

**European Employment Observatory (EEO)
Short Time Working Arrangements Workshop
13 January 2010, Brussels, Belgium**



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Occasional workshops
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WORKSHOP REPORT

Introduction

Short-term working arrangements (STWAs, also referred to as 'partial unemployment' or 'temporary lay-offs') have become one of the most widespread responses of the employment policies in the EU Member States to counteract the effects of the economic crisis since September 2008. Some countries have adapted and/or extended already existing STWA instruments (e.g. Germany, Austria, Belgium); some Member States have introduced altogether new STWA provisions (e.g. Bulgaria, Hungary, Romania, Slovenia) and some Member States continue to have no state-sponsored STWAs (e.g. the UK).¹ There is growing evidence that some STWAs are already being phased out, and companies are exiting the schemes, but important policy and analytical questions about the STWAs remain to be addressed.

Given the importance of the STWAs during the current economic crisis, a workshop was organised by the European Employment Observatory (EEO) (coordinated by GHK and CERGE-EI) to discuss and reflect on the nature, relevance, effectiveness and efficiency of the STWAs and to discuss the lessons to be learnt for any potential future application of such measures.

The workshop was aimed at officials of the European Commission and was stimulated by presentations from two EEO thematic experts (Ton Wilthagen, Tilburg University, and Kurt Vogler-Ludwig, Economix Research and Consulting). The two presentations are available as attachments to this report.

Workshop discussions

The use of STWAs

The STWAs are used by companies in times of diminishing demand to avoid dismissal of workers. Working time is reduced, resulting in lower personnel costs, whilst ensuring the availability of workers and their skills when the economic conditions become more favourable. STWAs can be financially supported by public budgets (in the form of wage subsidies and/or support for social security contributions, mostly from the unemployment

¹ For a review of the short time working, see Eurofound (2009), *Tackling the recession: Employment-related public initiatives in the EU Member States and Norway*, available at <http://www.eurofound.europa.eu/publications/htmlfiles/ef0947.htm>

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insurance funds), or they can be implemented by individual companies without financial aids from the state.

The design and application of STWAs differ significantly between the Member States, mainly in relation to the following:

- Scope of the application (all/some categories of employees),
- Size of the participation (ranging from virtually none to 4-5% of the workforce),
- Nature of the financial assistance from the taxpayer (wage support/social security payment support/both elements combined),
- Size of company supported (SMEs/large companies/all companies),
- Duration of the financial support from the taxpayer,
- Extent of the conditionality attached to the financial support from the taxpayer (e.g. requirements not to have any dismissals; provide training to employees on STWAs).

It has been observed that in the current economic crisis, the drop in GDP across the EU has been very significant, but the impacts on employment rates have been less strong. Reductions in the number of working hours and increased part-time employment in most Member States, supported by the STWAs, is one of the reasons behind this relatively cushioned impact of the global economic crisis on employment in the EU.

Increased use of the STWAs in the economic crisis also points to the shift in focus of the different elements of the flexicurity approach. Before the crisis, most of the emphasis in the flexicurity approach was on the combinations of external flexibility and employment/income security. Increasing use of the STWAs points to the shifting focus on internal numerical flexibility and job security.

Although detailed sectoral data on the application of STWAs by branch of economic activity are not available at the pan-European level, available evidence suggests that the STWAs are primarily used in the industrial and manufacturing sectors (rather than in the services sectors). It is also emerging that companies which are most sensitive to the cyclical variations of the business cycle and to the global economy tend to make more use of STWAs.

Germany has been a country in which the STWAs have been applied since the 1950s and where the STWAs have been especially popular since 2008. Between September 2008 and May 2009, the number of short-time workers increased from practically zero to 1.5 million. Working time in participating companies was reduced by an average of 32% and 336 000 FTE workers have been placed in STWAs in September 2009. Only 1.8% of the workers participating in STWA have been placed on training measures, which points to the challenges of organising appropriate training at short notice, for the relatively short and limited duration of a STWA. The lack of training capacity from the training providers is also an issue.

