

# Flexicurity in the crisis: the case of short-time working arrangements

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## Flexicurity and the crisis

- One of the questions about flexicurity has been – from the start - on the significance of the labour market/business cycle:

is flexicurity only feasible in sound economic and labour market conditions?

Is flexicurity a sunny weather concept?





How about flexicurity in bad weather?

The crisis, however sad and damaging, is an informative (“natural”) experiment from an academic perspective

## **This presentation**

- 1 Modalities of flexibility and security in the crisis
- 2 Particular features of this crisis – overall reduction of working hours
- 3 Varieties of short-time working arrangements
- 4 Pros and cons of STWAs – flexicurity or not?

## A particular fact of *this* crisis

- In many EU Member States the elasticity of employment to the fall in GDP has been much less in this recession than in the recessions of the early 80s and early 90s (the difference is very marked - output has fallen much more in this recession than in either of the last two, but employment has fallen much less).  
Source: Eurostat Statistics in focus 79/2009
- Reduced working hours, either or not facilitated by short-time working arrangements are one of the reasons for this

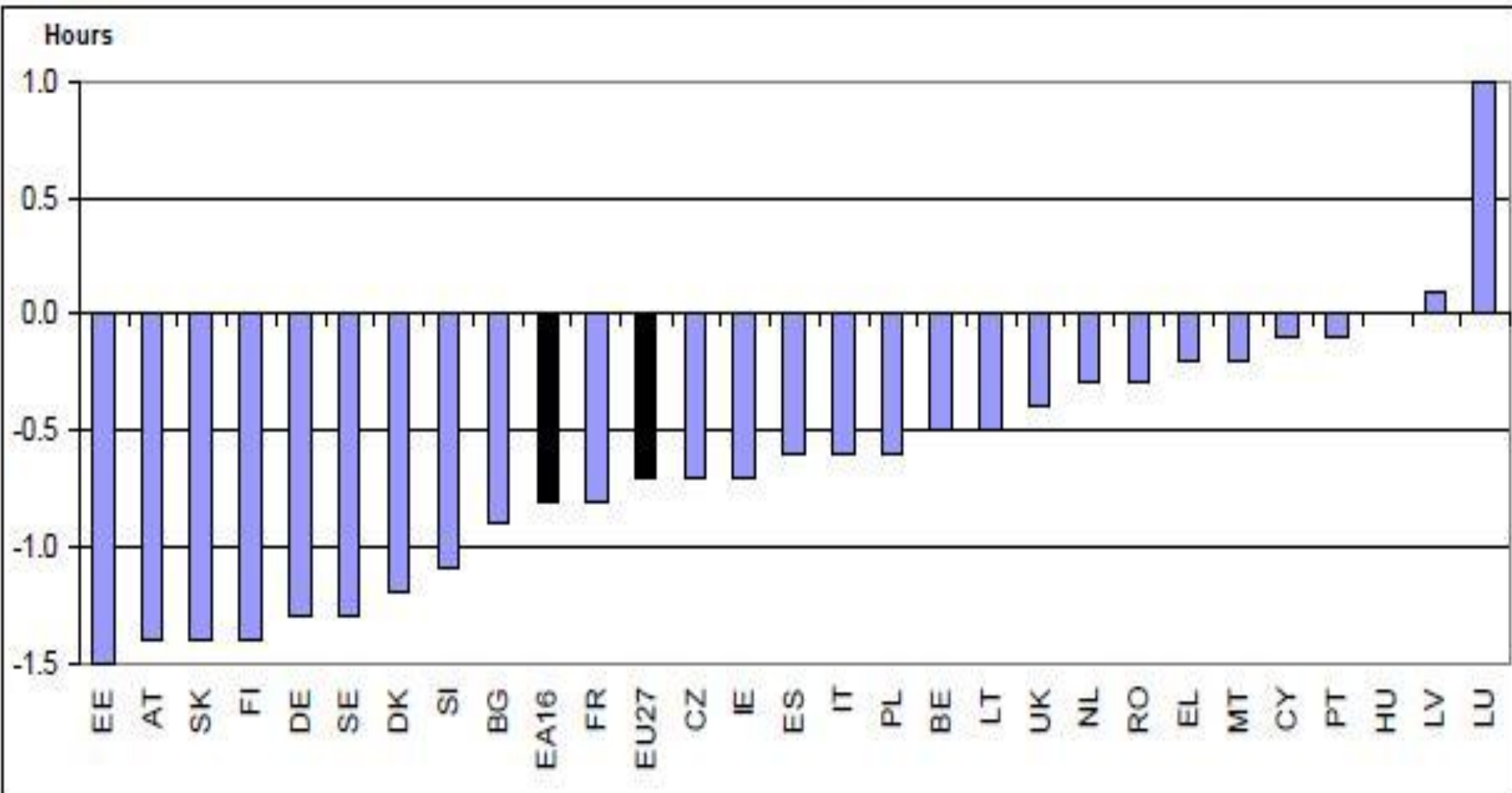
## The crisis and flexibility and security modalities

