Worker displacement: Public policy and labour-management initiatives in selected OECD countries

Christine Evans-Klock
Labour Market Economist

Peggy Kelly
Labour Law and Labour Relations Officer

Peter Richards
Senior Economist

Corinne Vargha
Labour Law and Labour Relations Officer

Employment and Training Department
International Labour Office Geneva
Foreword

This paper was prepared as a background report for the ILO High-level Tripartite Meeting on Social Response to the Financial Crisis in East and Southeast Asian Countries which was held in Bangkok in April, 1998. It was offered to countries afflicted by this crisis as one immediate response to the pertinent question of how industrialized countries have responded to problems of worker displacement. However, it may also be of interest to other countries facing problems of economic downturn and workers redundancy, and looking for international information and experience of dealing with these problems.

The term “displaced workers” refers to persons permanently separated from their jobs and connotes the disappearance of the job as well as the dislocation of the individual workers from the enterprise. Industrialized countries have been confronting this problem for some time due to the employment impact of technological and structural change. For the Republic of Korea, Thailand and Indonesia, however, the current level of displacement is a new phenomenon.

Devising appropriate responses to sudden economic downturns and large-scale worker displacement depends not only on the nature of the crisis but also on countries’ regulatory, legislative, and judicial framework and the nature of management-labour relationships. Thus this paper begins by characterizing the institutional framework within which responses to worker displacement are considered to be effective and equitable in three benchmark countries: Germany; the United States; and Japan. It then offers examples of measures taken by enterprises and workers’ representatives to limit displacement within the firm and measures taken by governments to accelerate job creation and to help displaced workers find new jobs. This brief review highlights constructive efforts that have been undertaken jointly by official agencies, employers’ and workers’ organizations, and their communities.

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Werner Sengenberger
Director
Employment and Training Department
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1. Introduction

The purpose of this paper is to review some international experience in responding to worker retrenchment caused by adverse economic conditions. The responses include
(i) action taken within enterprises to restructure their workforce, adjust employment practices and limit job loss -- whether initiated by employers, specified in collective bargaining agreements or guided by public policies; and
(ii) action taken by public authorities to improve unemployed workers’ job chances after their attachment to an enterprise has been broken.

The institutional settings within which these actions and policies are effective differ across countries, as they are embedded in broader systems of social security, industrial relations, labour market regulations, and cultural expectations. This brief review focuses on industrialized countries because of their decades of experience dealing with the employment impact of cyclical variations and of technological and structural change of significant dimensions.

This report is divided into three sections. Section 2 describes the employment system in three benchmark countries, Germany, the United States and Japan. This provides an overview of the institutional framework within which response strategies are formed and within which specific measures are considered to be effective and equitable. These three countries have been chosen as examples of different approaches to the employment impact of market fluctuations and structural change, not because their response mechanisms are deemed exemplary. Each system exhibits strengths and weaknesses and reflects the priorities of its own society.

The following sections offer examples of measures which have been found effective within each of these approaches to employment adjustment. The assessment of measures taken to prevent or limit job loss (Section 3) and to speed re-employment of displaced workers in new jobs (Section 4) suggests common elements of good practice. These could be considered “building block” measures for tailoring effective responses to economic restructuring or recessions. While it is beyond the limited scope of this review to evaluate the complete range of measures and policy choices, this paper demonstrates that there are many tools with which enterprise restructuring can be leveraged into “better” adjustment paths, such as notification and consultation procedures, job security legislation, hiring and retirement incentives, Social Plans, job search assistance, skill training, and regional redevelopment efforts.

In all economies, enterprises and employment shift continually as changes in markets and technologies open new opportunities and shrink others. In a well-functioning labour market and with steady economic growth, workers move into new occupations, industries and areas, following signals given by employment and wage growth. Worker displacement results when job losses far outpace new job creation. This may occur due to external shocks, lengthy recession, or loss of low-skilled jobs to lower-waged areas. In-plant measures may avoid temporary or transitional unemployment; lay-off measures may ensure a soft landing into unemployment while active labour market measures contribute to more successful job search; and additional measures may be needed to spur job growth. By improving worker-management cooperation and providing at least an implicit social safety net, these efforts strengthen industrial peace and thus contribute to better enterprise response to change.
2. Employment Systems: Differences and similarities in national approaches to employment adjustment

How a country responds to sudden or widespread threats to employment levels depends on its laws, practices and institutions. The succinct description of the approaches by the benchmark countries (Germany, the United States, and Japan) characterizes the range of international experience and provides a context for discussion of firm-level and national-level response measures. This background information contrasts the involvement and roles of employers, unions and governments in formulating responses and in making the measures work.

Employers’ obligations towards their workers, in terms of notification, compensation and efforts towards redeployment are based on judicial decisions, labour market regulations, collective bargaining and custom. The mix of these elements varies across countries: In the US, there is extensive management prerogative to discharge workers. In Germany, and much of Western Europe, there are agreements between employers and unions, backed by legislative and regulatory provision, that layoffs be a last resort in employment restructuring. In Japan, there are strong social expectations, backed by judicial case law, that surplus workers be retained, retrained or redeployed within networks of enterprises.

The assessment of the forms of employment adjustment covers both internal mechanisms, i.e. adjustment of labour supply within firms as fashioned by the social partners and supported by government regulation and policies, and external adjustment following displacement, including how public policy can enhance the ability of workers to find new jobs and improve the job creation performance of the economy.

2.1 Germany

Germany’s adjustment process is based on cooperation among the social partners, known as “co-determination.” Legislation governing employers’ obligations in case of redundancy requires a “balancing of interests” between workers and employers, and the creation of a “Social Plan” (e.g. the Dismissal Protection Act and the Establishment Industrial Relations Act). These Plans outline specific measures to be taken before layoffs can be considered justified, such as reducing work time and promoting early retirement. The internal adjustment mechanisms are supported by strong employment protection laws and public programmes to share the costs of layoff alternatives, such as advance notice requirements, compensation for reduced work hours, and obligations for consultation with works councils when firms introduce new technology (Auer, 1991).

The strong industrial relations system in Germany has achieved widespread acceptance of advance notice and severance pay requirements in case of downsizing, and of the practice of formulating social pacts that provide a broad spectrum of preventative measures to avoid displacement and support services in case they are not avoidable (Leigh, 1995). Firms with twenty or more employees must inform the enterprise works council of impending layoffs or plant closures and then proceed to the next step of formulating social plans. With strong labour voice in determining how restructuring takes place, the plan specifies how jobs are to be maintained during the restructuring or how displaced workers are to be compensated. The principal measures used to avoid displacement are cutting over time, renegotiating weekly work hours, training, transfers within enterprises, and early retirement packages.

Although not all firms create Social Plans, those that do set a standard for cooperation-
based adjustment strategies and procedures. Some German (and French) companies have taken additional steps to form “proactive” employment planning agreements with unions. Their purpose is to avoid the situation of needing to reduce the workforce by predicting changes in occupational needs and devising training programmes to move workers into new skills or occupations. Social Plans and Employment Planning Agreements are feasible within the German employment system because of its broad-based jobs skill training. Employers can deploy workers within the enterprise and count on them to be able to learn new skills and occupations because of their investment, beginning with apprenticeships, in workers’ basic and applied skills.

