of all firms would have become illiquid within two months at the beginning of COVID-19-related restrictions. Direct and indirect support for wage payments, including JRS, was the most critical policy given the high share of wage payments in corporate expenses. Government interventions decreased this share to 7%.

While JRS were used in previous crises, notably the Global Financial Crisis, their use reached unprecedented levels during the COVID-19 crisis, when about 20% of all workers across the OECD received JRS support. Virtually all OECD countries extended existing or introduced new JRS at the beginning of the pandemic to maximise access. Usual concerns about deadweight effects (supporting jobs that would continue to exist in the absence of JRS) and lock-in effects (supporting jobs with firms that are not economically viable, instead of allowing workers to transition to more productive jobs) were of limited or no concern as the policy goal was to maintain welfare amidst the health-related economic restrictions (OECD, 2021[11]; 2022[12]; OECD, 2023[13]).

Countries that made heavy use of Job Retention Schemes experienced lower increases in unemployment

The heavy use of JRS in many countries limited the rise in unemployment benefit recipients. Figure 1.3 depicts trends in the monthly number of recipients of JRS and unemployment benefits, between 2019 and late 2022, expressed as a share of the working-age population[3], for a selection of countries with available data. Australia and the United Kingdom introduced their JRS in response to the pandemic in March and April of 2020, respectively (Figure 1.3, top left). Receipt reached over 20% of the working-age population in both countries, while unemployment benefit receipt only increased by 2 to 3 percentage points. A similar pattern is observable for Belgium, where the number of UB recipients changed little, and France, that experienced a slight increase. In Spain, the JRS only reached about 10% of the working-age population at the beginning of the crisis, and the number of UB recipients rose more strongly (by over 7 percentage points) as a result (Figure 1.3, top right). All three European countries had pre-existing JRS that were extended over the crisis.

Some countries that already had JRS also introduced additional schemes. Canada, for instance, introduced the Emergency Wage Subsidy in addition to the pre-existing work-sharing programme. The Emergency Wage Subsidy Scheme was abolished in by November 2021, and replaced by a targeted wage and rent subsidy programme for the tourism and hospitality sector, as well as other businesses particularly affected by the crisis (Denk and Königs, 2022[14]; Canada Revenue Agency (CRA), 2021[15])). While coverage surpassed 20% of the working-age population in the summer of 2020, roll out was slower than in some European countries, and unemployment benefit recipients surpassed 30% of the working-age population in April 2020. In contrast, in the United States, the pre-existing JRS – the short-time compensation – remained marginal throughout the crisis. There,[4] the labour market shock was nearly fully absorbed by the generously extended unemployment benefit system, and the number of unemployment benefit claimants, including workers on temporary layoff, reached nearly 16% of the working-age population (Figure 1.3, bottom left).

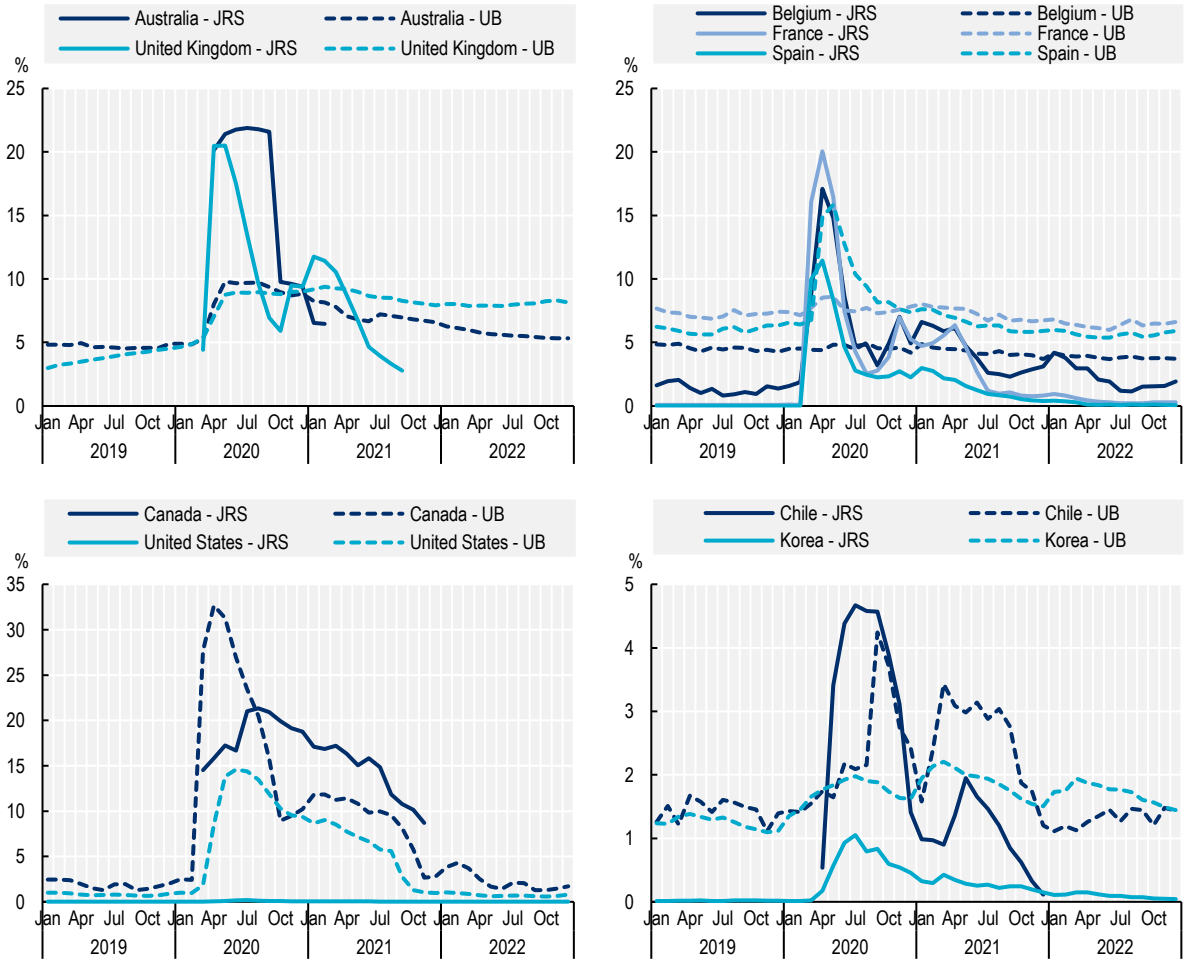
In Korea, the labour market shock largely translated into reductions in hours worked while the receipt numbers for both job retention support and unemployment benefits remained very low in the international comparison. This may partly reflect weak benefit coverage of the non-employed in Korea (OECD, 2021[2]). Chile also introduced a new JRS, but its use remained limited. Unemployment benefit receipt also only rose slightly, despite significant increases in unemployment (Salvatori, 2022[5]).

[3] Some job-retention schemes are accessible for self-employed workers, which is why the share is expressed relative to the working-age population, instead of all employees.

[4] The U.S. Paycheck Protection Program (PPP) is not categorised as a JRS as it was not accessible to all workers, see Footnote 1 and Section 1.2.1.

Figure 1.3. The interplay of job retention support and unemployment benefits across countries

Recipients of job retention scheme support (JRS) and unemployment benefits (UB) as a percentage of the working-age population



Note: JRS receipt is shown as a percentage of the working-age population, and not dependent employment, as some schemes may be accessed by self-employed workers. For each country, the figures may represent an aggregation across different schemes of the same benefit type. Spikes in recipient numbers in January might be due to reporting reasons. For Denmark, France and Sweden, complete JRS figures are missing before March 2020. For Denmark, JRS numbers refer to two schemes, the pre-existing work sharing scheme and the wage compensation scheme introduced in March 2020; monthly figures for both UB and JRS were interpolated from quarterly time series. For details on the programmes included for each country and methodological notes, see the OECD Social Benefit Recipients High-frequency Database (SOCR-HF), https://www.oecd.org/en/data/dashboards/social-benefit-recipients---high-frequency-database-socr-hf.html.
Source: OECD SOCR-HF. For the more recent period not included in SOCR-HF, data were updated with the same sources as indicated in the methodological notes of SOCR-HF.

For workers, JRS benefits were typically significantly higher than unemployment benefits, but still on average below gross wages. Across the OECD on average, workers earning the average wage suffered a 28% gross earnings loss. Low-wage workers (with wages below 67% of the average wage) often benefitted from minimum thresholds and higher replacement rates, and therefore suffered a lower earnings loss at 21% (OECD, 2021[16]). Together with extensions to unemployment benefits (see also Section 1.2.2), sickness benefits and other support measures such as one-time payments and top-up to Minimum Income Benefits (MIB), JRS contributed to the remarkably stable poverty rates over the COVID-19 crisis. On average across the OECD, the poverty rate remained stable at 12%, and poverty headcounts only significantly increased in a few countries (Czechia, Estonia, Ireland and the Netherlands). In some

countries, poverty headcounts even fell (e.g. Canada, Chile, Lithuania and the United States, (Immervoll and Pasteiner, 2025[1])).

Limited conditionality and increased generosity facilitated the broad take-up of JRS

As other income support programmes, JRS are typically designed to balance the minimisation of deadweight effects with providing liquidity to firms and income support to workers. Deadweight losses can emerge if payments are:

- not well-targeted and are received by firms that would have kept on workers without the payment (meaning that payments may boost profits);
- too generous, or paid for too long, undermining firm incentives to adjust their workforce. This could harm aggregate productivity, since workers are 'hoarded' or 'locked-in' an unproductive job and do not move to firms or sectors where they could be more productive; and
- not sufficiently targeted towards workers that have a high level of firm-specific human capital. If the value of preserving the job, and the cost of rehiring the worker, is too low, it may not be efficient to preserve the job using JRS, given they are higher-cost than UB, and they keep workers away from the labour market (OECD, 2024[17]; Denk and Königs, 2022[14]).

Countries typically limit the potential for misuse of funds by requiring co-payments from firms (that is, firms bear part of the cost of unworked hours) – requiring firms to share the cost of the work stoppage means that firms have an incentive to restart work as soon as it becomes viable to do so. Many countries also require the agreement of social partners for the use of the scheme – since JRS payments are typically below net earnings, workers are unlikely to agree to the use of the scheme unless they are convinced that their jobs are at risk – and ban layoffs or the payment of bonuses and dividends, again to limit deadweight loss. To ensure that payments are directed towards jobs held by workers with high firms-specific capital and high re-hiring costs – jobs with a high value of the match between employers and employees – countries also often restrict JRS to permanent workers and / or to those who have sufficient social security contributions to qualify for unemployment benefits, although many countries increasingly open this scheme to temporary workers to decrease labour market duality (OECD, 2024[17]; OECD, 2021[16]).

At the beginning of the COVID-19 crisis, these concerns were much less relevant: The COVID-19 crisis hit firms irrespective of their productivity, so the usual concern of artificially propping up low-productivity firms was less relevant (Cros, Epaulard and Martin, 2021[18]). Similarly, given the forced suspension of some economic activities, the concern that firms would inefficiently hoard workers who could be productive elsewhere was limited.

As a result, many countries eased the eligibility conditions, increased the generosity and / or suspended bureaucratic procedures to access these benefits. For instance, at the beginning of the first lockdown, the majority of countries did not require co-payments from firms for hours not worked – labour costs due to reductions of hours not worked where thus almost entirely borne by governments. A number of countries also weakened or suspended the requirement for firms to prove the economic justification for using the JRS, and extended the programme to temporary workers, those with short contribution histories and some countries even extended them to some categories of self-employed workers (OECD, 2021[16]).

Job retention support was mostly phased out by late 2021

The number of JRS recipients across OECD countries declined sharply from its peak of about 20% of dependent employees in April-May 2020 to 0.9% in March-April 2022 (Denk and Königs, 2022[14]), reflecting the reduced physical-distancing and other policy restrictions. In the spring of 2022, Belgium and Ireland were the only OECD countries were JRS receipt still exceeded 1% of all workers (Denk and Königs, 2022[14]). Countries that had introduced new schemes had mostly abolished them by late 2021 (e.g. Australia, Denmark, New Zealand, United Kingdom). Other countries restricted access, e.g. by

limiting support to sectors that continued to be affected by the crisis (e.g. Luxembourg), or by conditioning support on firms experiencing a decline in turnover (to limit deadweight loss, e.g. France, Austria).

Several countries also made the scheme less generous, either by lowering subsidised net replacement rates for workers, or by introducing or increasing co-financing by firms, especially once labour shortages started to emerge towards the end of 2021 (e.g. Austria, France, Norway or Switzerland). Co-financing incentivises firms to concentrate support to jobs they deem viable in the medium term, and thus counteracts displacement effects, i.e. the risk that support is going to jobs that have become permanently unviable. Keeping workers in unviable jobs not only adds to the fiscal costs of JRS, but can slow labour reallocation from less productive to more productive jobs and reinforce labour shortages (OECD, 2022[12]; OECD, 2023[13]).

In a prolonged crisis, the risks of preserving jobs with JRS – badly targeted payments and hoarding effects – increase. This was especially the case in the COVID-19 crisis, since many of the firms that were affected by restrictions the longest, e.g. in the hospitality and entertainment sector, tend to have less firm-specific capital (OECD, 2022[12]). Indeed, it has been shown that JRS can hinder job creation during the recovery by slowing labour allocation away from unproductive firms (Hijzen and Martin, 2013[19]). This effect seems to have been limited in the COVID-19 crisis in most countries, as the use of JRS was mostly phased out as health restrictions were lifted and vaccines emerged.

