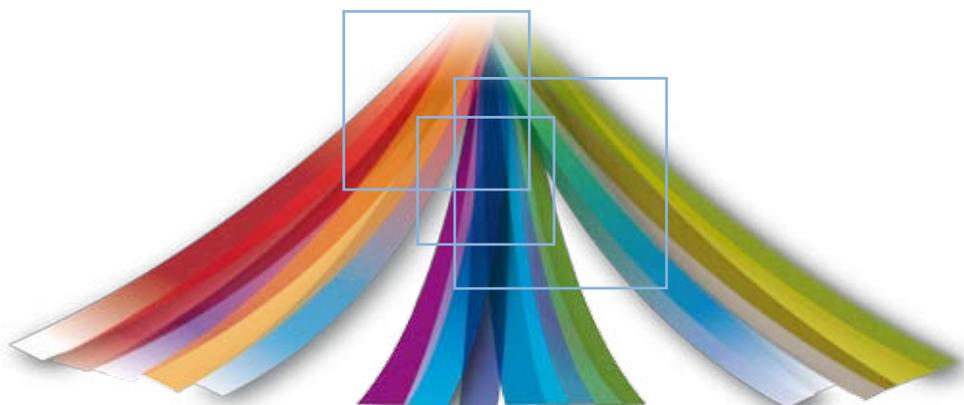


# GLOBAL JOBS PACT POLICY BRIEFS



International  
Labour  
Organization



## STRATEGIES TO LIMIT OR AVOID JOB LOSSES IN ENTERPRISES

### 1. Executive summary

The crisis has affected enterprises of all sizes and across a range of sectors and types of organizations, although there is some evidence to suggest that cooperatives and employee-owned enterprises have proven somewhat resilient to the crisis and, therefore, have been well placed to limit or avoid job losses. This implies that there are likely to be benefits to developing policies to specifically encourage these types of enterprises.<sup>1</sup>

Roughly three-quarters of all policy responses to the crisis have entailed measures taken to provide credit and tax benefits to enterprises (mostly SMEs), often as part of a broader package of support. These measures target enterprise level support, helping them to weather the crisis and, by extension, to avoid laying workers off.

This policy brief focuses more specifically on *direct measures taken to protect jobs* and groups them into two categories:

firstly, working time adjustments and secondly, wage adjustments and employment subsidies.<sup>2</sup> In all cases, effective social dialogue, including enterprise, sectoral and national level collective bargaining, is fundamental to the design and implementation of successful policies to limit or avoid job losses as well as sound and stable macroeconomic policy and good management of the economy.<sup>3</sup>

<sup>1</sup> International Cooperative Alliance ([www.ica.coop](http://www.ica.coop)) and Employee Ownership Association ([www.employeeownership.co.uk](http://www.employeeownership.co.uk))

<sup>2</sup> Other factors are also important for avoiding or limiting job losses, such as investing in workers' skills development to improve employability and employment security, but these issues are covered in other policy briefs in this series.

<sup>3</sup> ILO: Employment and social protection policies from crisis to recovery and beyond: a review of experience: an ILO report to the G20 Labour and Employment Ministers' Meeting, Washington DC, 20-21 April, 2010. Also see Buckley et al (2009) for a full listing of the conditions for an environment conducive to sustainable enterprises as agreed by tripartite consensus at the International Labour Conference in 2007.

### 2. Description of the policy challenges

Large firms grab headlines when disclosing layoffs and dramatic declines in sales and earnings but most enterprises are micro, small and medium-sized enterprises and although less visible, they are also trying to cope with weak demand, tight credit and reduced orders and, are therefore struggling to avoid job losses.

Providing support to enterprises in times of crisis is not greatly dissimilar to providing support at other times. Although best practices do not vary significantly in relation to

economic conditions, in an economic downturn, some of the policy responses will differ, they will become more urgent and the needs they seek to address are invariably greater. This does not negate the benefits of integrated packages of support that entail financial and non-financial assistance to enterprises. Nor does a crisis change the need for a conducive enabling environment for enterprises, with laws and regulations that facilitate enterprise formation and growth, and that also foster decent work and safeguard the natural environment.

*The Global Jobs Pact policy brief series is intended to inform readers of the relevance of the ILO's technical areas of work in addressing economic downturns as well as assisting in sustainable economic recoveries. Each brief is an invitation to the reader to contact the ILO for additional information and support.*

*More briefs can be found and downloaded at <http://www.ilo.org/jobspact>*



Losing a job is more than just losing a source of income; it can also lead to a loss of identity, self-esteem and self-worth. Lengthy periods of unemployment can also result in the erosion of both technical skills and general work habits, making re-entry into the labour market more difficult. Thus, avoiding or limiting job losses are very important not just as short-term measures but also to underpin the longer-term dynamism of an economy.