Germany invests more in school-to-work training and preparation than any other OECD country. One of the advantages of the system is that basic learning coincides with on-the-job practical experience. Apprentices divide their time between in-classroom theoretical course work and on-the-job practical learning. To the extent that this training broadens workers’ knowledge base, as well as provides intensive skill training, workers may have a strong foundation that helps them adapt to changing work requirements and technologies throughout their employment career. To the extent that apprentices become “over specialized,” their heavy investment in particular skills, and with a particular employer, may limit both internal and external mobility. Traditionally, however, this investment in “functional flexibility” provides significant flexibility to employers in adjusting the work force to technological and market changes.

By contrast, German enterprises have much narrower room to manoeuvre in changing the number of workers. Collective bargaining agreements and statutory employment protection restrict retrenchment, set narrow definitions of conditions under which retrenchments are permissible, and require payments and assistance to affected workers. These measures make retrenchment a more costly option and thus give employers incentive to try alternative solutions. For example, the General Dismissal Protection Act requires that the selection of workers to be released be “socially justified.” That is, under law not only must the retrenchment be clearly linked to unavoidable economic causes, but employers must take into account the effect of displacement on individual workers, specifically as this may be affected by their age and income (Tuselmann, 1996).

However, public policy and collective bargaining agreements encourage firms to adjust the quantity of labour through hours worked (Abraham and Houseman, 1994). The main instruments for German working time adjustment are overtime, extra-shifts and short-time work, together allowing employers substantial margin to adjust hours, either above or below the regular weekly working hours. If an employer registers short-time work, the worker is eligible to receive the normal unemployment benefits for hours not worked. Thus ability to adjust total quantity of labour is roughly similar to that in the United States, where managers may be more likely to reduce workforce size than working hours.

Although the German case may represent the Western European response in comparison to the experience elsewhere, within the region, of course, strategies and measures vary substantially by country. In France, there has traditionally been a more powerful role of official labour inspectorates to verify that retrenchments were due to economic causes. In the United Kingdom, labour market policy has shifted substantially towards less employment protection and greater employer autonomy to adjust workforce size.

In this decade Germany has faced the unprecedented employment challenge of integrating workers of the former East Germany into the national system of employment
In the recession year of 1982, 2.7 million US workers—about 1 of every 25 full-time wage and salary workers—lost their jobs and were not recalled. But even during the relatively strong labour market existing in 1988, 1.5 million workers—about 1 in every 50 full-time workers—are estimated to have permanently lost their jobs (Leigh, 1995).

**Example Box 1: US Job Displacement**
In the recession year of 1982, 2.7 million US workers—about 1 of every 25 full-time wage and salary workers—lost their jobs and were not recalled. But even during the relatively strong labour market existing in 1988, 1.5 million workers—about 1 in every 50 full-time workers—are estimated to have permanently lost their jobs (Leigh, 1995).

### 2.2 The United States

In the United States, it is more likely that employers respond to demand shocks by laying off workers than by decreasing work hours or transferring workers within the organization. However, new business startup and new job creation are also comparatively easier than in Germany or Japan. A more constant churning of both employment and enterprise markets results in more reliance on the external labour market to redeploy redundant workers. This balance is directly affected by differences in worker training and collective bargaining systems, and also results in greater policy priority being placed on well-functioning labour markets to promote reemployment of displaced workers rather than on measures to support preventive action within enterprises.

US employers have few legislative or regulatory restrictions on changing the level of employment within their firms. However, work rules specified in collective bargaining agreements generally restrict how employers can allocate employees within the establishment: Job positions are clearly defined, the movement of workers across positions or lines is closely regulated, and how work is to be distributed among employees when demand slackens is dictated by seniority. Some non-union firms follow this approach informally because of its perceived “fairness.”

In general, workers receive less formal training from employers than do German workers. As less job-specific training is provided by employers, higher turnover is less costly to employers. In the absence of policy measures to share the costs of retraining or redeployment efforts, retaining surplus workers is more costly to employers. The result is a high degree of displacements, even in non-recessionary years. More of the adjustment costs, then, are borne by individual displaced workers, and by corporate and individual taxpayers for their unemployment benefits and assistance.

US managers can initiate layoffs much more causally than can German or Japanese managers in response to deterioration of profits or productivity. Attempts to discourage or shape such decision-making authority by legislation or regulation are rare, although employment security has become a major issue in collective bargaining negotiations. The Worker Adjustment and Retraining Notification Act of 1988 (WARN) represented a departure from the US tradition of “fire at will.” Previously, constraints on employers mainly protected workers against discrimination and other forms of unfair dismissal, but did not address mass layoffs for economic reasons. Under WARN, firms with more than 50 employees must give sixty days notice of impending plant closure or layoff (of one-third or more of the workforce) to workers and the community. Unlike Germany and
Japan, the advance notice requirements do not stipulate consultations with unions or workers, much less negotiating alternatives or social plans with them.

Collective bargaining has won wide support for rules governing how layoffs take place, for example the principle of last hired/first laid off. More recent innovations have been agreements on joint training and adjustment, such as between the automakers and the United Auto Workers. This recognizes the value of incorporating preventive measures in negotiated agreements, including changes in work to move away from narrowly defined job definitions to broader categories that encourage cross-functional training and workforce flexibility.

One way that management has tried to forestall the perception that favouritism drives layoff choice, a particularly sensitive issue in the heterogeneous American labour force, is to offer severance packages that make it attractive for employees to “volunteer” to leave. These packages could include lump-sum payments, or continuance of salary for a determined number of months, job-search assistance, and continuation of benefits for some period of time. These measures are not required by law, but are offered as a way of making the employer appear “fair” and to maintain the morale of retained workers. Continuation of benefits is particularly important in the US system of employment-based health insurance. This approach became more popular as downsizing expanded to manageral and professional staff in the 1980s, especially as part of mergers where substantial portions of the re-configured work forces were suddenly redundant.

In the US system, layoffs are resorted to rather casually, although there is a trend among “high performance enterprises” to invest more in training, teamwork, and efforts to redeploy rather than retrench workers. While streamlining or downsizing was the cultural norm to increase plant productivity, the costs of this approach in terms of low morale and high turnover has brought re-evaluation. Some public policy measures to encourage more internal measures for employment adjustment have also been adopted. For example, it is only in the United States that employers’ unemployment insurance premiums are related to their history of layoffs, with those that lay off workers more frequently penalized with higher rates.

2.3 Japan

Lifetime employment has been considered the standard employment arrangement in Japan: Large corporations typically hire workers directly from schools, provide extensive on-job training throughout their careers, and employ them until they retire. The employment system has seemed able to provide substantial employment security to these workers while enterprises remain flexible and able to adapt to changing economic circumstances. The Japanese approach emphasizes preemptive action. Continual retraining and job rotation qualify workers for a variety of jobs so employers can transfer them from declining to growing areas, both within the enterprise and throughout its network of subsidiaries and suppliers, thus reducing the likelihood that employers would find it necessary to resort to retrenching workers. Greater emphasis placed on work relationships and teamwork increase the value of long-tenured employment.

As in Germany, layoffs are “acceptable” only if taken as a last resort, when alternative measures such as reduction of overtime, retraining, transfer within the enterprise and among its subsidiaries and networks of companies cannot absorb all the surplus workers. These requirements are not in written statutes but established exclusively through court precedents. Courts have upheld that long-term contracts be assumed by new companies in case of mergers or takeovers. Courts have also voided dismissals where there was no consent by or consultation
with unions (Hanami, 1994; Komiya, 1991).