Current evidence suggests that JRS did protect jobs, but some programmes lacked cost effectiveness.

Available empirical evidence points to JRS being highly effective in protecting jobs during negative demand shocks and enabling firms to shore production back up quickly (OECD, 2024[17]). However, most of the best quality evidence currently available is from the Global Financial Crisis, and thus not fully comparable to the COVID-19 pandemic: receipt of JRS support was much lower during the Great Financial Crisis, the crisis was much longer than the COVID-19 pandemic (as mentioned above, deadweight effects and lock-in effects are more likely to occur after long-term JRS usage). Moreover, during the Great Financial Crisis, low productivity firms were generally more likely to take up JRS support (Giupponi and Landais, 2022[20]), whereas the COVID-19 pandemic affected firms within the same sector equally, regardless of firm productivity (Calligaris et al., 2023[21]). While more high-quality studies are expected to be published as administrative data on employment and JRS receipt increasingly become available, the simultaneous and almost universal roll-out of JRS across regions and countries complicates the identification of causal effects.

(Calligaris et al., 2023[21]) use administrative firm-level employment and wage data from twelve countries, that enable them to track employment growth and firm survival rates at the firm level. They assess the effect of JRS exploiting differences in JRS generosity and accessibility across countries, whereas exposure to the shock is measured by the 'teleworkability' of sectors. They find that firms that received JRS support were more likely to survive the initial COVID-19 shock (2.5 percentage points higher three-month survival rate), and this effect was strongest for firms who took up the programme in Spring 2020, compared to later initial uptakes. In the second half of 2020, the protective effect of the programme begins to disappear. That is, JRS did prevent job destruction, particularly at the beginning of the crisis. They also show that countries with more accessible JRShad smaller employment losses than countries with more stringent JRS, and that, as expected, the protective effects of JRS were strongest in the most exposed sectors.

Looking at JRS recipients across the productivity distribution of firms, they find that JRS recipients was not concentrated in low productivity firms – to the contrary, medium and high productivity firms seem to have used JRS support more. JRS did support employment in high and medium productivity firms, an indication that JRS were an efficient tool to preserve employment during COVID-19, and did prevent the inefficient exit of medium and high productivity firms, especially during the initial phase of the pandemic.

(Autor et al., 2022[22]) look at the effects of the Paycheck Protection Program, which gave unsecured, low-interest loans to firms with fewer than 500 employees that were forgivable if participating firms roughly maintained employment and wages six months after receiving a loan. The loans could not only be used for labour costs but also other business expenses (such as rent or utility payments). The programme was almost untargeted except for firm size – firms merely needed to attest that they were 'substantially affected by COVID-19', and indeed 94% of eligible firms did take out loans through the programme. This lack of targeting meant that deadweight loss – firms receiving the loan that would have continued operating without layoffs – meant that between two-thirds and three quarters of the substantial USD 800 billion accrued to business owners and shareholders instead of workers. Recognising this inefficiency, congress did target the final tranche of payments towards firms that suffered revenue losses.

While (Autor et al., 2022[22]) find that the programme did preserve between 2 and 3 million job-years, and reduced the closure of small firms, the inefficiency due to the lack of targeting meant that employment effects came at a substantial cost of USD 169 000 to USD 258 000 per job-year saved – compared with the average annual wage in the United States near USD 70 000 (OECD, 2022[23]). The authors argue that these significant inefficiencies were mainly due to the program being designed to be implemented quickly during an emergency situation, and that more careful design and targeting could have significantly improved its effectiveness.

(Smart et al., 2023[24]) evaluate the Canada Emergency Wage Subsidy, that offered up to 85% of wage costs to firms depending on the COVID-19-induced revenue drop they experienced. They exploit differences in replacement rates between firms and over time to estimate the effects of the programme. They find that the programme had a small but significant positive impact on employment, but that deadweight losses were substantial. They estimate that the programme saved about 325 000 job-years, at a cost of CAN 200 000 per job-year saved – too expensive, given the average annual salary of recipients of CAN 54 000. Interestingly, excess subsidies seem to have flowed to suppliers and workers through higher payroll expenses (via higher part-time work for at-work employees) instead of to owners and shareholders via business incomes and dividend payments.

(OECD, 2024[17]) evaluate the Spanish JRS *Expedientes de Regulación Temporal de Empleo (ERTE)*, exploiting a discontinuity in co-financing rules between firms with fewer and more than 50 employees. They find that ERTE was highly effective in supporting employment: an increase in take-up of 4.5 percentage points resulted in an increase in the job retention rate of 3.3 percentage points, implying a deadweight loss (subsidising of jobs that would not have been destroyed in the absence of the subsidy) of about 25% of the total cost. In addition to these direct job-preservation effects, the analysis also shows that ERTE prevented congestion in the labour market, that can occur if a sudden surge in unemployment means that many jobseekers compete for a limited number of jobs. This can overwhelm Public Employment Services and lead to long-term unemployment and labour market inactivity as workers become discouraged. In Spain, the analysis suggests that each worker receiving JRS preserved on average 1.9 jobs (OECD, 2024[25])

This review of the literature, as well as the descriptive evidence on the interplay of JRS and unemployment benefit receipt, suggest that JRS were effective in protecting jobs over the pandemic. However, cost effectiveness depends on the design of the scheme, with careful targeting of support and crucial for minimising deadweight effects. Countries that had pre-existing schemes could scale them up more easily, and benefited from not having to build a new programme up from scratch.

1.2.2. Unemployment benefits

Income support for workers affected by job losses was a second pillar of countries' efforts to cushion the effects of the COVID-19 crisis on workers and households for those unable to access JRS. In spite of the rapid introduction or expansion of job retention schemes, the COVID-19 crisis caused massive job losses in the OECD area, although concentrated in a limited number of countries. At the end of 2020, around

22 million jobs had vanished in OECD countries compared with 2019 (OECD, 2021[26]). Finding new employment was difficult or impossible during lockdown periods, including for jobseekers that were already without work prior to the pandemic. Unemployment benefits and other out-of-work income support played a vital role in protecting workers and families' livelihoods during these periods.

As restrictions to economic activity and social life were lifted, jobless numbers fell rapidly, particularly in Canada and the United States, where many millions of workers returned to their jobs following temporary layoffs. Total employment in the OECD returned to pre-crisis levels at the end of 2021 and continued to grow in the first few months of 2022 – see Section 1.1. Still, substantial numbers of workers, including from sectors where the recovery has been subdued, have not yet managed to return to employment and continue to rely on out-of-work support. In several countries, the support provided during the crisis has been shaping reform agendas, for example because the pandemic highlighted gaps in pre-crisis support provisions, or because emergency measures altered perceptions of what constitutes adequate income protection.

Most OECD countries temporarily extended unemployment benefits for dependent workers

The majority of OECD countries (30 out of 38) extended unemployment benefits during the COVID-19 crisis, mostly during the initial pandemic wave in spring 2020 (Denk and Königs, 2022[14]). Relaxation of accessibility requirements was the most frequent extension – a number of countries, including the United States, Canada, Spain, Turkey and Israel reduced minimum contribution periods or waved them entirely (Denk and Königs, 2022[14]) in order to improve benefit coverage for labour market entrants and more marginally attached workers including those on temporary contracts, young people and migrants, who often could not access temporary unemployment benefits. Some countries also introduced new unemployment assistance benefits or made extraordinary payments to jobseekers who were not entitled to receive any unemployment benefits.

Some countries also extended benefit durations, sometimes automatically extending entitlements that would otherwise have expired during the crisis. Finally, some countries also raised benefit amounts by increasing replacement rates, or making one-off payments or temporary top-ups to recipients, or by lifting benefit floors or ceilings. Some countries also suspended progressive reductions in benefit amounts for those with longer unemployment spells.

The benefit extensions carried out at the onset of the crisis were nearly always explicitly temporary. While many countries re-instated already phased-out extensions during subsequent pandemic waves, most extensions were abolished by mid-2022. Some countries replaced earlier extensions with new, more targeted or less generous measures to account for the developing public health and labour market situation. Canada, for example, phased out its Canada Emergency Response Benefits and instead introduced temporary changes to simplify access, increase benefit durations and raise generosity of its Employment Insurance programme. Some also introduced entirely new measures that were not directly related to those implemented in spring 2020: Estonia increased replacement rates during the first 100 days of benefit receipt, as well as the benefit floor and ceiling; France shortened the minimum contribution period from six to four months; and Korea introduced a new unemployment assistance scheme, the National Employment Support Programme (Denk and Königs, 2022[14]).

Moral hazard effects of extensions to unemployment insurance seem to have been limited by exceptional pandemic circumstances

Balancing the adequacy of benefits while maintaining the incentive to work is one of the key challenges when designing unemployment benefits. Benefits should not be too low or of too short a duration to push jobseekers into poverty, or into accepting a job that does not match their skills and experience. On the

other hand, they should not be so generous as to incentivise jobseekers to relax their job search efforts, to reject suitable offers in the hope of something better coming up, or to strategically delay taking up new employment to maximise benefit receipt. Indeed, the average elasticity of unemployment duration to the maximum duration of benefits is about 0.3 – meaning that unemployment duration increases by 0.3 weeks for every additional week of maximum employment duration – but the range of estimates is wide, from 0.02 to 1.3 weeks for every additional week (Lopes, 2021[27]; OECD, 2023[28]).

Available evidence suggests that this has not really been the case for pandemic extensions to unemployment insurance. Only the United States, and to a lesser extent, Canada, mainly relied on unemployment benefits to support lost incomes in the COVID-19 crisis – European countries mainly relied on JRS and only extended UB for those already out-of-work, and those who were not covered by JRS (Figure 1.3). Studies on the employment effects of these extensions mainly centre on the United States. One in six working-age people received unemployment benefits in the United States at the peak of the crisis, see Figure 1.3. The United States did not only make unemployment benefits much more accessible by lowering minimum contributions to one week at the minimum wage across all US States, covering all self-employed workers and drastically increasing maximum receipt durations. The United States also introduced top-ups to weekly benefit amounts of between USD 300 to USD 600 (varying over time) which significantly increased benefit payments (OECD, 2023[29]). These payments replaced more than 100% of pre-pandemic earnings for more than 75% of beneficiaries (Ganong, Noel and Vavra, 2020[30]).

In spite of these very generous benefit levels, the effect of the top-ups on employment was smaller than expected in a non-pandemic labour market. (Marinescu, Skandalis and Zhao, 2021[31]) show that, while online job applications did decrease, the number of vacancies was so low that this depressed search behaviour did not affect employment. Firms recalling former workers likely played a role in the dampening of the disincentive effect of weekly top-ups (Ganong et al., 2022[32]).

Job retention schemes may be preferable to extensions to unemployment benefits in deep recessions

While the pandemic extensions to unemployment insurance in the United States had smaller effects on employment than expected given their size, the effects on employment were not as steep, and labour markets recovered more quickly in Europe than in North America: the Canadian employment rate fell by 8.5 percentage points between the first and the second quarter of 2020, by 9 percentage points in the United States, whereas the decline was only 1.4 percentage points in Europe. Similarly, the employment rate in Europe had recovered to its pre-crisis level by the second quarter of 2021, the employment rate in Canada recovered by late 2021, and in the United States only in the first quarter of 2022 (Figure 1.2, Panel B). However, it can be argued that the case for JRS was stronger in Europe, since labour markets are less flexible – if lay-off costs are low, the difference between a temporary layoff, and a JRS that reduces working time to zero while maintaining the employment relationship, are low.

JRS prevent unnecessary layoffs that are more likely to be caused by external shocks, rather than low firm productivity, in deep recessions. This can prevent long-term scarring effects of unemployment on workers, and it can speed up recovery, as workers can return to their jobs once the crisis subsides, and they are called back by firms. Extended unemployment benefits, in contrast, may lower incentives for workers to look for jobs once the labour market recovers (Giupponi, Landais and Lapeyre, 2022[33]).

1.2.3. Income support for self-employed workers

Self-employed workers were particularly vulnerable to income losses during the crisis as they typically did not benefit from JRS and often had less access to unemployment insurance benefits than dependent workers.[5] At the onset of the crisis, only 11 of 36 OECD countries with available information offered self-employed workers the same unemployment protection as dependent employees; another seven offered partial access, i.e. with lower amounts and/or more stringent eligibility criteria than for dependent employees. In five countries, the self-employed had the option to join a voluntary unemployment insurance scheme, but membership rates were often low – under 1% of all self-employed workers in Austria and Korea, 3% in the Slovak Republic and 10-15% in Finland (European Commission, 2022[34]; Park, 2020[35]). Thirteen countries did not offer any unemployment insurance benefits for self-employed workers. This incomplete coverage left a significant part of the labour force exposed as the crisis hit: across the OECD on average, one in six workers is self-employed, with self-employment much more frequent in Mexico (one in three in workers), Italy and Korea (Denk and Königs, 2022[14]).

In addition, in the beginning of the COVID-19 pandemic, self-employed workers in many countries had no or only limited access to sickness benefits. This was problematic because paid sick leave helped contain the spread of the virus and absorb the economic shock. During the COVID-19 pandemic, several countries expanded access to sickness benefits for self-employed workers, for example by providing compensation in case of a quarantine or by introducing new or special pandemic payments for sick workers including self-employed workers (OECD, 2020[36]). After an initial fast rise in the number of sickness benefit recipients in many OECD countries at the very beginning of the COVID-19 pandemic, however, sickness absence rates fell again quickly, sometimes to record-low levels, as a consequence of the introduction of job retention schemes and the wide use of teleworking (see also Section 2.6).