<b>flexibility</b>	<b>security</b>	Job security	Employment security	Income (social) security	Combination security (work and care)
External - numerical (hiring and firing)		Temporary placement other firm	Mobility centres; Worker pools	UB as wage subsidy; retirement; lower tax	Mortgage support
Internal - numerical (working-time flexibility)		Shorter working hours; WT accounts	Multi-employership	Part-time UB; reduced working hours	Take up of leave schemes holidays, extra days off
Functional (employability)		Job rotation	Internships other firm; Retraining	Retraining for new job	Accreditation of prior learning
Variable pay		Adjustment of wages	Supplement wage new job	Extra UB; private savings	Increased family allowance

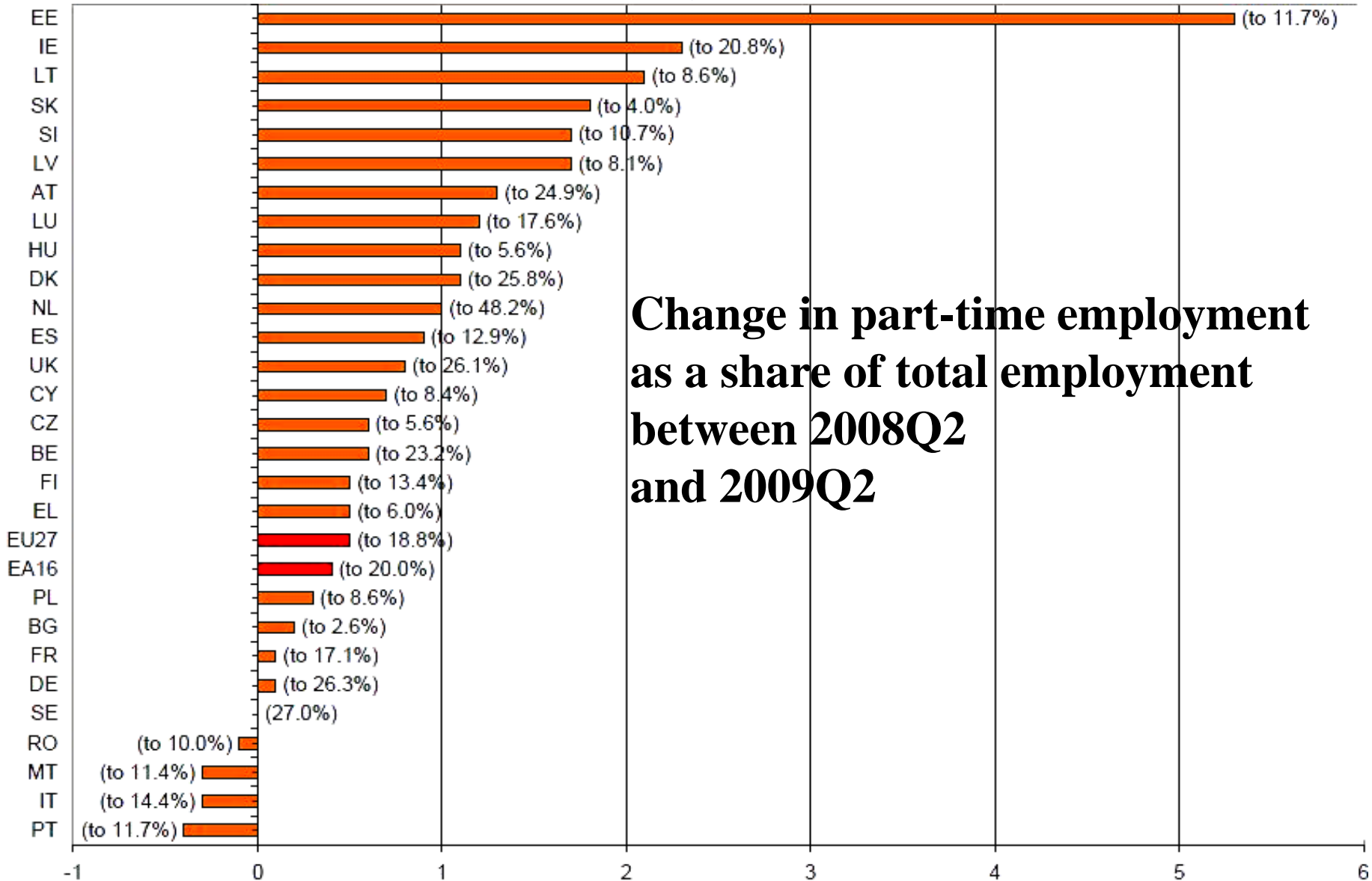
## Observation

- Europeans have started to work less hours and part-time jobs have grown almost everywhere during the crisis