Along with greater commitment and practice of life-long employment, the Japanese employment system is characterized as being relatively unregulated by labour legislation. Current practices reflect social norms as embedded in judicial decisions. And the judicial decisions, in turn, are the result of social definition of acceptable corporate behaviour. The prevalent philosophy is that private sector employers bear a major responsibility for maintaining low levels of unemployment. One type of measure typical of the Japanese labour relations and lifetime employment system is that top managers are expected to absorb the burden of restructuring first: Wages, dividend payments and bonuses for top and middle management would be reduced or suspended before layoffs could be accepted. Furthermore, the state pays part of retraining and relocating costs when these steps are taken to avoid layoffs. Employers are required to consult with unions or employee representatives when formulating such plans. Negotiated plans target first measures to avert layoffs, and then agree on the magnitude and selection criteria of workers to be dismissed. Early retirement is also a common measure to adjust labour supply in Japanese enterprises. Employment rules and collective bargaining agreements usually stipulate retirement age between 55 and 60 -- five to ten years before the usual retirement age in the United States.

The dual nature of the Japanese labour market is one important mechanism of employment adjustment. Experts estimate that from one-fourth to one-half of Japanese employees are covered by life-time employment (Hanami, 1994; Komiya, 1991). These are workers with “regular” employment contracts in large corporations. This “core” labour force benefits from intensive employer-provided training, in the form of on-the-job training, rotation across jobs and cross-skill training. About one third of the workforce is in temporary employment arrangements, as part-time, subcontracted, temporary or seasonal workers, and their numbers fluctuate according to business cycles and other enterprise changes.

This system provides large Japanese enterprises with two advantages in responding to demand fluctuations or structural change: One portion of their workforce is broadly-trained, flexible to move into new positions or occupations, and is engaged in long-term reciprocal relationships. This workforce can be easily transferred as technology and business conditions require. The other portion of the workforce, composed of a disproportionately higher percentage of women workers, absorbs the size fluctuations and helps protect the core workforce from employment insecurity. Non-renewal of contracts of temporary employees is one of the required measures that firms must take before dismissals of regular workers is considered lawful.

The dual structure of the labour market is mirrored in the duality of industrial structure. Smaller companies, networks of suppliers, and subsidiaries also play a role in protecting regular employees, by absorbing workers from lead companies when internal measures are not sufficient. In turn, the smaller companies may send their employees to the lead company for training, thereby improving the employment security of their own workforce.

2.4 Summary: Contrasts and similarities

(i) Internal and external adjustment

The sequence in adjustment policies typically begins with internal adjustment before moving to external adjustment. For example, in Germany internal adjustment would typically begin by eliminating overtime and then reducing normal working hours, and in the United
States by reducing overtime and cutting shifts. External adjustment would then begin with active support to increase attrition, voluntary quits and early retirement (Auer, 1991).

Many Western European countries with tight job security regulations also have policies and bargaining agreements that encourage firms to adjust work hours and reallocate workers among operations. Labour demand adjusts, especially to cyclical downturns, more in terms of hours per employee (on average) than in employees per establishment. In the context of high investment in worker training and social teamwork skills, reducing working hours may be seen as less costly than retrenchments. For the workforce, it may be seen as a more equitable way of sharing insufficient work. In the United States, public policy imposes fewer restrictions on layoffs and thus retrenchments are often viewed as the cheaper option. Public policy is focused on measures to improve the external labour market in absorbing displaced workers.

Among large enterprises, outright dismissals, without implementing alternative measures, traditionally have been relatively rare in the West European experience (depending on workers' years of service), almost unknown in Japan, and quite common in the U.S. These traits reflect even broader economic and social differences, which make it difficult to distinguish which factors encourage a high degree of employment security from what practices follow from them.

For example, in Japan, well established procedures for recruitment and hiring have been limited almost exclusively to labour market entrants. This is both cause and consequence of high employment security within the firm. With a large premium placed on firm-specific technical and teamwork training, employers have an incentive to keep workers (to reap a return on that investment) and workers have incentive to stay (low return elsewhere on employment-based technical and social skills). With no substantial churning of established workers in large stable firms, no mechanisms for job search and labour market functions have been required. This in turn makes it very difficult for retrenched workers to find alternative or equivalent jobs, and thus restrictions on retrenchments from legislative, collective bargaining or regulatory sources are deemed necessary worker protection.

In the United States, blue-collar workers in large establishments had also experienced a great deal of employment security in the past, but first in steel, then autos, and eventually in computers and electronics, security embedded in collective bargaining agreements or long-standing custom gave sway to large-scale displacement. Employers make more frequent use of layoffs as an employment adjustment mechanism, and public policy thus places more emphasis on creating new jobs and helping displaced workers find their way to them. Employers may provide less extensive in-house training as it is relatively easier to hire-in whatever new skill is required at all levels and occupations. Less general training and lower employment commitment from employers is matched in kind with higher voluntary turnover by workers.

Employment arrangements in Europe and the United States are less different in effect than they appear to be in form. It is an over simplification to label labour markets in the United States as more flexible than those in Western Europe, one that stems from comparing individual elements of employment systems rather than looking at the role that these elements play within a broader institutional arrangement. For example, the definition of flexibility depends on what is deemed inflexible currently. In Europe, where employers have a lot of flexibility in allocating labour within the enterprise, more flexibility would be “greater freedom to lay off workers in response to fluctuations in economic conditions.” In the United States,
where employers have a lot of flexibility in retrenching workers, more flexibility (in unionized firms) refers to greater “freedom to deploy labour within the enterprise” (Piore, 1986). In other words, changes towards greater flexibility refer to changes in the particular aspects of the internal or external labour market that are viewed as inflexible currently, and what particular problems this causes, either for the enterprise or for general employment levels.

(ii) Active and passive responses

Active labour market programmes for displaced workers include job search assistance and job placement, retraining programmes, and job creation and employment subsidies, while passive response generally refers to unemployment benefits and subsidies for early retirement. Spending on passive programmes accounts for a larger share of expenditures on labour market programmes in nearly all countries (the notable exception is Sweden), and is driven principally by the level of unemployment in the economy and the level of benefits society provides. Spending on active measures is determined more by society’s understanding of the reasons for unemployment. If unemployment is primarily a response to cyclical downturn, then passive measures to “see workers through” until the economy and hiring picks up is considered equitable and efficient: Sufficient assistance is provided to help displaced workers remain close to their earlier living standards while nonetheless encouraging their active search for replacement jobs. If, however, unemployment is due to major structural change and fall in demand for the unskilled, or in particular industries or regions, then measures designed to prepare displaced workers for new kinds of jobs in growing industries may be more effective.

Active labour market policies are designed to improve the employability of the displaced workers and assist them in finding a new job. Unemployment insurance and supplemental benefits are essential for income maintenance, but are not designed to provide sufficient assistance to workers affected by plant closures and permanent layoffs. Assistance may be especially important for displaced workers that had been employed for a long period of time in the same industry or occupation, or by a single employer. Helping them go about looking for a job and providing a central exchange of information between employers and job searchers may be required.

(iii) Employment system flexibility

The effectiveness of any system hinges on how well it adapts to new sources of employment uncertainty. Employment systems may change radically if they appear inflexible and dysfunctional in the face of changing outside pressures. A good system, however, is one which can accommodate outside pressures and still preserve high levels of employment combined with perceived social equity. Legislation can both legitimize existing cooperative procedures and arrangements made between employers’ and workers’ organizations, and attempt to lead such arrangements in new directions.