Countries that already provided (some) unemployment support to self-employed workers were able to shore up support more quickly

At the onset of the COVID-19 crisis, countries who already provided (some) self-employed workers with unemployment benefits were able to shore up support using existing structures: in Denmark, for example, self-employed workers could retrospectively join an unemployment insurance fund by paying a year's contributions if they were affected by containment measures, and Ireland suspended minimum contribution requirements to its unemployment benefit programme.

Countries that had no systems in place to assess affected workers' previous earnings and entitlements had to either create such structures quickly or to adapt their minimum income benefits. Austria, Norway, Switzerland and the United States, among other countries, introduced new emergency benefits for self-employed workers that were tied to previous earnings or crisis-related losses. But carefully assessing previous income (especially the fluctuating income of the self-employed) takes time, especially in the absence of established administrative procedures to do so. Some countries therefore relied on the self-certification of losses, especially at the beginning of the crisis (e.g. Austria), risking precision in targeting.

Others circumvented time-consuming earnings assessments by providing flat-rate benefits (e.g. France and Italy). Overpayments at the low end, and incomplete consumption smoothing at the high end of the income distribution are a drawback of flat-rate payments. In a crisis situation, flat-rate payments are easier to administer as they do not require administrative structures to assess previous incomes, which is more complex for self-employed workers than for dependent employees as self-employed earnings fluctuate,

[5] Other types of workers, including informal workers and in some cases workers on fixed-term contracts, were also not entitled to JRS or UB support. See (Immervoll and Pasteiner, 2025[1]) for a discussion of COVID-19 emergency measures in the area of minimum income benefits.

and recent tax returns are often subject to revision. Overpayments for low-income households, financed by the general budget, seem justifiable in these circumstances.

Chile, Germany, the Netherlands, and to a lesser extent Mexico extended their existing minimum income programmes to make them more accessible to self-employed workers. These programmes are typically not designed for sudden (albeit catastrophic) income losses, but to support the long-term needs of low-income households, and are therefore often associated with careful means- and asset tests. Extensions therefore included the easing or suspension of asset tests (thus allowing self-employed workers to draw benefits while keeping their business capital and any savings) and income tests on partner income (Denk and Königs, 2022[14]).

Establishing schemes quickly from scratch can be difficult

Providing income replacement benefits to self-employed workers is difficult at the best of times, mainly due to moral hazard considerations as self-employed workers control the success of their business in ways employees do not (OECD, 2024[37]). But there are also practical difficulties in calculating contributions and benefits – self-employed workers have fluctuating earnings as they may be paid by clients for larger chunks of work at irregular intervals. They also often have some control of the timing of their payments and therefore potentially more scope to manipulate their income to maximise their benefit entitlements (OECD, 2018[38]).

This, compounded with the pressure of delivering much needed payments quickly during an emergency led to coverage gaps, payment delays, as well as overpayments in some schemes. Coverage gaps were particularly frequent for those with newly established businesses, those taking up their business again after a break (e.g. for maternity leave), as well as those with low earnings. Some countries also limited access to the most affected sectors, e.g. Ireland, only offered support to workers in sectors affected by shut-downs, or Estonia, where aid was available only to those in the entertainment and hospitality sectors (Eurofound, 2024[39]).

Overpayments were mainly due to flat-rate payments erring on the side of generosity, such as in the extended bridging rights scheme in Belgium (see Box 1.1) or because of difficulties in accurately establishing earnings losses, which is more difficult than tracking hours reductions through firm payroll.

For instance, the Self-Employment Income Support scheme in the United Kingdom replaced 80% of pre-pandemic profits up to a maximum payment of GBP 7 500 per quarter, but without taking into account actual losses due to the pandemic – self-employed workers who had to cease their activity completely received the same compensation as those who only suffered small earnings decreases because of the pandemic. This resulted in higher net incomes than usual during the pandemic for some self-employed workers, as well as a very high take-up of the scheme: 77% of eligible self-employed workers are estimated to have received payments, compared to 30% of employees who were covered by the JRS (Cribb, Delestre and Johnson, 2021[40]; Adam, Miller and Waters, 2020[41]).

Payment delays were a common feature of emergency support for self-employed workers – they were often introduced after support measures for dependent employees, and infrastructure for processing claims was often lacking (Eurofound, 2024[39]). JRS payments are often distributed to firms by the Public Employment Services (PES), who then processed payments to their employees using their established payroll systems. In contrast, PES are typically not set up for processing payments to self-employed workers. This caused long delays in the processing of emergency support in the United States, for example (OECD, 2020[42]). Delays in payments are especially problematic for liquidity-constrained self-employed workers, who are often those on lower incomes with limited savings. Payment delays have been shown to be associated with stress and uncertainty (Block et al., 2022[43]).

The COVID-19 pandemic brought the lack of social protection coverage of self-employed workers back into focus

The COVID-19 pandemic showed that self-employed workers do need income support, at least during sudden crises. Emergency programmes designed for immediate relief often suffered from incomplete coverage and delayed payments and design flaws leading to overpayments. They were also necessarily not balanced by contributions. As a result, a number of countries have extended, or are considering to extend the social protection coverage of the self-employed, e.g. Belgium, Ireland, Italy, Latvia, Luxembourg, Portugal or Spain (OECD, 2024[37]).

Box 1.1. Emergency extensions to the Belgian *bridging rights scheme*

In Belgium, self-employed workers have their own out-of-work benefit, the bridging right (*droit passerelle / overbruggingsrecht*). It is unique in that it is a social insurance benefit (e.g. claimants have to have been subject to social contributions for the past four quarters) with the purpose to smooth consumption in the case of a sudden income loss; however, it is not an unemployment benefit in the sense that it is not administered by the public employment service and therefore does not have any job search or activation requirements. It preserves social insurance rights (healthcare, sickness and invalidity benefits) as well as a flat-rate benefit in the case of a number of narrowly defined contingencies, including forced interruption or cessation of activities, such as fire or flooding (the *force majeure* pillar), and cessations due to economic hardship (for self-employed workers whose businesses are no longer viable and whose incomes are below a threshold, with very strict entitlement criteria). It is not generally means-tested (economic hardship requires social assistance receipt). There is no separate contribution payable by workers – it is funded by the social insurance fund for the self-employed, supplemented by contributions from the general budget, consistent with very low recipient numbers before the pandemic – only about 500 recipients by year.

During the COVID-19 crisis, Belgium extended the bridging right force majeure along several dimensions: (i) eligibility: in addition to those who are self-employed in their main occupation, also those who combine self-employment with retirement / dependent work / education could receive the benefit as long as they had paid social security contributions; (ii) receipt durations: months of receipt do not count towards the maximum entitlement (so those who have exhausted their previous entitlement may still receive the bridging right); (iii) the temporary bridging right could be combined with some other social benefits (up until a maximum threshold).

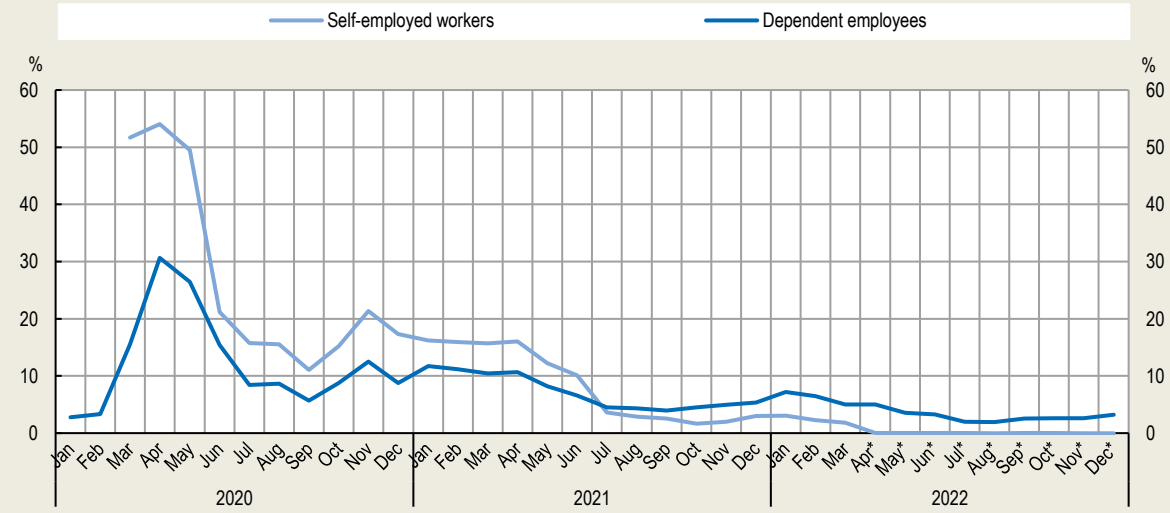
The temporary crisis measure bridging right could be received by self-employed workers subject to mandatory closures, as well as workers who were indirectly affected by lockdown measures, e.g. due to delivery problems or a drop in demand. Claimants did not have to prove that their activities were affected during the first months of the crisis, a sworn statement was sufficient. In April 2020, more than half of all primarily self-employed workers received the bridging right, a significantly higher share than JRS recipients among dependent employees Figure 1.4. Access to the benefit was incrementally restricted starting in July 2020.

The extended bridging right was comparatively generous: it provided a flat-rate monthly benefit of about EUR 1 300 for self-employed workers without, and EUR 1 600 for those with dependents. Starting in the second lockdown in October 2020, and until September 2021, benefits for self-employed workers whose activities were subject to forced closures were *doubled*. These amounts contrast with a high baseline share of low-income workers among the self-employed: the average annual income of self-employed workers is only about half that of employees and incomes of self-employed workers are in general more dispersed than those of dependent employees, with a significantly higher incidence of in-

work poverty. Estimates suggest net replacement rates, not counting doubled benefit amounts, from 74% for low- and 37% for high income workers (Thuy, Van Camp and Vandelannoote, 2020[44]).

Figure 1.4. Over half of all primarily self-employed workers received bridging rights support at the peak of the pandemic

Share of self-employed workers (main occupation) receiving bridging rights support, and share of dependent employees receiving JR support



Note: *Bridging rights recipients from April to December 2022 are projections.
Source: (OECD, 2023[13]), (Comité général de gestion, 2022[45]), (De Maesschalk and Geeraert, 2020[46]) (Thuy, Van Camp and Vandelannoote, 2020[44]).

1.3. Conclusion

During the initial phase of the COVID-19 crisis, working hours fell sharply across OECD countries. In response, nearly all OECD countries quickly introduced or extended existing job retention schemes at the beginning of the pandemic. In Europe, JRS absorbed most of the working- hours reductions, while in the United States and to a lesser extent in Canada, adjustment happened more via job losses, cushioned by extensions of existing unemployment benefits (UB).

The labour market recovery was swift considering the depth of the crisis, also in comparison to previous crisis such as the GFC. By the second quarter of 2022, hours worked had fully rebounded across the OECD on average.

Current evidence suggests that JRS were effective in protecting jobs, but some programmes could have been more cost effective. Countries that had pre-existing schemes were able to scale them up more easily. Evidence suggests that JRS may be preferable to extensions to UB during deep recessions – if large parts of the economy are hit by the same shock, the risk that mostly low productivity firms are inefficiently propped-up by these programmes is smaller than during less severe downturns. However, the difference between (temporary) lay-offs and furloughs supported by JRS may be small in countries with low lay-off costs.

Most OECD countries also temporarily extended unemployment benefits (UB), including by relaxing eligibility requirements to improve accessibility, extending benefit durations and increasing payment

amounts. Available evidence suggests that negative employment effects of these extensions through decreased job-search efforts were small, given the exceptional labour market situation during the COVID-19 pandemic, when economic activity was discouraged, and the subsequent swift recovery.

Self-employed workers were particularly vulnerable to income losses since they typically did not benefit from JRS and often had less access to UB. Countries that already provided (some) unemployment support to self-employed workers were able to shore up support more quickly than countries that had to establish new programmes from scratch. Some countries struggled with the assessment of previous earnings and income losses of self-employed workers and lacked an infrastructure to process payments. This led to coverage gaps and payment delays but also overpayments in some cases.

The COVID19 pandemic brought the lack of social protection coverage of self-employed workers back into focus, and a number of countries have extended, or are now considering extending, the social protection coverage of the self-employed.

2. Has the COVID-19 pandemic caused a structural increase in disability benefit claims and caseloads?

2.1. Disability benefits are a good proxy for permanent labour market exit

The first half of this paper concentrates on short-term labour market impacts and policies aimed at securing jobs and incomes and helping people stay connected to the labour market. This second half of the paper complements this analysis by looking at longer-term labour market implications and assessing the degree to which the COVID-19 pandemic has, or may have, contributed to permanent labour market exit.

Disability benefit claims and caseloads are used as a proxy for measuring permanent labour market exit. Disability policy thinking has changed considerably in the past two decades and disability programmes today have more and more features akin to unemployment programmes, aiming to reconnect people to the labour market, e.g., by using vocational rehabilitation schemes. One key outcome, however, has not changed: moving off disability benefit and back into work continues to be non-existent or at least very rare (OECD, 2003[47]; OECD, 2010[48]; OECD, 2022[49]). The explanation is simple: access to disability payments is cumbersome and typically taking several years in which people must demonstrate their inability or at least restrictions to work. It is no surprise that people will want to hold on to disability payments once entitled. As disappointing this may be for policy makers, for this analysis disability benefit claims and caseloads are a good way of estimating the impact on labour market exit. For policymakers, this implies that the focus of effective disability policy must be on early intervention to prevent disability benefit claims.