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Critical assessment of STWAs

The advantages and disadvantages of using public budgets to support STWAs are well-known and can be summarised as follows.

The following advantages are identified:

- Workers are retained in the company and are ready to return to work as soon as the orders are coming in, thus saving the costs of recruitment and ensuring continuing productivity,
- With the presumption of a long lasting decrease of employment, STWAs avoid mass dismissals and all the associated costs (financial and non-financial) to workers, companies and the public budgets. They stabilise existing employment and maintain existing jobs. They ensure that the system of work organisation remains stable, thus avoiding any costs and loss in productivity associated with the re-organisation of work.
- A drop in working hours is potentially distributed more evenly among a large group of workers, instead of concentrated on a few in the absence of STWAs.
- Without STWAs, otherwise viable and competitive businesses might go bankrupt, given the context of the current economic crisis originating in the financial services sector.

The following disadvantages are identified:

- STWAs are a cyclical instrument and their effectiveness depends strongly on the expectations of rapid recovery. If such expectations are wrong and the crisis lasts much longer, companies will implement lay-offs, despite the application of STWAs.
- STWAs may only delay the necessary structural adjustments in the economy, help to maintain ultimately unviable businesses and sectors and thus only postpone the necessary emergence of mass dismissals at a later stage.
- STWAs are not effective and efficient labour market policy instruments because they have significant deadweight effects (i.e. subsidise jobs which would have been retained in the absence of the STWA support); they undermine competition by providing subsidies to some (and not other) firms;² and they are vulnerable to fraudulent practices (e.g. work is undertaken informally and workers in practice do not reduce the working hours).
- STWAs are only effective for those people already at work; they do not address the needs of unemployed people.
- STWAs externalise the private sector's costs of adjustment to the taxpayer and thus contribute significantly to increasing budgetary deficits. In Germany, the

² For example, data from Germany shows that the use of STWAs is decreasing with the size of the firm, thus they do not reach the SMEs.

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monthly cost of the STWAs to the public budgets has been around EUR 500 million.

The effectiveness and efficiency of using extensive STWAs in the current crisis are too early to assess, as the evidence and evaluations of their application are not yet available. Evaluations are planned and/or undertaken in Germany and the Netherlands, but there is no foreseen pan-European study to compare the experiences of STWAs in different Member States.

The workshop discussed the question whether 336 000 FTE STWA jobs in Germany can be considered as saved during 2009 as a consequence of direct application of STWAs.

Past experience provides some indications as to potential success of STWAs:

- Data for 2002-2003 from Germany showed that two-thirds of all companies participating in the scheme maintained the same level of employment during the application of STWAs, and 7% of companies increased employment by hiring new employees.³
- Evidence from the application of STWAs in Canada⁴ shows that the number of lay-offs avoided is varied and dependent on the business cycle; but such numbers are not insignificant.

For STWAs to be successful, a number of factors need to be considered:

- The duration of the STWA schemes – the duration of support for (as an example) 24 months is not reflecting the short-term nature of the STWA measures and can be considered as delaying the necessary change and restructuring in companies.
- The active or passive nature of the STWA schemes – decisions to include the condition of training into the STWA scheme need to reflect the low use of training in the current schemes and the appropriateness of training for (what is intended to be) a very short term measure.
- The inclusiveness of the STWA schemes – the schemes are not currently reaching people who are outside of the labour market (i.e. people not employed in the companies applying the STWA measures).
- The targeting of the STWA schemes – decisions to target the STWAs to selected companies need to take into account the criteria applied in the selection of companies.

The workshop thus provided a useful platform to discuss the various aspects, main issues and lessons learnt from the increasing application of the STWAs across the EU.

The two presentations delivered in the workshop are attached to this report. They are also available on the EEO website, where more information about other EEO activities can also be found: <http://www.eu-employment-observatory.net>

³ Eurofound (2009), *Tackling the recession: Employment-related public initiatives in the EU Member States and Norway*, available at <http://www.eurofound.europa.eu/publications/htmlfiles/ef0947.htm>

⁴ ILO Travail, Policy Brief No 1, June 2009.