Employment systems are shown to respond to societal norms for fairness, and at the same time support adjustment to economic change. Debate on the responsiveness of employment systems has heightened over the past year as unemployment rates have risen in Germany and Japan. In the US, unemployment rates are at relatively low levels but long-term unemployment (for disadvantaged workers and in inner city areas) and growing poverty among the employed in low-skilled and insecure jobs have become the main employment problems. Although commitment varies by country, there is a growing convergence of opinion that good practice is to invest more in workers’ employability than in artificially maintaining job
Convention No. 158 has been ratified by 28 countries including Australia, Finland, France, Portugal, Spain and Sweden, but not by the US, Germany or Japan.

3. Response to enterprise restructuring: Prevention and limitation of worker displacement

The second part of this report presents a sample of enterprise and public policy measures that have been used to prevent displacement, or to limit their extent where layoffs are unavoidable. They demonstrate the value of effective cooperation with social partners, of attention to outcomes for potentially vulnerable groups, and of the feasibility of placing priority on employment and social security in economic adjustment strategies. An overview of the standard for appropriate measures as established in ILO Conventions is presented first, followed by examples of public policy initiatives and joint labour-management initiatives to prevent or limit worker displacement.

3.1. Legal measures to prevent and limit worker displacement: International and national labour legislation

The ILO Termination of Employment Convention (No. 158) and ILO Recommendation (No. 166), 1982 set out, as a basic principle, that the employment of a worker shall not be terminated unless for a valid reason connected with the capacity or conduct of the worker or the operational requirements of the undertaking.\(^1\) Part III of the Convention relates to consultation of workers' representatives and to notification to the competent public authority. Paragraphs 21 and 22 of Recommendation No. 166 reflect the principle that when employers are obliged to introduce changes of a technological nature or otherwise, they should first consider all other possible measures that would allow them to avoid terminations. The two types of measures put forward by the Recommendation aimed at reducing the number of workers by voluntary means (early retirement with appropriate income protection, natural reduction, internal transfers, restrictions on hiring) and work-sharing (reduction of overtime work and of normal hours of work).

These measures were proposed by Governments at the International Labour Conference in 1982. New types of measures, such as working on an employee-rotation system, part-time work, readjustment of allowances and even the reduction of wages have been introduced since then. Most such measures are introduced through collective agreements and not by legislation. For example, since 1993, a series of agreements, based primarily on the reduction of working hours, has been developed in Germany. Enterprises have agreed not to carry out collective dismissals for a specified period, in exchange for a reduction of normal working time and wages, subject to a guaranteed monthly income. In Belgium many collective agreements signed by joint committees contain agreements to avoid dismissals. For example, in the chemical industry, a joint committee drew up a list of possible options which included early retirement, work-sharing and career interruption.

Provision for the supply of information to workers' representatives and consultation with them are to be found in legislation and collective agreements in many countries. Regulation is aimed at easing tensions created by redundancies, through consultation and

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information procedures in the enterprise and with the administrative authority. Such regulations also give the workers’ representatives an opportunity to present their point of view, make alternative proposals or negotiate with regard to the planned reductions.

Convention No. 158 stipulates that when the employer contemplates terminations for reasons of an economic, technological, structural or similar nature, the employer shall:
(a) provide the workers’ representatives concerned in good time with relevant information including the reasons for the terminations contemplated, the number and categories of workers likely to be affected and the period over which the terminations are intended to take place;
(b) give, in accordance with the national law and practice, the workers’ representatives concerned, as early as possible, an opportunity for consultation on measures to be taken to avert or to minimize the terminations and to mitigate the adverse effect of any terminations on the workers concerned, such as finding alternative employment.

Recommendation 166 adds a further component to the objectives laid down by the Convention in proposing consultations on measures before the stage at which the terminations become inevitable. Terminations of employment are sometimes the result of major changes in the organization, structures, technology and enterprises’ work methods. A satisfactory solution to the problems involved is usually more likely to be found if the underlying problems are tackled early on. The Convention does not establish any specific threshold for the number of terminations beyond which the procedures provided for are applicable. In most countries the consultation and notification procedures apply to the termination of a specified share of the total workforce, with particular reference to the concept of “collective” termination of employment.

Although legislation in the field of collective dismissals varies considerably between countries, much legislation nevertheless insists on prior consultations with workers’ representatives, and the timely communication of information on dismissal to the labour administrative authorities. In many countries, legislation establishes the basic points of this procedure, while inter-occupational collective agreements and framework agreements play a key role and are often supplemented by industrial or sectoral agreements.

Convention No. 158 provides that when employers contemplate relevant terminations they shall notify, in accordance with national law and practice, the competent authority as early as possible, giving relevant information, including a written statement of the reasons for the terminations, the number and categories of workers likely to be affected and the period over which the terminations are intended to be carried out. In addition to providing information, the purpose of notifying official authorities may be to obtain tangible assistance or to facilitate

2 The definition of “economic, technological and similar reasons” varies depending on the country concerned and commonly takes into account situations such as plant closures, suspensions, production difficulties or cut-backs, phasing-out of industrial processes, changes in procedures or jobs, readjustments, restructuring, among others, which are all reasons unrelated to the employees themselves.

3 Ranging from countries which have no official procedures for collective dismissals, such as Barbados, (although a protocol on the hospitality industry was signed in 1995), to countries which have procedures applying only to massive dismissals (US) and finally to countries which have detailed regulations conforming to quite specific principles (such as legislation enacted to conform to the 1975 European Community Council Directive).
Social plans are a statutory requirement in some European countries, including Germany, but not in the United States or Japan. When retrenchments are necessary, objective criteria must be established for selection for dismissal. The usual criteria are length of service, skills and civil status, although the difficulty of re-entry into the job market (family responsibilities, disability, among others) are increasingly considered. Other criteria such as diligence and aptitude may also be taken into consideration. Some countries establish a priority system of reinstatement when employers begin new hiring.

The workers' right to be consulted is provided by some countries within a more generic right of information which the workers' representatives have in relation to enterprise management plans covering structural changes or changes in work methods (Germany - Works Councils Act; Belgium - national collective agreement No. 9 of 1972 on works councils; Switzerland - Participation Act of 1 May 1994, for example.) However, the presentation and agreement with workers' representatives of a social plan making proposals for the treatment of redundant workers is a statutory requirement in many countries, although sometimes only for establishments above a certain size. In fact, in many countries, there are two rounds of consultation. The first is to find solutions to avoid dismissal and the second examines the number of proposed dismissals and the order in which they are to be carried out. At present, many measures adopted are aimed at the reassignment of workers and the reduction of work time since negotiation between the social actors is often the means by which the scope and need for the implementation of measures is determined.

In practical terms, collective bargaining and framework agreements have become basic instruments in some countries for the development of not only procedures governing the implementation of collective dismissals, but also of legislative reform of termination of employment generally. In general, procedures for collective dismissal which have been maintained peacefully and which have won approval and consensus support, are those which have emerged out of agreement between the social actors, which indicates that in a context of globalization and economic competition, it is necessary to arrive at agreed measures on the implementation of collective dismissals. The case concerning the closure of French motor manufacturer Renault's car plant at Vilvoorde (Belgium) illustrates this, as the way in which the closure was announced generated a social conflict of European dimensions and the revision of the Belgian collective redundancies law (see Example Box 2).