This second half of the paper is also different in nature because it focusses on observed trends mostly, with limited attention to disability policy. This is explained by the fact that disability policies, contrary to most other social protection policies, have not seen any relevant change during the pandemic, rightly so because disability programmes are long-term structural programmes not suited for short-term responses. On the contrary, many countries have reacted quickly by reforming and expanding their sickness programmes, to ensure people can be quarantined safely and quickly. The characteristics of these reforms are discussed in some detail in Box 2.3. Reforms of sickness programmes can be relevant for disability programmes as sickness is a frequent precursor to disability benefit claims. However, as pandemic-driven changes were focussed on immediate access to benefits and short-lived, and not of any structural nature, the impact of these sickness benefit reforms on disability benefit claims and, thus, labour market exit, were very limited.

This part of the paper looks at trends in disability claims and caseloads[6] before and after the onset of the COVID-19 pandemic, especially during the period 2020-23, in 18 OECD countries for which open data is available. It concludes that up until now the impact seems limited. Developments in systems that are often used as a precursor to disability benefit claims, especially in long-term unemployment and (long-term) sickness absence, suggest that more impact is possible in the longer run as it can take many years until an unemployment crisis translates into permanent labour market exit. However, results thus far suggest that the impact of the pandemic on disability benefit claims is not comparable to the order of magnitude experienced in earlier economic crises, see Box 2.1.

[6]This chapter distinguishes three aspects: disability benefit *applications* (i.e., people applying for disability payments, including successful and rejected applications), disability benefit *claims* (i.e., people successfully newly claiming disability payments, commonly also referred to as awards or inflows), and disability benefit *caseloads* (i.e., people receiving a disability benefit for whatever duration, commonly also referred to as stocks or recipients).

Box 2.1. Two economic crises, different outcomes for people with disability

Economic and financial crises cause economic decline, hinder GDP growth, and have significant negative implications for labour market and health outcomes. Vulnerable groups, such as people with disability, tend to be more severely affected by such crises. People with disability may also be more likely during a crisis to apply for disability payments to overcome unemployment and the associated loss of income. In addition, economic crises can also cause an increase in long-term unemployment and longer sickness absence through a decline in health, especially mental health, which in turn could also increase the likelihood of people applying for disability payments. Through these channels, economic and financial crises might lead to an increased disability benefit caseload which is of great concern for policymakers because such benefits tend to be permanent.

During the Global Financial Crisis (GFC), one of the most severe recessions in past decades, people with disability suffered more than their counterparts without disability as shown by a number of labour market indicators. The GFC had a severe negative impact on labour markets with the OECD average unemployment rate increasing from 5.8% in the 4th quarter of 2007 to 8.7% in the 1st quarter of 2010 (OECD, 2024[50]), but the GFC had even more severe implications for the labour market outcomes of people with a disability. For example, in the United States the unemployment gap between people with and without disability rose from 7% to 12% between 2008 and 2012 (Livermore and Honeycutt, 2015[51]). In Spain, the overall unemployment rate grew from 11.3% to 26.1% between 2008 and 2013 (OECD, 2024[50]), while the unemployment rate of people with a disability rose from 16.3% to 35% over the same period (Garrido-Cumbrera and Chacón-García, 2018[52]).

The negative effects of the GFC extended beyond the short term into the longer term. Long-term unemployment increased significantly across the OECD, from 23.9% in 2008 to 34,0% in 2013, reaching record-high levels in some countries, such as the United States where long-term unemployment increased from 10.6% in 2008 to 31.3% in 2011 (Junankar, 2011[53]; Kroft et al., 2016[54]; OECD, 2024[55]). In addition, the GFC had long-term negative consequences for health. For example, Real et al. (2016[56])suggest that the crisis caused a deterioration of people's mental health in Spain which in turn led to an increased probability of long-term sickness absence. This is further supported by Mykletun, Knudsen and Mathiesen (2009[57]) who also draw a link between the financial crisis and mental disorders in the population.

Some research suggests that the GFC also had an influence on the application for and receipt of disability benefits. Maestas, Mullen and Strand (2021[58]) argue that the GFC induced an additional one million applications to Social Security Disability Insurance (SSDI) benefits between 2008 and 2012 in the U.S., accounting for 11.6% of all applications in this period. Over 400 000 of these applicants were awarded benefits, or 8.9% of all new SSDI claims from 2008 to 2012. The authors suggest that in addition to inducing applications from new applicants, the GFC accelerated the timing of around 400 000 people who would have otherwise applied at a later date. Over 100 000 of these applications were awarded benefits between 2008 and 2012. Overall, applicants of these induced and accelerated applications had less severe impairments than the average applicant and many of them were awarded benefits only at the appeal level. Pasini and Zantomio (2013[59]) did not find an increase in rates of disability benefit receipt in the course of the GFC amongst older workers in a number or European countries but argue that this may be due to more rigorous benefit rules and assessment practices rather than a lack of increase in claims for disability payments. They find that benefit claiming became more linked to people's low income and less dependent on people's poor health conditions, suggesting that older workers in Europe may have been more likely to claim disability payments to prevent unemployment and poverty during the GFC.

The COVID-19 pandemic sparked the worst economic crisis since the GFC. Beyond the severe health impacts, the COVID-19 pandemic had significant negative effects on economies and labour markets across the OECD, comparable to the GFC. The OECD average unemployment rate increased from 5.3% in the 4th quarter of 2019 to 8.6% in the 2nd quarter of 2020. This is an increase very similar to that observed during the GFC; however, the increase took place in only two quarters instead of ten quarters as in the case of the GFC. Also comparable to the GFC, the pandemic had a negative impact on long-term unemployment in many countries. The share of long-term unemployment across the OECD grew from 18% to 28% between 2020 and 2021 (OECD, 2024[55]). In addition, the pandemic also had an effect on sickness absence, at least initially. For example, in Norway, sickness absence increased by 4.3% overall between the 4th quarter of 2019 and the 4th quarter of 2020. However, there were large variations between economic sectors, and sectors where teleworking was more widespread apparently even saw a decline in sickness absence during this period (Statens arbeidsmiljøinstitutt, 2021[60]).

Recent research suggests that, in contrast to the GFC, the COVID-19 pandemic did not seem to have an over-proportionally negative impact on labour market outcomes of people with disability, compared to people without disability. For example, in the United States people with disability experienced a comparable decline in employment during the pandemic, a faster recovery of the employment rate, and a smaller increase in unemployment compared to people without disability. This may have been due to the increased use of teleworking given the higher likelihood of some groups of people with disability in the US teleworking already, and the higher share moving into jobs amenable to telework during the pandemic (Ne'eman and Maestas, 2023[61]; Houtenville, Paul and Brucker, 2021[62]; Schur, Ameri and Kruse, 2020[63])

Initial research from Norway suggests that the COVID-19 pandemic had not affected rates of disability benefit receipt until 2021 but warns that it may lead to an increase in these rates in the longer term (Dahl et al., 2021[64]; Statens arbeidsmiljøinstitutt, 2021[60]).

2.2. OECD countries show large variation in disability benefit caseloads

Countries across the OECD differ strongly in their disability benefit caseloads for several reasons:

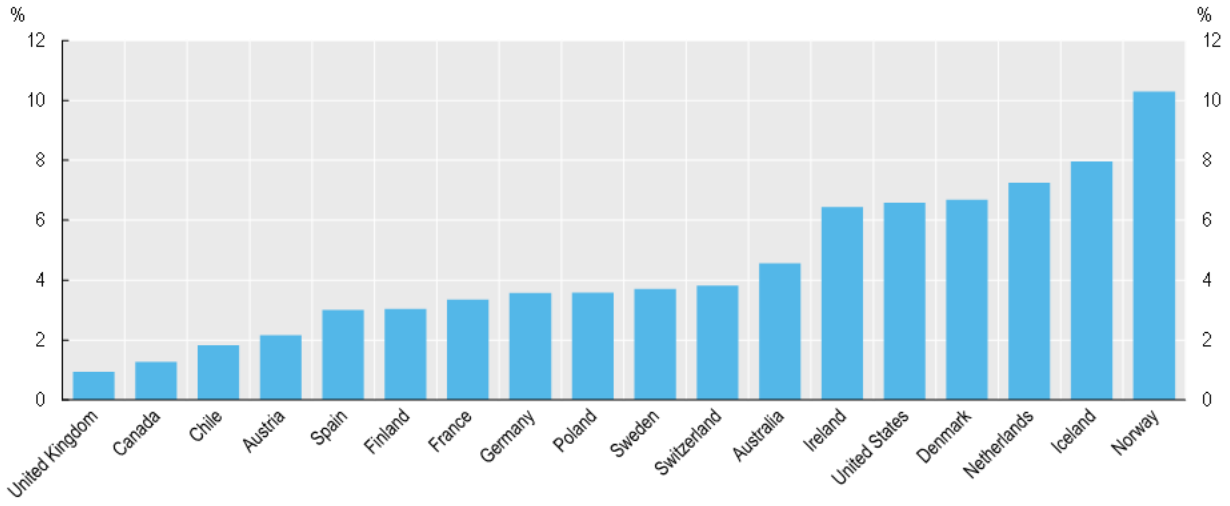
- *Differences in eligibility requirements*. Many OECD countries provide contributions-based disability benefits, but the length of contributions required varies across countries from just a few months to more than five years. Recipiency rates may be lower in countries where the required contributory period is longer as many applicants are not able to meet these requirements.
- *Differences in work capacity assessment*. Some countries may have a purely or predominantly medical assessment whereas others may have an assessment which also or mainly focuses on functional capacity and the individual's actual performance of activities in the real world, considering environmental circumstances. Countries may also differ in the extent to which mental health conditions, which are particularly frequent among younger people, can create eligibility for disability payments, and the extent to which exhausting medical and vocational rehabilitation is a precondition for a disability benefit claim.
- *The treatment of partial disability or incapacity to work*. Countries may have a system in which disability payments are granted only to people with full disability or full incapacity to work or they may grant partial payments for different degrees of disability, thereby potentially opening the system for a larger group of people.
- *Relative generosity of other social protection payments*. Individuals may be more likely to apply for disability payments if other social protection payments have stricter activation criteria or if the pension age is higher making it more difficult to exit the labour market via an old-age pension.

This chapter focuses on 18 OECD countries for which aggregate open data is available on recent developments in disability benefit claims and caseloads (more detailed data, e.g., by age, are only available for very few countries). Figure 2.1 depicts the large variation in disability benefit caseloads across these countries, ranging from 1% of the working-age population in the United Kingdom to over 10% in Norway. These large differences are partly due to the reasons described above, but also in several cases due to data not being available on all types of disability programmes for all countries.

Box 2.2 describes in some detail which payments were included in this analysis for each country. The very low recipiency rates in some countries are explained by data limitations, including the non-availability of data for all or some of the non-contributory payments (e.g., Canada, United Kingdom) or the omission of disability-like payments for people not (yet) eligible for disability benefit (e.g., Austria).

Figure 2.1. The share of the population receiving disability benefit varies greatly across countries

Recipients of selected disability payments as a share of the working-age population, 2022



Note: For the disability payments included in this chart for each country, see Box 2.2. The annual rate of disability benefits was calculated using annual population data for all countries, quarterly disability recipiency data for the United Kingdom and Australia, monthly disability recipiency data for Austria, Canada, Chile, Denmark, Spain, Finland, France (non-contributory payments), the Netherlands, Norway, Poland and Sweden, and annual disability recipiency data for Ireland, Germany, France (contributory payment), Iceland, and Switzerland.
Source: OECD calculations based on national administrative data.

Box 2.2. Disability programmes considered for the analysis in this paper

Many OECD countries have more than one disability benefit programme, often but not always including a contributory disability insurance and a non-contributory disability payment, or a public programme complemented by a mandatory occupational programme. This chapter includes all programmes and countries for which recent data, until and including 2023, is available. This implies that programme coverage differs across countries and from other OECD publications: for some, data is only available for some of the programmes and the overall disability payment recipiency rate, presented in Figure 6, therefore, deviates from the correct recipiency rate. This is also the case because data for rehabilitation or retraining benefits which act as a precursor for disability benefits, like in Austria or Norway, are also not included in this analysis, making these countries look lower in an international comparison.