### Change in the average actual hours worked per week by full-time employed



Source: Eurostat November 2009



Source: Eurostat November 2009

## **About the SWTAs: differences across the EU**

- Many EU Member States already have – for a long time – arrangements for shorter working hours, facilitated by (partial) unemployment entitlements and stick to these schemes (Denmark, limited use)
- Some countries have adjusted or renewed the arrangements in view of the crisis (e.g. Belgium, Netherlands, Germany)
- Other countries have introduced arrangements for the first time (e.g. Hungary, Portugal, Slovenia, Slovakia)
- In the UK the arrangements were abolished in the 1970s – also because of the assumption that they were believed to be in violation of EC competition rules – an argument often brought up

## About the SWTAs: differences across the EU (2)

- Percentage of working population in official SWTA's varies from 0 percent (UK) to about 2-3 percent (Denmark, Netherlands) to 4-5 percent (Germany, France, Italy, Belgium), thus from 30,000 workers to almost 1,5 million workers  
(source: Research voor Beleid, 2009 & consultation national experts and statistics)
- But even where arrangements are absent workers work less hours and individual companies have developed their own schemes

## Example: KPMG in the UK

- About 85% of KPMG's 11,000 staff have volunteered to move to a four-day week or take a partially-paid career break if such steps become necessary to prevent redundancies during the recession.
- The voluntary career breaks will last between four and 12 weeks on 30% of pay. Staff were asked to submit a voluntary application for these arrangements in January 2009.
- The arrangement is referred to as 'flexible futures' (source: *Employee Benefits*)

## **About the SWTAs: differences across the EU (3)**

- Some countries have designed more activating schemes than others, e.g. Netherlands obligation for employers to train workers involved and relatively short time span for the schemes (returning assessment by government whether prolongation is considered necessary and feasible). Other examples: Hungary, Czech Republic, Austria.
- In some countries permanent contract is not required for STWA, e.g. France and Germany
- Design and use of SWTA's are determined by view on pros and cons from the side of the government, plus political pressures

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## **Example: Dutch scheme of ‘part-time unemployment benefit’**

- First version introduced 1 April 2009.
- Employers are can reduce the number of working hours by maximum 50%, during which period employees receive unemployment benefit for the hours that they are not working.
- Scheme initially applies for a maximum of 3 months but can be extended twice, for 6 months at the maximum each time.
- Workers involved should be offered training during the periods that they are not working

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## **Example: Dutch scheme of ‘part-time unemployment benefit’ (2)**

- If an employee loses his or her job in the period of ‘part-time’ unemployment or in the 3 months thereafter, the employer will be obliged to reimburse half of the unemployment benefit that was paid while the employee was partially-employed.
- The maximum budget for the scheme was initially set at 375 million euros and extended to 950 million
- So far the scheme has been prolonged twice (until 1 april 2010) and further restricted
- Some companies currently leaving the schemes