The associated policy challenge – of avoiding or limiting job losses – entails elements both internal and external to the enterprise. Internal factors include changes to the way work is organized and rewarded, how markets are accessed and how productivity is managed. External factors refer to the laws, regulations, agreements and policies put in place to

support workers and employers to better cope with the effects of the crisis. This includes policies to promote social dialogue and to ensure effective and efficient labour market institutions, such as public and private employment services which have an important role to play in managing and exchanging labour market information, including on training programmes.

An economic crisis can also present an opportunity to encourage certain types of enterprises such as cooperatives and employee owned enterprises or enterprises in new and emergent sectors such as in energy conservation or renewable energies. This calls for incentives for training and skills development in these fields and incentives for investment, including through expanded public works in targeted areas like public transport and public health.

### 3. Policy options to address the challenges

**Working time adjustments,**<sup>4</sup> such as reduced hours, offer an important tool for limiting or avoiding job losses and supporting enterprises in retaining their workforces until demand recovers. In particular, work-sharing is a reduction of working time intended to spread a reduced volume of work over the same (or similar) number of workers in order to avoid lay-offs, or alternatively, a measure intended to create new employment. This reduced working time may take a variety of forms, most typically shorter working weeks (for example, three or four-day working weeks, instead of the more usual five-day working week), but also reduced daily hours or even temporary plant shutdown for periods of several weeks or even months. Working time adjustments can be linked to paid or unpaid leave, extended time off and other types of career or job breaks.

Work sharing programmes focused on maintaining employment not only help to avoid mass lay-offs, but also allow businesses to retain their workforce, thus minimizing firing and hiring or rehiring costs, preserving functioning plants, and bolstering staff morale during economically difficult times. If complemented with targeted training for affected workers, work-sharing measures can also bring longer-term benefits to both workers and enterprises.

When work-sharing policies are properly designed and implemented, the result is a “win-win-win” solution: enabling workers to keep their jobs and prepare for the future; assisting companies to survive the crisis and also to be well-positioned to prosper when growth returns and, minimizing

the costs for governments and society as a whole of social transfer payments and, ultimately, social exclusion.

Many existing work-sharing programmes in developed countries were revised and expanded during the crisis, such as Kurzarbeit in Germany and chômage partiel in France. The chômage partiel for example, extended the upper limit of the non-worked hours covered by the partial unemployment contractual allowance from 600 to 800 hours per year, and up to 1,000 hours for firms in particularly vulnerable industries, such as the textile, garment and automobile industries.

Work-sharing is more likely to result in a “win-win-win” solution when: governments take an active role in promoting it; schemes are negotiated and implemented through social dialogue and collective bargaining; wage supplements (e.g. partial unemployment benefits) are provided to partially offset workers’ reduced earnings; measures are inclusive, covering regular and non-standard workers; and managers make necessary changes in the work environment, such as redesigning work processes and supporting training. It is also important to target work-sharing measures on firms facing temporary declines in demand. The targeting approach likely to be most effective is to set time limits on work-sharing subsidies to ensure that they do not block inevitable structural adjustments.

<sup>4</sup> J.C. Messenger. Work sharing: A strategy to preserve jobs during the global jobs crisis, (Geneva, ILO, 2009, TRAVAIL Policy Brief No. 1)



Work sharing measures should not simply postpone lay-offs that are inevitable at some point in the future, nor should they have the effect of keeping economically non-viable enterprises on life support, thereby interfering inefficiently in the normal processes by which enterprises are created or go under.

However, there is substantial evidence from previous recessionary periods that work-sharing programmes can avoid lay-offs. There is also some evidence that such programmes may not always prevent dismissals in the long-run, but rather may simply postpone redundancies in times of severe economic difficulties. This latter result can also be considered a positive outcome if the work-sharing measure is linked to training, and the work-sharing period is used to prepare workers to move to new jobs when the economy recovers.

**Wage adjustments and employment subsidies** can be used to protect or promote employment and also to support the purchasing power and living standards of workers. Wage moderation or even wage freezes or wage cuts (including, in some sectors, the elimination of bonuses, the reduction of executive pay and changes in company wage structures) are required in many enterprises where cost cutting becomes central to survival. However, although wage cuts can sometimes solve a short-term problem, ultimately they are likely to impact adversely on purchasing power and thus on demand, thereby setting in train a negative spiral.

Nevertheless, for some enterprises and in some sectors, the crisis brought inevitable downward pressure on wages. In some cases, the crisis forced social partners to renegotiate pre-crisis wage agreements, “taking into account new circumstances”. In some agreements, social partners introduced clauses which enable the renegotiation of agreements in case of changed economic conditions and in some cases, “voluntary” wage concession by unions are reported to have saved companies from the threat of bankruptcy, or facilitated finding an investor.<sup>5</sup>

The underlying idea behind employment subsidies is that by reducing labour costs by paying a subsidy, this will help an enterprise through difficult periods by minimizing lay-offs or allowing new hiring. The downside risk is based on moral hazard: enterprises may “bargain” for employment subsidies, even if they would have retained their workers without any subsidy. However, any subsidy scheme should only be applied at enterprises paying at least the minimum wage or the agreed collective bargaining minimum.