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5 When retrenchments are necessary, objective criteria must be established for selection for dismissal. The usual criteria are length of service, skills and civil status, although the difficulty of re-entry into the job market (family responsibilities, disability, among others) are increasingly considered. Other criteria such as diligence and aptitude may also be taken into consideration. Some countries establish a priority system of reinstatement when employers begin new hiring.
As a result of global restructuring plans Renault announced in February 1997 that it would summarily close its Vilvoorde (Belgium) auto plant which employed 3,100 workers. This decision, taken despite high productivity, stable social relations climate and high degree of flexibility, had bypassed normal procedures of consultation and negotiation with workers' representatives. It was the unilateral way in which the decision was taken that resulted in Europe-wide union protests and court challenges. The Brussels Labour Tribunal ruled that Renault's behaviour was in breach of national collective agreements on consultation rights. It instructed the company to begin the process of collective redundancies again, respecting collective agreements to try to prevent redundancies or cushion their effects. Because the court did not apply any sanctions, trade unions and employers, at the request of the Government, entered negotiations on whether existing collective agreements provisions needed to be reinforced. The social partners agreed that the guarantees were sufficient but that stronger sanctions needed to be imposed on companies which did not respect them. Subsequent legislation now imposes a legal obligation on employers to analyse and formally respond to proposals and arguments for alternative measures by workers' representatives. Companies not respecting strengthened procedures on consultation rights of the workforce may be required to pay back any subsidies granted by the federal Government. In France, the case was brought by the European works council on the basis of Renault's failure to inform and consult them on its plans for Vilvoorde. The judicial ruling was in favour of the council, and is being appealed. As a result of this case, there is a call for strengthening the prior consultation requirements and penalties for non-compliance, as well as for introducing a code of conduct for multinational companies in the case of closures and collective redundancies.

Example Box 2: Plant Closure and Consultation/Negotiation Procedures

As mentioned earlier, a noticeable trend in recent legislative reforms has been the lightening of legal control on termination of employment, as it is perceived to impede quick enterprise response and restructuring. While some legal reforms have been induced by economic crisis, they have been part of a widespread trend to promote labour market flexibility. In their search for flexibility, governments are adopting measures which promote employment, facilitate the growth of enterprises, make working time more flexible, encourage part-time work with supplementary compensation for loss of income, and implement other legal steps which promote the sustainability of the enterprise and contribute to development and social peace. In pursuing these reforms, governments are paying careful attention not to put dialogue at risk.

3.2 The intervention of public authorities to prevent and limit worker displacement

A variety of public incentives have been designed to help firms improve internal adjustment mechanisms, rather than lay off workers during cyclical downturns or structural adjustment. It should be emphasized that these measures are not designed to prevent or delay restructuring within enterprises or industries, but are meant to decrease the social costs of adjustment. The three most popular types of interventions are:

(i) subsidies to employees to reduce their normal working time and thus spread employment across a greater share of the workforce;
(ii) measures to reduce labour supply, typically through early retirement incentives; and
(iii) incentives to employers to retrain or redeploy workers instead of releasing them.

Each of these could be considered as public support for alternatives to mass displacement and to maintaining workers' attachments to their employers. The merit of public expenditures for such measures should be weighed against the alternative of increased expenditures on unemployment benefits, reduced tax revenues, and general or regional recession should such efforts not be made. All of these examples call for a cooperative
working arrangement and trust between enterprises and state authorities.

(i) Subsidies to reduce working time and spread employment

Assistance paid directly to firms in trouble has obvious moral hazard (it could subsidize less efficient or less forward looking management strategies). Payments to workers in various forms may be better. Instead of paying full unemployment benefits to displaced workers, the unemployment insurance system may pay a subsidy to make up the difference between full-time and reduced time earnings. In Germany the deep recession of the mid-1970s resulted in widespread use of short work weeks to avoid or defer redundancies. The public subsidy amounted to two thirds of the net wages lost. Participating firms were required to demonstrate that the short time work was unavoidable, temporary and due to economic causes (McKersie and Sengenberger, 1983). Other types of subsidies have also been introduced in France and Italy as mechanisms to spread the employment impact across more workers, thereby lessening the threat of displacement. (Subsidies to employing low-paid workers are more widespread and generally accepted from the point of view of competitive product markets, if not restricted by sector.)

Assistance to make up most of the difference between full-time and short time earnings is attractive to employers that anticipate upturns, because it helps them retain skilled and experienced workers and avoid the costs of recruiting and training new ones later. Unless the nature of the restructuring is very clearly temporary, however, there is a likelihood that reduced time will be used to forestall inevitable layoff, in which case it is a poor use of public funding and workers’ time. In the United Kingdom their popularity declined because they were seen as retarding structural adjustment rather than promoting it in favourable ways. In Sweden, reduced work subsidies are typically used jointly with retraining. This approach has not been common in the United States.

The practical effect of such programmes is to curb layoff during cyclical downturns and during restructuring. It can be implemented sensibly, as a substitute for public payment of unemployment benefits, only when there are reasonable expectations for a return to former levels of labour demand by the enterprises - in the same occupations or skill levels. Otherwise, alternative programmes addressing directly the need for structural change may be more effective. Also, the design of such measures must take into account workers’ access to essential social services where these are employment-based, such as health insurance and pension contributions.

(ii) Subsidies for labour market exit, early retirement schemes

Early retirement has been a mainstay of adjustment policies in Germany. In general throughout Europe, it has been used more frequently in industries in long-term decline than in those suffering cyclical readjustments, as a measure for permanent workforce reductions. The social concern is that older workers leave the workforce without suffering loss of living standards and that the measures be implemented on a voluntary rather than mandatory basis.

As the need for more workforce size adjustment grew, the minimum age for early retirement has been lowered in many European countries, or so-called tideover measures were taken as form of payment for workers too young to qualify for government-subsidized early retirement. Lowering the age at which workers are eligible to participate in early retirement schemes has increased their costs -- for both employers and government agencies. There is some movement towards using early retirement on a more selective basis, and to institute
flexible (part-time) early retirement (Auer, 1991). In France now, early retirement schemes must be used more selectively, as part of a package of responses offered through broad Social Plans.

Redundancy payments have been used to decrease management staff (the golden handshake) or in lieu of dismissal protection through lump sum payments. In France, workers may be allowed to take two-thirds of training allowances in the form of a lump sum payment. These types of measures can enable employees to establish their own businesses, a form of both size adjustment for the firm and reemployment promotion. Because workers take on a great deal of risk, forgoing eligibility for on-going early retirement or training benefits, the benefit for workers depends on self-selection (their entrepreneurial abilities, for example) and such programmes should be offered on a voluntary participation basis.

The limitations, and possible drawbacks of measures to promote labour market exit should be taken into account in their design, and into decisions as to when they can be used appropriately:

- One unintended result for the firm is that skilled workers, with best reemployment chances, may be more likely to take advantage of the incentive, leaving enterprises with less productive workers.
- To the extent that workers elect to participate in such schemes because their chances for reemployment elsewhere are high, they are not cost effective -- leaving taxpayers with subsidizing reemployment that is likely to have occurred without their support.
- Measures to decrease labour supply might target women, under the false assumption that women are secondary wage earners, and thus contribute to gender discrimination in the labour market.

(iii) Other measures

Training: Governments try to influence employment adjustment within enterprises towards paths with lower social costs. Decreasing work conditions, lowering wages and increasing work hours is one approach associated with high social costs. Providing incentives for firms (and workers) for ongoing broad education and training, so workers can shift jobs as demand changes, has lower social costs. In Japan, enterprise-based training programmes that target workers at risk of displacement due to obsolescent skills or industry decline are supported by public funding. The advantages of private sector training is the greater ability of employers to predict what their future skill and occupation requirements will be and to provide appropriate training. Outside of Japan, training subsidies are less common among OECD countries because of the risk that public subsidies will simply reimburse companies for training they would have provided anyway. The returns on public expenditures may also be lower if the participants in such training are not those that need it most, i.e. lower skilled workers in less secure employment in smaller firms.