More precisely, the analysis includes the following programmes for the countries included:

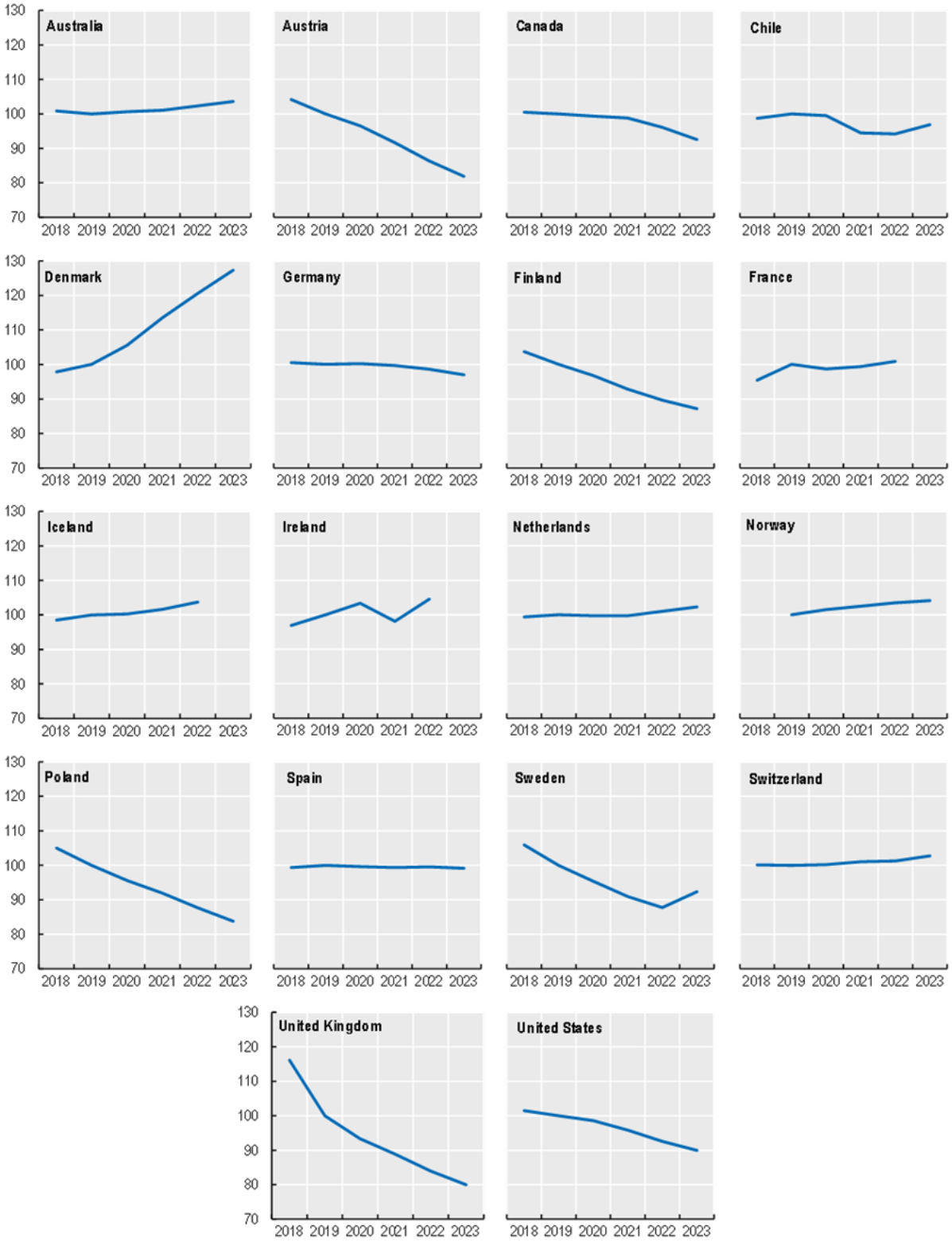
- Australia: Disability Support Pension (which is flat-rate and non-contributory)
- Austria: contributory disability pension [Invaliditätspension] (not including rehabilitation benefit and retraining benefit, both introduced in 2014, and disability pensions for civil servants)
- Canada: Canada Pension Plan-Disability (the corresponding Quebec Pension Plan-Disability and the various provincial non-contributory disability payments are not included)
- Chile: Mandatory Individual Account disability pension [Pensiones de invalidez AFP] (contribution-based) and Basic Solidarity disability pension [Pensión Basica Solidaria (PBS) de Invalidez] (non-contributory)
- Denmark: disability pension [Førtidspension] (universal programme) as well as the newly introduced senior pension [Seniorpension] (a special disability payment for those five years before retirement)
- Germany: pension for reduced earnings capacity [Renten wegen verminderter Erwerbsfähigkeit] (not including early retirement for people with severe disability, non-contributory payments, and the disability pension for civil servants)
- Finland: contributory disability pension [Työkyvyttömyyseläke] (not including non-contributory disability payments and supplements)
- France: contributory invalidity pension [Pension d'invalidité] (general scheme and special occupational schemes) and non-contributory allocation for handicapped adults [Allocation Adulte Handicappé (AAH)] (CAF and MSA)
- Iceland: national basic disability pension [Örorkulífeyrir] (non-contributory) and pension from compulsory occupational pension funds (contributory)
- Ireland: Disability Allowance (non-contributory) and Invalidity Pension (contributory)
- Netherlands: Work and Income according to labour capacity Act (WIA) benefits which include two payments, IVA for full and permanent disability and WGA for partial disability (earlier special benefits for self-employed (WAZ) and young people (Wajong) are not included)
- Norway: quasi-permanent disability pension [Uføretrygd] (not including the work assessment allowance, AAP)
- Poland: contributory disability pension from the social insurance fund [Fundusz Ubezpieczeń Społecznych, FUS] and non-contributory social pensions [Renta Socjalna] (not including disability pensions from the pension fund for farmers)
- Spain: contributory incapacity pension [Pension Incapacidad] (not including the non-contributory programme)
- Sweden: activity compensation [Aktivitetsersättning] (disability payment for those under age 30) and sickness compensation [Sjukersättning] (disability payment for those aged 30 and over)
- Switzerland: contributory disability pension [Invalidenrente] (not including non-contributory supplements)
- United Kingdom: contribution-based component of the Employment and Support Allowance (Universal Credit and other/earlier non-contributory payments are not included)
- United States: Social Security Disability Insurance (SSDI; contributory) and Supplemental Security Income (SSI; non-contributory)

2.3. COVID-19 does not seem to have affected disability caseloads thus far

Data on the caseload of disability payment recipients between 2018 and 2023 show that the COVID-19 pandemic had virtually no impact at all, as shown in Figure 2.2. The (longer-term) trends in disability payment caseloads vary considerably across countries but these differences are largely unrelated to the COVID-19 pandemic. Some countries, including Finland, Poland, Sweden, the United Kingdom, and the United States are experiencing a gradual decline in the past few years, while others, such as Australia, Iceland, and Norway, are experiencing an increase in recent years, and yet other countries, like Germany and Spain, are seeing almost no change in the caseload since 2018. The sharp decline in Austria is somewhat misleading as it is caused by the introduction of new pre-disability payments (a rehabilitation and a retraining benefit) which are gradually reducing the disability benefit caseload even though, so far, these new payments had very limited effects on labour market engagement.

Figure 2.2. The COVID-19 pandemic had limited impact on disability benefit caseloads

Trend in the annual number of disability benefit recipients, index 2019=100, 2018-23



Note: See Box 2.2 for the types of benefits included for each country.
Source: OECD calculations based on national administrative data.

The sharp increase in Denmark is partly explained by the introduction of a special senior pension in 2020, which is similar to a disability payment as it targets working-age individuals not able to work due to ill health, providing an opportunity to exit the labour market six years before reaching the old-age pension age. The trends observed in most countries have not changed during and after the pandemic years. Chile and Ireland are two exceptions, as both countries were experiencing a drop in the total caseload of disability payments after the onset of the pandemic in 2020. However, the caseload in Ireland picked up again the year after and surpassed its 2020 levels by 2022, continuing its increasing trend. In Chile, the recipient caseload has also started to increase again in 2023.

It is important to highlight that the absence of significant changes in the caseloads of disability payments does not necessarily imply that there might not have been an increase in the number of people applying for disability payments. As mentioned above, according to Pasini and Zantomi (2013[59]), the unexpected absence of an increase in the disability payment caseload during the GFC was partly due to rigorous benefit regulations and assessment practices, while applications for disability payments had increased. Analysing applications for disability payments is beyond the scope of this chapter, due to the lack of data. However, it is also possible that the absence of an increase in the disability benefit caseload reflects strong structural changes to disability payment systems over the past decade rather than a change in individuals' likelihood to rely on social protection, including disability payments, during an economic crisis.

2.4. The pandemic affected different types of disability payments differently

As described above, many countries provide both contributory and non-contributory disability payments. Since these two types of benefits in most cases have hugely different eligibility requirements (with only the first type of payment requiring a work and contribution record), the COVID-19 pandemic may have had a different impact on the number of recipients of the two types of payments; for example, as it may have been easier for people to apply for non-contributory payments which have looser eligibility criteria.

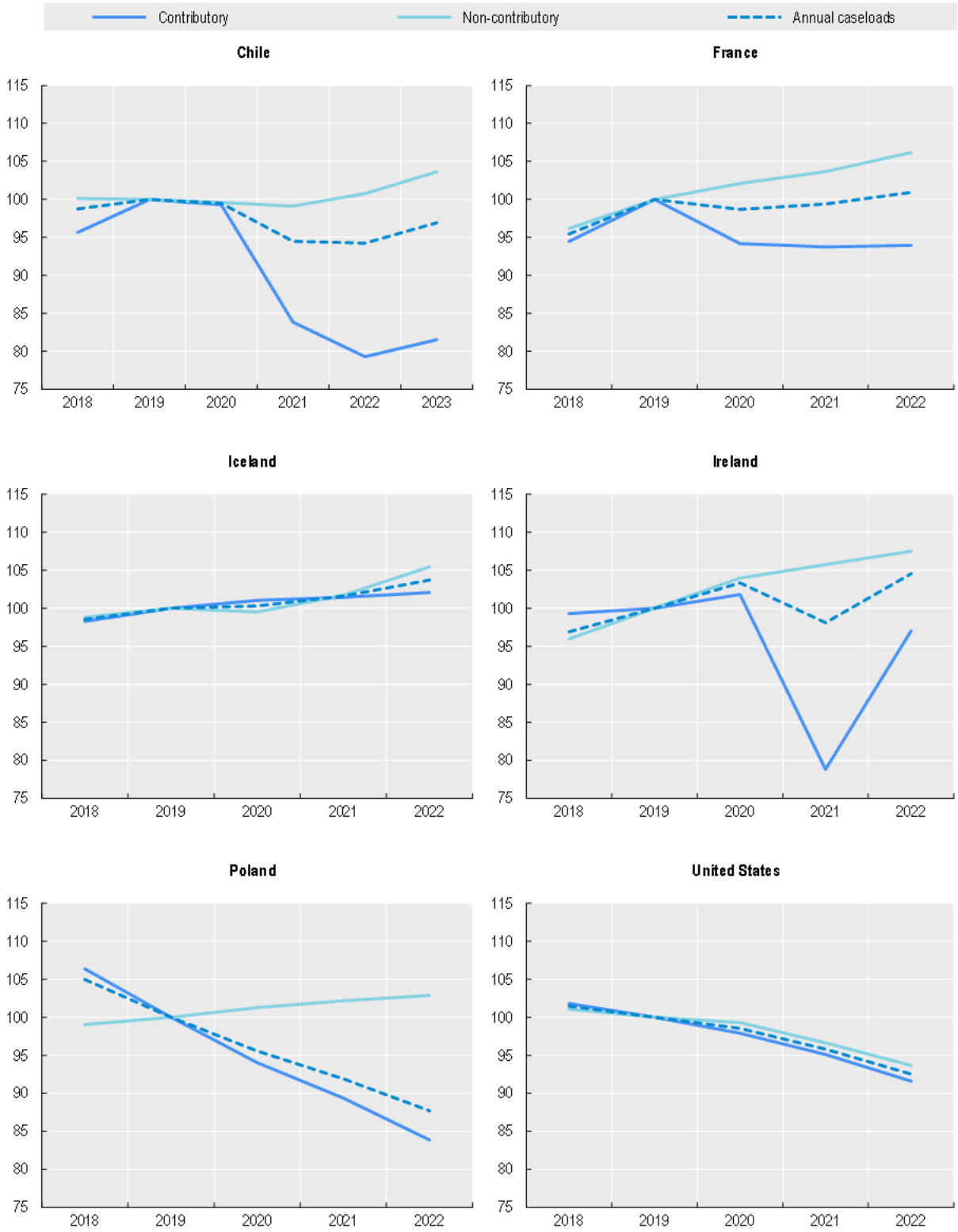
Indeed, countries for which such more granular data is available have often experienced hugely different trends in the caseloads of the two types of disability payments before and after the COVID-19 pandemic, as shown in Figure 2.3. In five of the six countries for which such data are available, the caseload of recipients of non-contributory disability benefits has increased right with the onset of the pandemic or a year later. In four of these countries, Chile, France, Ireland, and Poland, this contrasts with a declining and sometimes sharply declining caseload of recipients of contributory disability payments (although only temporarily in the case of Ireland). Only in Iceland and the United States, trends in the caseloads of the two programmes go largely hand in hand, with an increasing trend for both programmes in Iceland and a decreasing trend in the United States. Even in those two countries, however, the COVID-19 pandemic has had a slight upward impact for the non-contributory scheme relative to the contributory scheme – throughout the pandemic in the United States but only a year later in Iceland.

Overall, however, it appears that caseload trends for either of the two disability programmes were driven by long-term structural developments more than the COVID-19 pandemic. First, caseloads of contributory programmes were falling in several OECD countries already before the pandemic, as a consequence of recent structural reforms (e.g., in Poland) or a strong economy (e.g., in the United States). Second, many OECD countries, including, e.g., France, Ireland and Poland, have been seeing a longer-term gradual shift from contributory to non-contributory disability programmes, a shift that is related to developments in the labour market and which has not only continued during the COVID-19 pandemic but, in several cases, including Chile, France and Poland, has seen a further push – with workers apparently failing to satisfy the eligibility criteria for contributory programmes – implying that more and more people with disability in many countries are reliant on a benefit at a lower level. Nevertheless, the COVID-19 pandemic initially had a significant impact in some countries – like an unexpected decline in caseloads of recipients on contributory programmes in Chile and Ireland – while the longer-run implications remain to be seen. In addition, trends

in non-contributory disability payments may be more similar to trends in welfare payments, and the trends in one payment may influence the trends in the other as non-contributory disability payments and welfare payments are similar in nature and are accessed by similar groups. For an overview of how the COVID-19 pandemic affected welfare payments see Immervoll and Pasteiner (2025[1]).