Perhaps the most common approach to using employment

subsidies in developed countries is as a mechanism to offset lost income from work time reductions. In general, workers benefiting from such schemes are usually skilled and employed in modern enterprises and, if they become unemployed, are likely to be covered by unemployment insurance. For example, in 2009 the Government of Japan introduced the Subsidy for Employment Maintenance through Overtime Reduction Programme. This innovative programme provides lump-sum payments to companies that reach agreements with workers’ organizations regarding the reduction of overtime, that develop an overtime reduction plan and, that maintain the employment of fixed-term and temporary agency employees working in the company over a one-year period.

Another way of supporting the purchasing power and living standards of workers (although not usually a strategy for avoiding or limiting job losses) is through minimum wage policies. A number of G20 countries increased minimum wages during the crisis in order to protect workers’ living standards and thus underpin demand in the economy. Obviously, if minimum wages are set too high, they can discourage employment and lead to job losses. Some governments have recognized this problem by providing exemptions for enterprises in sectors that are in particular difficulties.

Hiring subsidy schemes, on the other hand, are temporary measures usually aimed at improving the employability of unemployed and relatively low-skilled workers. Such programmes can help unemployed people in general or can be targeted at more specific groups, such as young people, the long-term unemployed or disabled people. As the subsidy reduces the cost of hiring, it can be an incentive for the enterprise to recruit workers. These temporary subsidies are usually intended for low-paid workers, the amount paid and sometimes also the number of beneficiaries per enterprise being subject to limits. In general, employers must fulfil certain conditions: they must normally not have laid off workers in the months immediately preceding payment of the subsidy, or there may be a limit on the net increase in the workforce by comparison with a reference period.

Practical implementation of subsidy schemes differs widely from one country to another. It may involve reducing social security contributions, payment of a fixed wage subsidy, vouchers for workers, accumulation of tax credits for each additional worker hired, and so on. All these possible ar-

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<sup>5</sup> L. Rychly: Social dialogue in times of crisis: finding better solutions, Geneva, Industrial and Employment Relations Department Working Paper No.1, ILO, 2009



rangements have advantages and drawbacks in operational and incentive terms, but they are all based on the assumption that a temporary reduction in labour costs because of the subsidy may make an enterprise more willing to hire workers. In all cases, subsidies should only kick in above the minimum wage.

Although quite common, there is mixed evidence of the impact (in terms of new net job creation) of employment subsidies. However, a number of studies show that when subsidies are combined with training and vocational guidance, they improve the long-term employment prospects of people, especially the poor and socially excluded.

## 4. Conclusions and recommendations

The economic crisis has proved decisively that making markets work and improving the investment or business climate for enterprises is not simply about unleashing market forces. Rather, it is essential to recognize that efficient markets need effective institutions, and that markets cannot be left to themselves to allocate resources equitably or efficiently.<sup>6</sup> When it comes to limiting or avoiding job losses, governments have a fundamental role to play and a range of measures that they can use.

Some measures target the viability of the enterprise such as tax incentives or access to credit or improved access to markets, which will obviously have an impact on jobs, but other measures are more directly concerned with limiting or

protecting jobs in enterprises. These include (but are not limited to) working time adjustments, wage adjustments and employment subsidies.

The actual policy mix depends greatly on contextual factors such as the sector, stage of the business cycle and the state of the economy. However, one constant is the value of good social dialogue between workers, employers and government in order to arrive at the optimal solution to limit or avoid job losses in times of crisis.

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<sup>6</sup> G. Buckley; J.M. Salazar-Xirinachs; M. Henriques: *The promotion of sustainable enterprises* (Geneva, ILO, 2009)

## 5. Further reading and resources

- L. Rychly: *Social dialogue in times of crisis: finding better solutions*, Geneva, Industrial and Employment Relations Department Working Paper No.1, ILO, 2009.
- G. Buckley; J.M. Salazar-Xirinachs; M. Henriques: *The promotion of sustainable enterprises* (Geneva, ILO, 2009)
- J.C. Messenger. *Work sharing: A strategy to preserve jobs during the global jobs crisis*, (Geneva, ILO, 2009, TRAVAIL Policy Brief No. 1).
- International Cooperative Alliance ([www.ica.coop](http://www.ica.coop)) and Employee Ownership Association ([www.employeeownership.co.uk](http://www.employeeownership.co.uk))
- ILO: *Employment and social protection policies from crisis to recovery and beyond: a review of experience*: an ILO report to the G20 Labour and Employment Ministers' Meeting, Washington DC, 20-21 April, 2010.