Wage subsidy: An anti-recessionary wage subsidy in Japan in the mid-1970s proved effective in keeping down the level of employment size adjustment during the recession. In the context of life-long employment commonly practised by large enterprises, as well as by many smaller firms in Japan, an employment promotion scheme was introduced by which one half to two thirds of the wage bill for excess labour was paid by the Employment Insurance Law. The subsidies were drawn from a special Employment Stabilization Fund, financed by employers' contributions. Later, when the problem of surplus labour was attributed more to structural causes than to demand fluctuations, the subsidies were extended to cover training
costs for employees retained within the firm or transferred to other enterprises (McKersie and Sengenberger, 1983).

3.3 The role of the social partners to prevent and limit worker displacement

The purpose of this section is to demonstrate the wide variety of measures that employers and workers’ organizations have used to prevent dislocations, compensate workers for their losses, and otherwise reduce the costs of enterprise restructuring on their workforce. The examples are taken from the organized sectors of the economy, and underscore the importance of good working relationship and trust between the social partners at the level of the workplace. The examples also demonstrate the utility of public policy measures in encouraging such efforts.

A. Orderly adjustment

When a firm is faced with the prospect of downsizing its workforce, there are certain procedures it can follow in order to minimize the impact on workers:

(i) Notification As a first step, management of the firm should inform the workers’ representatives of its intentions, well before any layoffs take place. Generally several months are needed to give management and workers adequate time to explore workable alternatives to the planned layoffs. 6

(ii) Consultation This step is usual in German enterprises, where works councils have the opportunity to put forward alternative measures that take into account firms’ restructuring needs. This is not typical in the US, although collective bargaining agreements often spell out workers’ rights in the event of layoffs and have begun to include preventive measures that can be taken well before crises result in downsizing.

(iii) Limiting layoffs If management and workers conclude that downsizing cannot be avoided, the next step is to encourage voluntary exits, through early retirement plans for those nearing retirement age or a lump sum payment for other workers willing to leave the company. Typically, employment of non-regular workers is terminated first, such as non-renewal of fixed-term or temporary contracts. Opportunities to move workers into growing parts of the company can be exploited, with employers providing training to at-risk workers before training new recruits. Examples of measures to avoid redundancies and maintain employment levels are presented below.

(iv) Priority protection Once these alternatives have been exhausted, the next step is to select an orderly means for proceeding with the layoffs. Typically, layoffs proceed in reverse order of seniority, with those hired last to be the first laid off. Often, a “bumping procedure” is established, whereby workers with greater seniority have the right to replace other workers with less seniority in the same or similar job category. In Japan and Germany, firms are also required to give preference to workers for whom job loss would pose a harsher burden, such as older workers and workers with disabilities.

(v) Services to displaced workers Displaced workers should be entitled to redundancy or severance pay, with the amount usually based on years of service. In some countries, minimum severance payments are established by law. Where there are no

6 In general, notification is required 60 days in advance in the United States and 30 days in advance in Japan and Germany.
legal provisions, such as in the United States, they may be determined by collective bargaining. Job search assistance and career counselling provided by employers can be particularly effective in minimizing the period of unemployment because it can begin well before the actual layoff occurs and because of the employer's knowledge about the workers, their skills and abilities. Employers can support efforts by their employees to start their own businesses by offering or arranging technical and financial assistance to redundant workers who start their own business. Finally, there should be an agreed procedure for recalling laid off workers if job openings arise. Funding for these kinds of services is sometimes shared between employers and public subsidies (as mentioned above for reduced work hours, early retirement, and retraining); and trade unions also may provide advisory and other services to their laid off members.

B. Measures to avoid layoffs

Measures to avoid redundancies and maintain employment levels have been more widespread in Europe than in the United States. Investments in worker training also tend to be higher and more of the social costs of retrenchment are, through legislative, regulative, or collective bargaining agreements, absorbed by employers. The social partners in Europe, for example, have pursued various means of avoiding redundancies and maintaining employment levels (EIR Observer, 1997). These measures have included:

- working time reduction or reorganization
- increased working time flexibility
- introduction or extension of part-time work
- partial and early retirement
- wage moderation, including wage freezes and reductions
- special provisions for smaller enterprises

In Germany, as was noted above, in the case of mass dismissals, works councils are entitled to “Social Plans” that incorporate many of these elements (Weiss, in Blanpain and Hanami, 1994). These plans are legally binding agreements that spell out the alternative offers and compensation to be given to workers. The agreements go beyond financial compensation, and may include retraining, priority in hiring for new jobs, intermediate steps in reducing working time, pension considerations, rights to move to other jobs in the enterprise, etc. In the event of the two parties being unable to agree on a Social Plan, either may appeal to binding arbitration. Beyond severance pay, neither minimum nor maximum levels of assistance are mandated in law, but are left to management and works councils to determine — what is feasible for the company, what is fair and most helpful to affected workers. The opportunities for workers on the labour market are to be taken into account. An arbitration committee is obliged to find compromises which endanger neither the future existence of the enterprise nor the remaining jobs. Reforms to the Employment Promotion Act in Germany of March 1997 provided that state subsidies will be available to companies that negotiate a social plan that contains a high level of social measures, such as training, designed to help redundant employees (EIRR, August 1997).

The law establishes threshold levels of dismissal which triggers the rules governing Social Plans. The thresholds diminish with size of establishment; in general, the threshold is 20 per cent for establishments with 20 to 250 workers, 15 per cent up to 500 workers, and 10 per cent for larger establishments (Weiss, in Blanpain and Hanami, 1994).
The Loi Robien in France, passed in June 1996, encouraged reduction in working hours as a means of promoting employment. It can be both defensive, as a means of preventing layoffs, or offensive, as a means of creating new jobs. The provisions of the law can be prompted by plant, company or sectoral agreement. According to the law, a company benefits from reductions in the employers’ social charges for seven years when it reduces working hours by 10 per cent or more and increases staffing by the same amount, sustained for two years. The law has proven popular — from June 1996 to March 1997, the working time of 27,000 workers were affected by the law, with 2,000 jobs created and 7,000 jobs saved. The law does not specify how, or whether, cuts in pay accompany changes in working time. Working time reductions are often now incorporated into the social plans that companies are obliged to draw up when they announce programmes of job loss. Other incentives, such as making state contributions to social plans conditional to efforts to reduce working time, have encouraged their adoption.

The innovative job protection agreement between the Big 3 automakers and the United AutoWorkers in the United States increases job security in return for commitment to increasing productivity and improving quality. Automakers agreed to forego layoffs, except under narrowly defined circumstances, and agreed to place some redundant workers in training pools or to arrange transfers to other plants. The joint training and adjustment agreement is based on employer and employee contributions of five cents per hour to a fund that pays for skill upgrading of active employees and retraining for displaced workers.

Italy’s Solidarity Contract of 1993 is an example of a central-level agreement which incorporated a work sharing agreement stipulated to prevent labour shedding and collective redundancies (ILO, forthcoming). The social partners conclude plant level agreements providing for reduced working time with a corresponding cut in collectively agreed wages as a means of avoiding mass layoffs and plant closures. The government provides funds to both workers and the firm to make up for the loss of wages and working time. The reduction of hours may be daily, weekly, monthly, or yearly. Under a flexible retirement agreement, workers convert from full-time to part-time status within a year of the date of the solidarity contract and a clause provides for a further increase in employment in exchange for the additional reduction in hours.