Figure 2.3. Different types of disability payments followed different trends during the pandemic

Trend in the annual caseload by disability programme, index 2019=100, 2018-23



Note: See Box 2.2 for the types of benefits included for each country.
Source: OECD calculations based on national administrative data.

2.5. Long-term unemployment and sickness absence increased temporarily

Long-term unemployment and (long-term) sickness absence are common pathways into disability benefit receipt. A fuller understanding of the impact of the COVID-19 pandemic on disability benefit caseloads, therefore, requires a closer look at the pandemic's impact on long-term unemployment and sickness. Understanding the trends in these caseloads in the aftermath of the COVID-19 pandemic is also useful because the transition out of the labour force and into long-term inactivity payments, such as disability benefits, is often delayed by many years. A visible impact on these programmes acting as precursors to disability could, therefore, predict a longer-term but still invisible impact on disability payments.

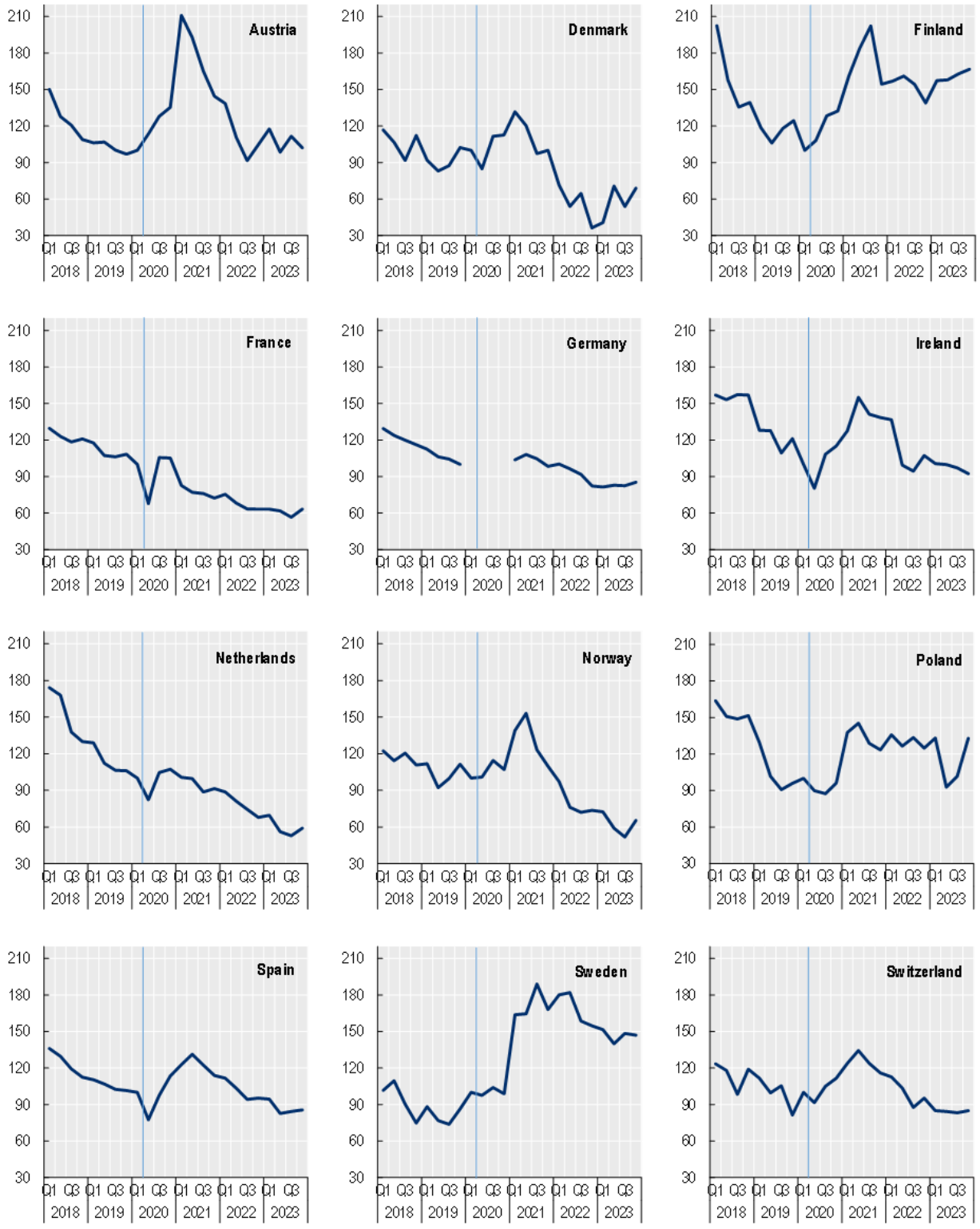
2.5.1. Long-term unemployment grew fast but only temporarily

The number of long-term unemployed increased significantly one year after the onset of the COVID-19 pandemic in most countries as shown in Figure 2.4. The increase was especially large in Austria and Finland where the number of long-term unemployed more than doubled between 2020 and 2021. France and the Netherlands deviate from the general trend as they experienced an initial drop in the number of long-term unemployed and only a small increase afterwards; moreover, the number never surpassed pre-pandemic levels. Other data suggest that employment rates in France and the Netherlands only saw a very small decrease in 2020 and picked up again quickly, surpassing their pre-pandemic levels already in 2021 (OECD, 2024[65]). This means that in those two countries relatively fewer people lost their jobs during the COVID-19 pandemic. This is explained to a significant degree by the particularly widespread use of Job Retention Schemes in both France and the Netherlands. During the first lockdowns in spring 2020, in both countries over one-third of the workforce were covered by the country's Job Retention Scheme – a (much) higher share than in other OECD countries (see Figure 2.6). In most OECD countries, at the very peak in the second quarter of 2020 the Job Retention Scheme covered 10-15% of the workforce and only in a few others the peak temporarily reached a level around or slightly above 25% of the workforce.

All other countries experienced an increase in the number of long-term unemployed to varying degrees. No data is available for Germany in 2020, but if there was an increase in 2020 it returned to pre-pandemic levels. In most OECD countries, the number of long-term unemployed peaked between the 1st and 3rd quarter of 2021, i.e., one year after the onset of the COVID-19 pandemic. This is in line with data not presented here which suggests that, typically, employment rates of OECD countries recovered to their pre-pandemic levels by 2022, even if some of the decrease in long-term unemployment could also be explained by workers moving into inactivity (payments), including especially disability benefits. After the peak in mid-2021, the number of long-term unemployed fell back to below pre-pandemic levels in most countries, except for Finland, Sweden, and Poland where it continued to be relatively high even at the end of 2023. In turn, for most OECD countries spillovers from long-term unemployment to disability benefit will have happened already by 2023 and, therefore, should be visible in the data already. Only in Finland, Sweden, and Poland, it is quite likely that affected workers are yet to move from long-term unemployment into disability, further increasing their disability benefit caseloads in the coming years.

Figure 2.4. The number of long-term unemployed increased one year into the COVID-19 pandemic

Trend in long-term unemployment (one year and over), index Q1 2020=100, Q1 2018-Q4 2023



Note: Due to the unavailability of data for 2020, for Germany the index is based on Q 4 2019=100.
Source: OECD calculations based on data from the European Union Labour Force Survey (EULFS).

2.5.2. Sickness absence changed less than should have been expected

Comparable to the trend in the number of long-term unemployed, a delayed increase in sickness absence rates is also observable in most OECD countries. Higher rates of sickness absence should have been expected as the COVID-19 pandemic was, first and foremost, a health crisis. Somewhat surprisingly, however, the increase in sickness absence did not happen in 2020, i.e., as an immediate response to the COVID-19 pandemic, but only (much) later.

In the beginning of the COVID-19 pandemic, allowing people to take sick leave seemed urgent, for both people already infected and those quarantined because of a risk of infection. Countries quickly recognised the importance of sickness absence management during a health crisis. Many countries introduced important, though in most cases temporary, reforms to sickness benefit policy in the first few months of the pandemic, as summarised in Box 2.3. The quick policy response regarding sickness absence was crucially important initially, but people quickly benefitted from other systems instead, as described below.

Countries which had a strong system of paid sick leave in place before the pandemic already had a clear advantage over countries like Korea and the United States, which quickly introduced hitherto non-existing statutory regulations. Analysis for the United States, one of only two OECD countries without country-wide statutory paid sick leave, showed that infections and deaths could have been prevented had the country been able to build on an existing mandatory system of paid sick leave. One study estimated that 60 000 deaths could have been prevented in the first year after the onset of the pandemic, until February 2021, had there been full health insurance coverage of the population (Campbell et al., 2022[66]).

Figure 2.5 shows that the increase in sickness absence rates, where an increase could be observed, typically peaked in the 1st quarter of 2022, i.e., almost two years after the onset of the pandemic, after which rates generally declined again, to close to pre-pandemic levels in most OECD countries. At their peak levels, sickness absence rates were about 20% higher, or less than that, in the Nordic countries, the Netherlands, and Poland, and about 40% or more in France, Ireland, Sweden, and Spain. Spain's trend deviated from that observed in other countries as the sickness absence rate increased immediately after the onset of the pandemic, initially by 40%, and continued to increase and remain high even towards the end of 2023.

Before the increase in sickness rates began, most countries first experienced a drop in sickness absence rates. This initial decline is likely to be explained by the increase in the use of teleworking as workers may have been less likely to fall ill if they were teleworking and isolating at home or workers who were teleworking may have been less likely to report being ill and more likely to continue working even if they were ill. Research suggests that workers with access to teleworking arrangements generally work more days when they are ill and have a lower probability of self-certified sickness absence compared with workers with no access to teleworking (Borge et al., 2023[67]; Ahmed et al., 2020[68]).

Box 2.3. Sickness benefit reforms during the early stages of the COVID-19 pandemic

During the COVID-19 pandemic, OECD countries quickly recognised that paid sick leave can play a role well beyond its core function to protect sick workers during a health pandemic and subsequent economic downturn. Access to paid sick leave helped i) mitigating the spread of the virus by allowing (potentially) infected workers to quarantine quickly, ii) safeguarding the jobs of vulnerable workers during the economic shock and, eventually, iii) managing an orderly de-confinement. Countries introduced several measures and policies to facilitate access to sick leave.

- **Strengthening support to employees suffering from COVID-19**: In the initial phases of the pandemic, around half of the OECD countries expanded or introduced paid sick leave specifically for workers infected with COVID-19. These emergency measures ensured about 70% of an eligible employee's wage during a four-week COVID-19 sickness spell on average across OECD countries and several countries erased reporting requirements as well.
- **Allowing employees to quarantine**: Paid sick leave has also been the prime instrument to organise support for employees in quarantine. All OECD countries provided income support to eligible employees in mandatory quarantine and countries almost universally used paid sick leave to deliver this support, replacing on average about 70% of an eligible employee's wage during a mandatory quarantine of two weeks. Some OECD countries had epidemic legislation predating the COVID-19 pandemic in place that automatically provides entitlements for quarantined employees.
- **Expanding access to paid sick leave**: Ensuring the wide availability of sick leave to large parts of the labour force in case of sickness and quarantine was crucial to ensure its effectiveness. Therefore, many countries have expanded access to sickness benefits for self-employed workers, who tend to be excluded from paid sick leave similarly to other non-standard workers in most countries, although support remained limited and time bound.
- **Lowering the burden of employers to finance sick pay**: In many OECD countries employers are required to cover an initial period of sick leave in the form of sick pay, with the aim to prevent sickness and promote return to work. However, during the pandemic, many OECD countries have temporarily taken over sick pay obligations in case of sickness due to COVID-19 and most pay for sick leave in case of quarantine as employer sick pay risked being counterproductive given that prevention required that workers stay at home rather than go to work.

The quick introduction of these measures likely helped mitigating some of the impact of the pandemic. However, many of these measures were temporary and not broadly extended.