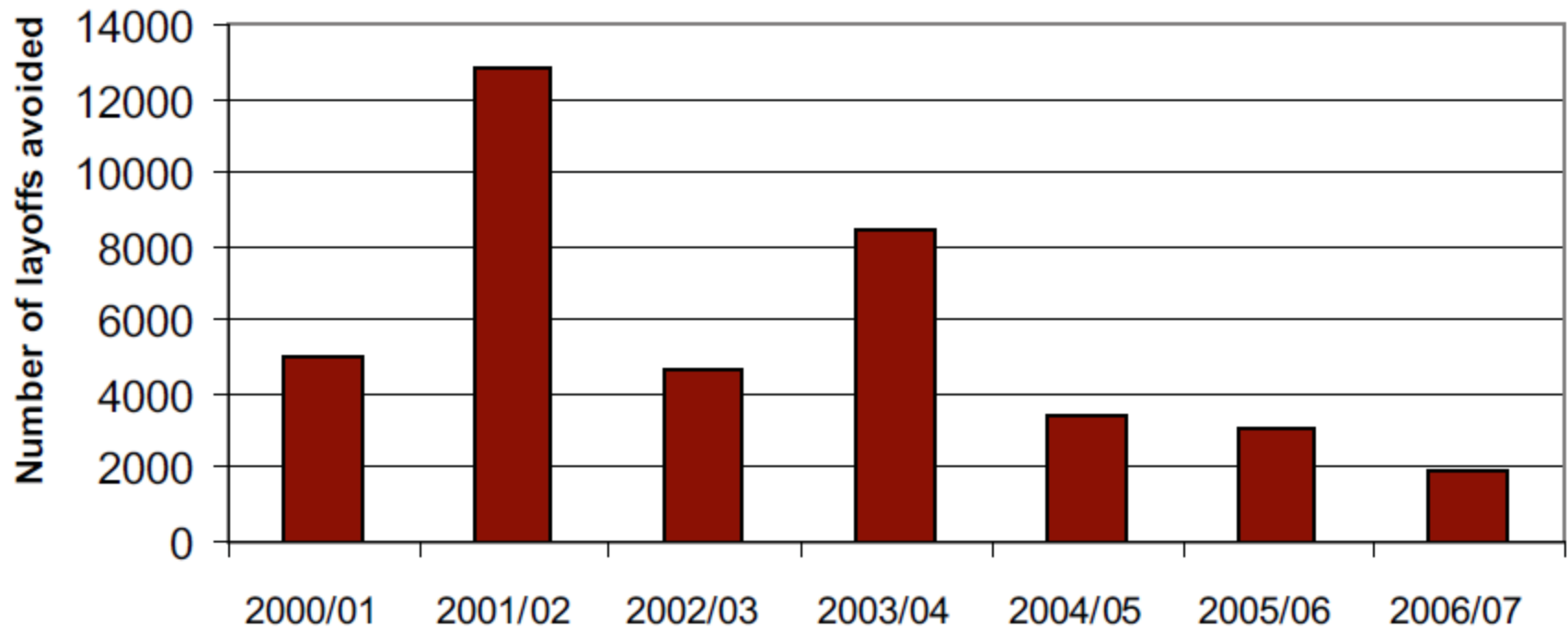
## Pros of STWAs

- Workers can be retained, especially productive, craft workers that are essential once the business goes up again
- Without STWA's, countries may lose their real assets, 'crown jewels' sectors of industry and thus undermine their economic future
- Mass dismissal is costly, causes bad publicity for the company, survivor's syndrome among remaining workforce and creates high pressure on unemployment benefit schemes and social tension in general

## Cons of STWAs

- Risk that helping to retain jobs in short-term can a) lead to maintaining unviable and uneconomic businesses b) introducing market distortions by unfair subsidies to firms c) dead weight effects d) fraud (informal work; workers do not reduce hours in practice)
- Structural changes in the economy and labour market are delayed and mass unemployment will emerge after all
- Mobility among workers to companies/sectors with job vacancies (still there) is discouraged – sitting ducks
- STWAs might only work for the insiders in the labour market; might be at the expense of measures for outsiders
- Costs are externalized to UB systems/ the government, which will ultimately lead to massive budget cuts (new crisis)

## Temporary layoffs avoided through work sharing in Canada



Source: HRSCD, 2007, p. 1.

Taken from ILO TRAVAIL Policy Brief No.1, June 2009

Research by the German Institute for Employment Research on the *Kurzarbeit scheme* — *currently the largest* work sharing programme in the world — indicates that during 2002-03 two-thirds (67.1 per cent) of all companies participating in the scheme maintained the same level of employment in their establishment, and 7 per cent actually increased employment by hiring new employees (EUROFOUND, 2009, p. 4).

## To conclude with (1)

- Not much specific evidence yet on the workings of STWAs; evaluations are scarce (exceptions: Netherlands and Germany)
- Trade unions but also employers are very much in favour of the arrangements
- Risk of dead weight effects are real but hard to judge
- Job-saving effect of STWAs probably not insignificant, at least for the time being, but not documented and too early to be assessed properly
- STWAs can be considered ‘internal flexicurity’, combination of 2 components: contractual flexibility + modern social security, but only under certain conditions
- Changing face of flexicurity? Sunny weather concept or not?

## To conclude with (2)

For STWA's to be labelled flexicurity they should

- be targeted at the companies that really need them
- be temporary not long-term or structural
- be actively designed, by providing (re)training to workers
- Not be limited exclusively to outsiders/core workers in the labour market
  
- STWA's can not be the full story of flexicurity: mobility, aimed at optimal allocation and productivity of workforces remains essential

## Thesis statement for discussion

- A gap exists within the array of labour market instruments between on the one hand STWA's and on the other traditional mass dismissal

This gap may be filled by stimulating schemes of secondment that might include 'return to the former employer' (i.e. fall back) options. Governments and training funds might supply subsidies to cover training costs for the new job/new employer. The former employer (who receives a reimbursement from the new employer) might be exempted from paying severance pay should the secondment/transition fail and lay-off becomes inevitable.

Such a scheme might take away the 'fear of transitions'