More specifically, for reducing hours by 10%, the firm receives a 40% reduction in social charges in the first year and a 30% reduction in social charges for years 2-7. For reducing hours by 15%, the firm receives a 50% reduction in social charges in the first year and a 40% reduction in social charges for years 2-7.

Example Box 3: Loi Robien
Crédit Lyonnais is one of the largest banks in France, employing some 35,000 workers. It’s redundancy programme took advantage of the Loi Robien and reduced the normal work week from 39 to 33 hours, over a four-day work week. The working time of some 7,000 workers was affected but the plan saved 1,100 jobs out of 5,000 planned job cuts. Those working a 33 hour week are paid for a 37.25 hour work week, funded through a solidarity levy of 0.6% of annual salary on all workers. The plan also provides payments to workers required to relocate, retraining for those moving from administrative jobs to commercial operations, financial incentives for employees switching to half-time work, loans at preferential rates for those wishing to set up their own business, and early retirement to limit the number of redundancies. Workers that accept jobs elsewhere at lower pay will have the difference in their salary made up by the bank for two years. (EIRR, May 1997)
One approach to avoiding dismissals in Japan is to transfer employees within the company or to subsidiary enterprises. The transfer of employees is facilitated by the training system, whereby workers gain multiple skills and can thus move easily from one job to another. Transferring employees to subsidiary firms is normally achieved in one of two ways. The first is Shukko, where employees maintain their employment relationship with the original enterprise, but work at the enterprise of the receiving company, usually for a specific duration. The same wages and other conditions of employment continue to apply. The second is Tenseki, where workers enter into a new employment contract with the receiving company, although there is often a guarantee of return to the original enterprise within a certain time period.

### C. Changes in employment terms

If an enterprise is on the verge of collapse, it is often necessary for workers to accept considerable concessions in order to hold on to their jobs. Cost-cutting measures may take the form of wage cuts or freezes, reductions in fringe benefits, changes in work schedules to avoid overtime expenditures, shift work, and greater use of atypical employment contracts, such as part-time and temporary work. Understandably, when the life of a company is involved, workers are more willing to agree to terms and conditions that would be unacceptable under less dire circumstances. In exchange for these concessions, workers often push for written guarantees of no involuntary redundancies or a return to normal conditions once the company’s financial situation improves.

Wage adjustments are often carried out in Japan by reducing or eliminating bonus payments to production workers and managers. Japanese workers may receive a significant portion of their total earnings in the form of bonuses. This portion of the wage bill is not “fixed” but varies with enterprise performance. In lean times, bonus payments can be withheld and thus reduce labour costs without retrenching workers. In the United States, pay freezes or pay cuts have been negotiated in order to protect jobs. These can be graduated by income level, or lowest-paid employees can be exempted. Earning losses can be made up when economic conditions permit (Hansen, 1988). Lesser measures to lower labour costs without cutting jobs include reducing holidays and fringe benefits.

The use of contingent workers offers a great deal of flexibility to employers when it comes to downsizing. Contingent workers, or temporary workers, can readily be hired or fired depending on the workload. The ease with which these contingent workers can be shed, ironically, can provide greater stability and protection for the core workforce but also raises concerns for regular employees, and their labour unions, about exploitation of workers and loss of permanent jobs. Some work forces have accepted increased reliance on contingency workers in return for assurances about core workers and efforts to hire from the pool of temporary workers when conditions warrant.
Employers are, however, excused from paying social security contributions for the one fifth of part-time employees that work fewer than 15 hours a week at low wages. Abraham and Houseman (in Blank, 1996) showed that the rate of employment adjustment did not change substantially after job security provisions were loosened.

A 1990 agreement at Agco (UK) traded contingent work for job security. Recruits were taken on a fixed term contract (FCT) basis, usually lasting 13 weeks, in order to protect the core workers from being laid off. To allay the union’s concerns that the temporary workers would be used to replace the core staff, the agreement assured that the FTCs could not exceed 15% of the total workforce and that their contracts could be renewed for up to two years, at which point these workers either had to be made permanent or released. So far, the agreement has proven beneficial to both the employer and the workers. The company enjoyed steady growth from 1990 to 1997, expanding the workforce by one third, making 230 FTC staff permanent (Arrowsmith, Gilman and Sisson, 1997).

Example Box 5: Contingent Workers and Job Protection
A 1990 agreement at Agco (UK) traded contingent work for job security. Recruits were taken on a fixed term contract (FCT) basis, usually lasting 13 weeks, in order to protect the core workers from being laid off. To allay the union’s concerns that the temporary workers would be used to replace the core staff, the agreement assured that the FTCs could not exceed 15% of the total workforce and that their contracts could be renewed for up to two years, at which point these workers either had to be made permanent or released. So far, the agreement has proven beneficial to both the employer and the workers. The company enjoyed steady growth from 1990 to 1997, expanding the workforce by one third, making 230 FTC staff permanent (Arrowsmith, Gilman and Sisson, 1997).

In Germany, since 1985 employers have been able to offer fixed-term contracts (18 months, renewable). Contrary to concerns raised, fixed-term contracts did not seem to supplant longer-term employment arrangements. The share of permanent employees in the workforce increased from 86 per cent in 1988 to 89 per cent in 1994 (Tuselmann, 1996). Similarly, while there are no barriers to hiring workers on a part-time basis, workers on such contracts are legally entitled to the same benefits as full-time workers, including pensions and unemployment benefits.

Another increasingly common scenario regarding changes in employment terms is to adjust working schedules, including measures to average the weekly work hours over longer periods — anywhere from two weeks to an entire year. Under an annual hours scheme, for example, workers are compensated based on the total number of hours worked over the course of a year, rather than on a weekly basis. So during peak periods workers may be expected to put in a 60 hour work week, which may be reduced to 20 hours per week during slow periods, with earning the same in each week. The employer may be able to restore competitiveness and ensure employment security by avoiding overtime premiums. Annualized hours became particularly popular in industries in the United Kingdom with variable and unpredictable demand, and where weekend shifts had been added to the regular work week. Changes in work rules (legislative or in bargaining agreements) may be required to give employers this flexibility while maintaining protection against exploitation of workers, such as requiring that weekly hours remain below a preset level.

D. Employee Buyouts
Despite the best efforts of workers and managers to keep a failing enterprise afloat, there are times when it is not feasible to continue operations. One innovative alternative to the closure of an enterprise and subsequent mass layoffs is an employee ownership scheme. In these situations, employees band together to purchase an interest in a failing enterprise in order to prevent it from going out of business.

Worker buyout agreements can succeed in keeping plants open by transferring ownership to worker and community stakeholders. In Europe and the United States there are many examples of this strategy saving communities from losing their principal employer and falling into regional depression. Worker buyouts may succeed because the rate of return sought by employee and community shareholders is lower than the rate required by the original parent.

Employers are, however, excused from paying social security contributions for the one fifth of part time employees that work fewer than 15 hours a week at low wages. Abraham and Houseman (in Blank, 1996) showed that the rate of employment adjustment did not change substantially after job security provisions were loosened.
company due to the benefits to the community of keeping a plant open.