Source: (OECD, 2020[36])

2.5.3. The quick expansion of job retention schemes affected all other schemes

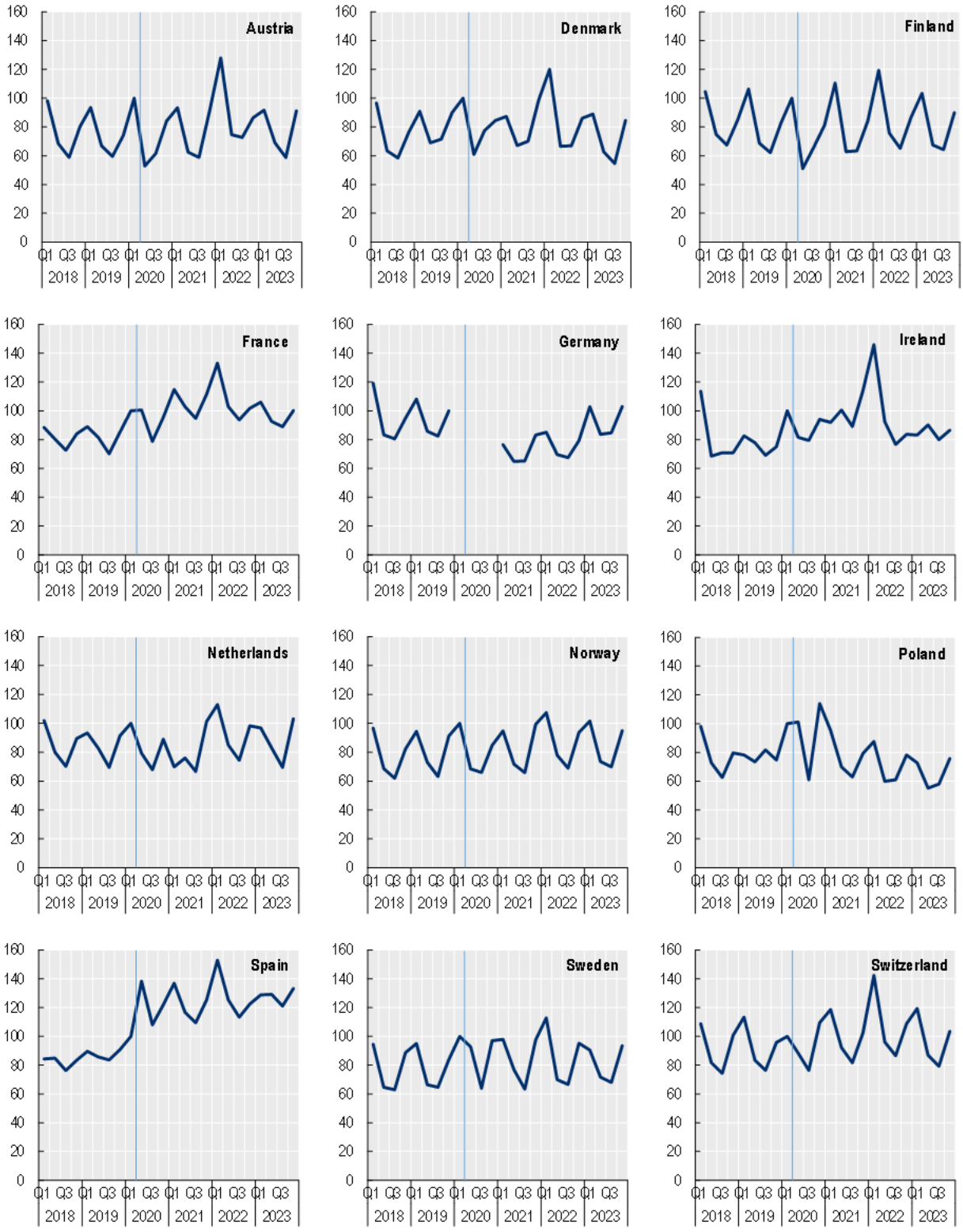
Similar to the post-pandemic trend in long-term unemployment, another potential explanation for the initial decline in sickness absence rates is the availability and widespread use of Job Retention Schemes as workers may not have needed to take any sick leave in the earlier phases of the COVID-19 pandemic if they were at home without working whilst continuing to receive their salary.

As shown in Figure 2.6 Job Retention Schemes were phased out gradually and at different speeds in different countries. By the end of 2021, the take-up of Job Retention Schemes was close to zero in most countries. This aligns with the observed peak in sickness absence rates in the first quarter of 2022 as there may have been a resurgence in the virus in early 2022 when Job Retention Schemes were no longer available at large scale in most countries, so workers may have had to take sick leave instead. A notable exception to the trend in the use of Job Retention Schemes is Ireland where take-up remained high and stood at 15% even at the end of 2021, despite a peak in sickness absence rates in the 1st quarter of 2022, similar to other countries. This suggests that the availability of Job Retention Schemes is not the only explanation behind the observed trends in sickness absence. Another explanation could be that teleworking became more restricted as the COVID-19 pandemic was coming to an end and people were no longer able to stay home teleworking when they were ill, hence, they had to take sick leave instead.

The delayed peak in sickness absence, in 2022 in most cases, raises a number of issues. First, this peak is related directly to the introduction, widespread use, and gradual phase-out of Job Retention Schemes. Second, the late peak may be related to a certain degree to the earlier peak in long-term unemployment, especially in countries in which unemployed people are able to claim sickness benefits, thereby delaying and extending their unemployment benefit entitlements. Third, while some of the observed excess sickness absence in 2022 might have translated into disability claims by the end of 2023 (i.e., the end of the time series used in this chapter) already, additional spillover from sick leave to disability benefits is likely to come because the disability claims process is often long and decisions on disability claims can take several years. This is true especially in countries like Austria, Denmark, Germany, and Switzerland where all rehabilitation potential must have been exhausted before a disability benefit can be granted. It is also true in countries which saw a sustained increase in sickness absence, such as Spain. On the contrary, countries in which sickness benefits can be received for several years, or without a time limit, may see a structural increase in sickness benefit caseloads that is not translating into higher disability benefit receipt.

Figure 2.5. Sickness absence tended to peak two years into the COVID-19 pandemic

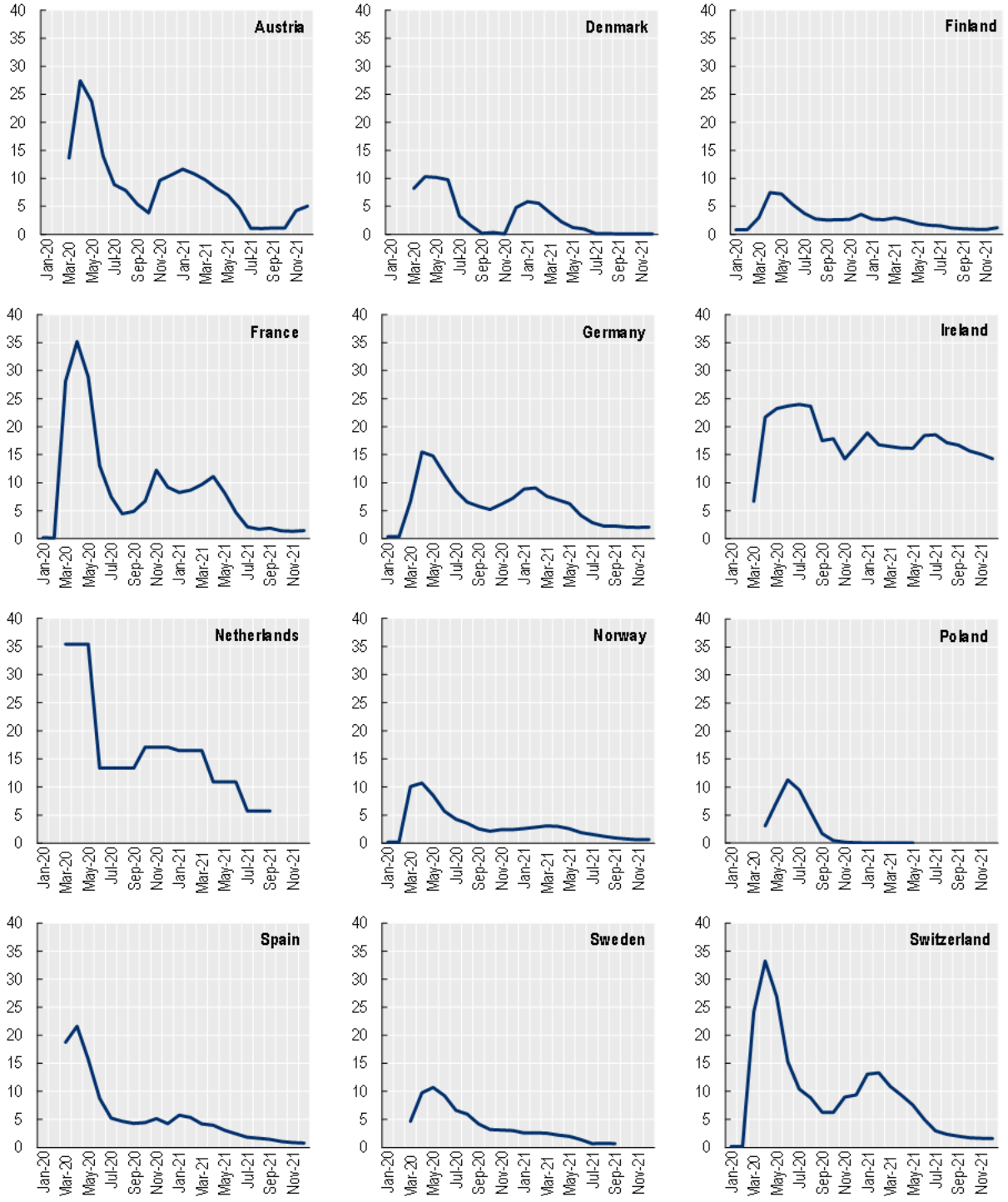
Trend in sickness absence incidence, index Q1 2020=100, Q1 2018-Q4 2023



Note: Due to the unavailability of data for 2020, for Germany the index is based on Q 4 2019=100.
Source: OECD calculations based on data from the European Union Labour Force Survey (EULFS).

Figure 2.6. Job retention schemes were critical initially but largely phased out by late-2021

Monthly take-up of job retention schemes, as a share of the salaried employment, January 2020 to December 2021



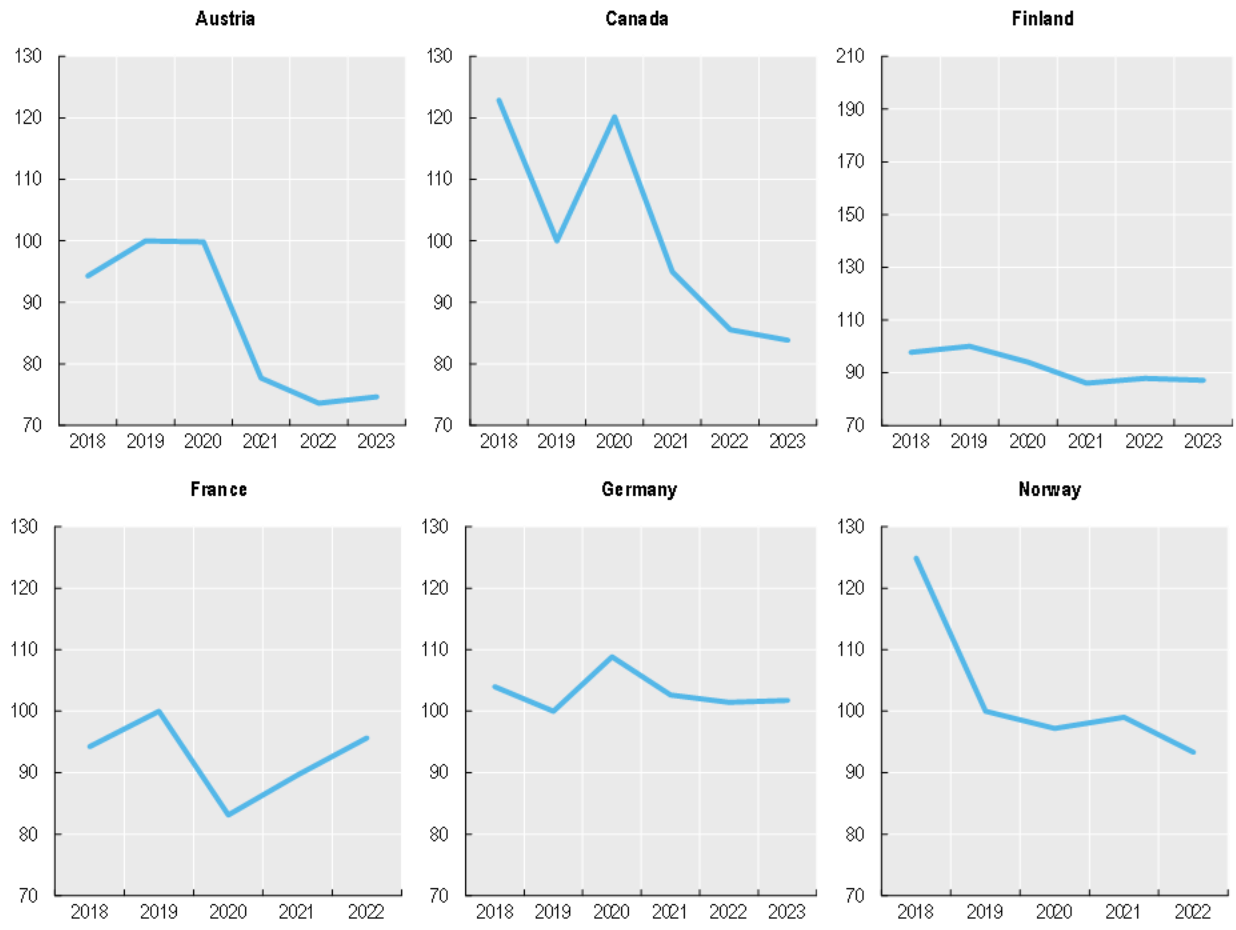
Source: OECD calculations based on national data.

2.6. The increase in long-term unemployment and sickness absence has not thus far translated into a measurable increase in new disability benefit claims

The previous sections discussed the trends in long-term unemployment and sickness absence and the likelihood of higher rates of long-term unemployment and sickness to translate into higher disability benefit caseloads at a later stage. The transition of workers from sick leave or long-term unemployment to disability benefit may not be visible in caseload data as a higher number of new disability benefit claims, i.e., a larger inflow of people into disability programmes, may be cancelled out by a higher outflow from the programme. Without data on outflows from disability programmes in the years following the pandemic, data which is not available to date, this issue can only be assessed indirectly, by inferring from data on new disability benefit claims. To assess the true impact of the COVID-19 pandemic on disability benefit programmes, this section looks at more granular data on disability benefit claims in the period 2020 to 2023. As shown in Figure 2.7, the COVID-19 pandemic did not have a large impact on the longer-term trend in the number of new disability payment claims in most of the seven countries with available data.

Figure 2.7. The pandemic caused a small and temporary change in new disability benefit claims

Annual number of new disability benefit claims, index 2019=100, 2018-23



Note: See Box 2.2 for the types of benefits included for each country. For France, this chart uses data for the contributory disability pension only.
Source: OECD calculations based on national administrative data.

However, some of the countries experienced a temporary change in the number of new claims following the onset of the pandemic. Canada and Germany saw an increase in disability benefit claims of about 20% and 10%, respectively, between 2019 and 2020. It is possible that workers in these countries were quick to turn to disability benefits because of the crisis. This is especially plausible in Canada where sickness insurance (which is closely tied to unemployment insurance) is much less generous than in most European countries, with sickness benefits payable for only 14 weeks. This implies that effects on disability payments will be visible faster, as people are seeking social protection. Put differently, in Canada disability benefits probably play a larger role in cushioning the impact of a crisis; especially a health-driven crisis.

In the other countries with available data, there was either virtually no change in new disability benefit claims between 2019 and 2020 (Austria and Norway) or a small decline (Finland and France). In Denmark, the number of new claims sharply increased before and after the onset of the pandemic which is explained by the introduction of the new senior pension in 2020 as mentioned above. Without the inclusion of the senior pension, post-pandemic trends in Denmark align with the trend in other countries.

After 2020, the number of new disability benefit claims declined to, and often below, pre-pandemic levels in most countries, except for Denmark and France. France experienced an initial drop in 2020, followed by a continuous increase in the number of new claims in the following two years which could suggest that, contrary to other countries, some workers may have moved onto disability benefits as the crisis continued. Figure 2.4 already showed that long-term unemployment in France did not increase over pre-pandemic levels after the onset of the pandemic and kept declining afterwards which could potentially be explained by workers in France being more likely to move onto disability benefits. Otherwise, these charts do not show a significant spillover from long-term unemployment or sickness absence to disability benefits over the first few years after the onset of the COVID-19 pandemic. This is further confirmed by monthly data on new disability benefit claims in a few countries, as shown in Figure 2.8.

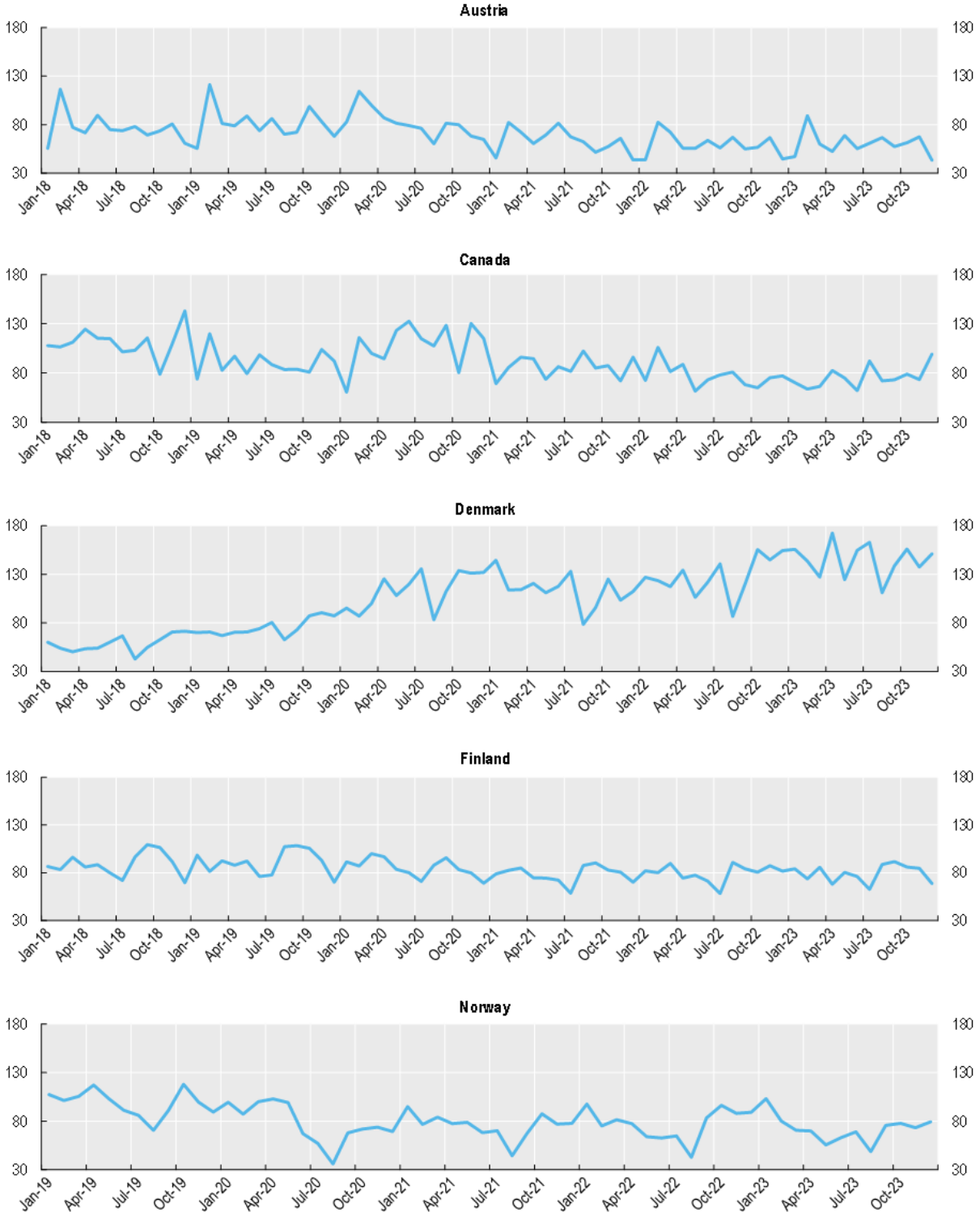
Although it is difficult to determine how many new claims had been induced by the pandemic itself, data for Germany provide some insight on this question. In 2020 and 2021, respectively, only 0.003% and 0.05% of all new disability benefit claims were attributable to COVID-19 directly. By 2022 and 2023, this percentage has increased to 0.66% and 1.6% of all new claims, respectively, with almost all of these claims attributable to Long-COVID (or Post-COVID, as it is called in Germany). Thus, while the numbers are increasing fast, from five cases in 2020 to 2636 cases in 2023, their share is likely to remain small. The impact of the COVID-19 pandemic on current and future disability claims and caseloads is, therefore, predominantly indirect, via changed labour market dynamics.

In most countries it takes several months to process and accept claims for disability benefits, for example, in Canada it can take up to four months and in Finland the expected case processing time is six months (Government of Canada, 2024[69]; NAV, 2024[70]). There may also be differences in the time of processing different cases within countries, for example, because of regional differences within a country or delays due to missing medical files or other documents. Therefore, it is difficult to know when an application would be accepted and show up in the data. What further adds to the complexity is that the COVID-19 pandemic may have had an impact on processing times as well, for example, because it was not possible to carry out work-capacity assessments in person, it is possible that in some countries the process was accelerated whereas in others it could have been slower than usual. It is likely that if someone applied for a disability payment soon after the onset of the pandemic, it would only show up in the data several months later; however, the exact delay would depend on a case-by-case basis.

Monthly data on newly accepted disability benefit claims show clear seasonal trends in all countries, similar to the seasonality in data on sickness absence (Figure 2.8). There is a consistent increase in most countries in January of each year probably explained by cases being picked up and accepted after the winter holidays. In addition, in the Nordic countries there is always a drop in new disability benefit claims in July, most likely due to the summer vacation.

Figure 2.8. Seasonal variation in disability benefit claims is larger than the impact of the pandemic

Monthly number of new disability benefit claims, index March 2020=100, January 2018-December 2023



Note: See Box 2.2 for the types of benefits included for each country.
Source: OECD calculations based on national administrative data.

In Austria, Finland and Norway, the number of new disability benefit claims slightly decreased after the onset of the pandemic in 2020 and stayed relatively stable at these lower levels mostly in line with yearly data presented above. The trend in monthly inflows is mostly the same each year before and after the pandemic, in both countries, suggesting that the economic crisis did not have a significant impact on the number of new claims. In Austria, the only small difference in trends is that in 2020 there was a gradual decreasing trend throughout the year, only with increases in January and before October, whereas other years have seen small cyclical increases over the year more frequently. In Norway, the yearly drop in July was more pronounced in 2020 than in other years.

In Canada and Denmark, the number of new disability benefit claims increased after the onset of the pandemic in 2020. The increase in Canada was especially pronounced after April 2020 and the number stayed high throughout the year, however, after January 2021 it reached pre-pandemic levels again. In contrast, in Denmark the number of new benefit claims increased steadily after the beginning of 2020, but this was the result of a structural reform unrelated to the COVID-19 pandemic, as mentioned above.

The minimal direct impact of COVID-19 on disability benefit claims also has another reason. In response to the pandemic, in order to secure adequate social protection quickly, many OECD countries have chosen to recognise COVID-19 as a work injury or an occupational disease (OECD, 2022[3]). This generally gives affected workers access to longer-term compensation of lost earnings ("workers' compensation"), better coverage of medical expenses, and better return-to-work support. About two-thirds of all OECD countries now consider COVID-19 to be an occupational disease, with one half of these countries doing so for all workers and the other half only for specific groups of workers. In the latter case, the main economic sectors considered as risk groups for COVID-19 typically include health care, residential care, and social work. In Italy and Slovenia, contraction of COVID-19 at work entitles workers to compensation under the claim of a work injury. In Germany, infections with COVID-19 can be recognised as a work injury for all groups of workers, with rather tight regulations, and as an occupational disease for workers working in health services, welfare services and laboratories. A few other countries make a similar distinction.

2.7. Conclusions

The urgency of dealing with the COVID-19 pandemic has almost disappeared by 2025 as there are only few new cases, which also seem to have limited significance for health systems and the economy. The number of people affected by Long COVID, despite a continuous increase over the years, also does not seem large enough to affect healthcare and social protection on a system-wide level.

Overall, the COVID-19 pandemic to date did not have a significant impact on permanent labour market exit, approximated by trends in disability benefit caseloads and new disability benefit claims. Longer-term trends in disability benefit caseloads continued throughout the COVID-19 pandemic in most countries. The caseload of non-contributory disability programmes tended to increase after the onset of the pandemic whereas contributory programmes experienced an unchanged trend (a decline in many cases) in most countries. However, these changes can be explained predominantly by long-term structural trends and are largely unrelated to the COVID-19 pandemic.

Long-term unemployment sharply increased over the COVID-19 pandemic. The number of people who are long-term unemployed peaked a year after the onset of the pandemic and then gradually declined back to pre-pandemic levels in most countries. Long-term unemployment remains high in some countries suggesting that some spillover to disability benefits is yet to come. As opposed to this, sickness absence rates experienced a delayed increase. Sickness absence peaked about two years after the onset of the pandemic and declined to close to pre-pandemic levels by the end of 2023. Before the increase in sickness, most countries experienced a drop in sickness absence levels first, which can be explained by the increased use of teleworking and the widespread expansion of job retention schemes. In turn, the increase in sickness absence two years into the pandemic was caused by the phasing out of these generous job

retention schemes. Overall, it seems like teleworking and job retention schemes have absorbed workers, impeding an increase in sickness absence and, thereby, also disability benefit claims.

However, there are exceptions to these overall findings and a final judgement may still be premature, even five years after the onset of the pandemic as it typically takes several years for economic and health crises to unfold their full impact on permanent labour market exit and disability. For instance, long-term unemployment continues to be high in Finland, Sweden, and Poland and sickness absence is still high in Spain; hence, it is possible that some workers will eventually move onto disability benefits in the coming years and, thereby, be lost to the labour market permanently. Fully understanding the impact of the pandemic on labour market exit as proxied by disability claims may require further in-depth analysis with better and more granular data by:

- **Type of disability and age**. Mental health conditions tend to drive increasing disability benefit recipiency rates especially of young people and research suggests that the COVID-19 pandemic has had a negative impact on mental health (OECD, 2021[71]) which could mean that in the coming years a larger number of disability benefit claims will be induced by mental health issues. In addition unemployment rates of young people also suffered a sharper increase during the COVID-19 pandemic (OECD, 2021[72]), making them more vulnerable than other workers for applying for disability payments.
- **Gender.** During the COVID-19 pandemic women made up a large part of the healthcare workforce exposing them to a greater risk of infection and they were also more likely than men to work fewer hours or leave the workforce to be able to attend to unpaid care obligations such as childcare due to school closures (OECD, 2021[73]; OECD, 2021[74]). Further research could evaluate whether, in turn, women were more likely to apply for disability benefits during or after the pandemic.

In addition, future research could analyse sectoral differences in sickness absence and how this may have impacted disability benefit applications and claims. Some research suggests that there was variation in sickness absence rates between different sectors in Norway (Statens arbeidsmiljøinstitutt, 2021[60]), which could be explained by a wider use of teleworking or a higher take-up of Job Retention Schemes. In addition, data on rates of benefit rejection would be needed to assess whether the limited impact of the pandemic on disability benefit caseloads is caused by a higher share of rejected applications or the consequence of a limited impact of the pandemic on disability benefit applications, or instead the result of structural reforms in the past which dominate the trends over the past few years.

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