The central difficulty that must be confronted is how the change in ownership can help make the plant profitable when the corporate owner, with its management and networking, could not. Often buyout plans are combined with several of the cost cutting measures described above, as agreed by the now owner-employees who will reap the future profits. Government programmes can help workers and labour unions assess the viability of a plant and carefully select promising cases. Governments can also provide subsidized loans and tax reductions to enable workers to purchase their own work places. In many cases, support has also been needed to upgrade plants and training, and for the former owner to provide some ongoing support, such as by agreeing to purchase some level of output for an agreed period of time. Although buyouts can have a variety of management forms, research indicates that where workers are actively involved in choosing management teams and serving on boards of directors, the prospects are higher that necessary productivity gains will be made and that those gains will be distributed equitably (Jones and Pliskin, 1991).

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Example Box 6: Employee Buyout

In 1991, the Steelworkers and Algoma Steel, Canada’s third largest steel company negotiated a wage cut in order to finance an investment in the company that gave the workers part ownership in the firm and membership on the board of directors. Under the terms of the agreement, the 4,500 workers were given 60% ownership in the firm (later reduced to minority share). Initially, the employees had to take a 14.5% pay cut and a reduction in employment in order to restore the firm to profitability. The government also provided assistance in the buyout. Labour-management committees have been convened to ensure greater participation and co-determination at all levels of decision-making and problem-solving throughout the corporation. A joint steering committee is charged with matters such as directing the process of technological change, approving hires and layoffs, reviewing annual business plans, monitoring capital expenditures, and administering the implementation of strategic plans. Incentive payments is another component of the agreement, with the share of profits distributed to worker-owners contingent upon the company attaining certain profit goals. (Meltz and Verma, 1995).

4. Response to enterprise restructuring: Promotion of reemployment

The measures reviewed thus far have aimed at promoting productive restructuring and worker retention within the enterprise. Alongside these measures, and especially when they are inappropriate or insufficient, active labour market programmes can improve the employability of workers and the capacity of the economy to create new jobs. The Organization for Economic Cooperation and Development (OECD) has urged member states to shift emphasis, and funding priority, from passive policies (unemployment benefits) to active policies, as the causes of displacement have been attributed more to structural realignments of the economy rather than to temporary downturns.

In most countries, the Public Employment Service (PES) administers active labour market policies and serves as the main information clearinghouse between potential employers and job applicants, as well as between programme administrators and policy-makers. In most countries it is the interface between public assistance and displaced workers, charged with providing job search assistance, skill training, and usually unemployment benefits.
The two main “supply-side” measures that target displaced workers are job retraining and job search assistance. Their aim is to shorten the duration of unemployment following job loss and to increase the probability that replacement jobs will be at similar skill levels and earnings potentials. “Demand-side” measures attempt to accelerate employment creation through public employment, employment subsidies, the growth of small and medium businesses, industrial recruitment or expansion, and area-based economic renewal.

4.1. Supply-side measures
A. Supply-side measures: Retraining
Programmes that help displaced workers upgrade their skills or develop new ones are usually labelled “retraining,” to distinguish them from training provided before job entry (vocational school or apprenticeships) or during employment (by employers). As the term “displaced workers” refers to persons permanently separated from their jobs and connotes the disappearance of the job as well as the dislocation of the worker from the enterprise, retraining is increasingly regarded as a necessary condition for finding jobs in growing industries.

Evaluation of the effects of retraining programmes for displaced workers in the United States and Europe vary from no effect to somewhat positive impact on improving their jobs chances (Auer, 1991; Decker and Corson 1995; Leigh, 1994). This mixed effect is attributed to difficulties in designing effective programmes and in allocating sufficient funds, particularly for support services and income maintenance during retraining, and to the use of such programmes under inappropriate conditions. (For example, in the United States less than 10 per cent of those eligible participate due in large part to inadequately funded programmes.) Several lessons can be drawn from these mixed results:

(i) Retraining programmes should be tailored to the needs of local employers. In recessionary circumstances or structural adjustment, the essential question in designing effective retraining programmes is training for what? To be effective, training must correspond to the occupations and skills for which demand is increasing, or is expected to increase. This knowledge relies on a well-functioning labour market information system, by which data is collected frequently from employers and distributed to policy makers, vocational educational institutions, the public employment service that administers training programmes, workers’ and employers’ representatives and individual job seekers. In the absence of this information, training programmes can deteriorate into holding patterns -- temporary placements for laid-off workers that lead to unemployment rather than to new jobs.

(ii) A review of evaluations of US training programmes suggested that short-term training designed to upgrade workers’ existing skills was more effective than furnishing training in new occupations (Leigh, 1994). Such training can be made available on week-ends and evenings to increase participation rates. This level of training may be particularly appropriate in places, like the United States, where relatively few enterprises provide upgrade training for production workers, provided labour market information indicates growing demand in the same occupations but at higher qualifications. It was also found that workers reemployed in the same industry or occupation tended to suffer less of an earnings loss when reemployed.

(iii) Longer classroom training is the most expensive retraining method. It is probably justified only when occupational change is required to provide displaced workers with skills that are marketable in the local economy. Providing income support for a longer
period of time drives up the cost of such programmes, but without it, displaced workers most in need of assistance will be the least likely to be able to participate. In the United States, the absence of public child care programmes has been shown to limit participation of women in retraining programmes.

The three most important elements of effective retraining programmes are that they provide workers with marketable skills, based on understanding dynamics of local labour markets; that income support be sufficient so that workers can afford to participate; and that the type of training - long-term classroom versus short-run practical courses - fit the abilities of workers and the needs of potential employers. In areas with very high unemployment and concentration in declining industries, measures to promote mobility to areas with greater opportunity and measures to bring in new investment and jobs may be more effective than offering training to displaced workers.

B. Supply-side measures: Job search assistance

According to the ILO official definition, unemployed persons are out of work and are actively seeking employment opportunities. In some countries, including the United States, proof of such activities are required in order to receive unemployment benefits. Workers displaced after many years of work in the same occupation or with the same employer may not have accurate ideas about labour demand in the same industry, occupation and region. Measures to assist displaced workers in the search process, typically delivered through the Public Employment Service (PES), aim to improve the flow of information between potential employers and job-seekers. Measures include targeted job-matching to effect a better or faster match between employer requirements and job-seeker characteristics and subsidized short-term placements with employers. The institutional capacity required to run such systems effectively is very high, but should be considered as a long-term investment. A well-managed PES can be instrumental in implementing emergency policy measures and help labour markets adjust quickly in times of employment crisis. The recent experience in Central East European countries, however, has illustrated the difficulty of developing an effective PES quickly during employment crises.

The policy concern to prevent displaced workers from becoming long-term unemployed is leading analysts to promote the benefits of the PES taking early action for ‘at-risk’ groups. In practice this lies in the timing of intervention. Counselling offered in the early weeks of unemployment may be seen as an effective intervention for preventing job loss to be extended into long-term unemployment. After a period of unemployment, displaced workers may begin to lose their attachment to the world of work and their skills may begin to deteriorate. Many countries operate a policy regime with low-cost counselling and job search information offered to the short-term unemployed, with the intensity and cost of the measures adopted increasing with duration of unemployment.

- The evaluation research across OECD countries suggests that job search assistance appears to provide satisfactory results on a consistent basis. It provides the lowest cost interventions with generally the largest relative payoffs, and appears to be effective for most groups of unemployed persons (Fay, 1996). In Western European countries, the job clearinghouse role of the PES benefits from national data bases, legal requirements that firms list vacancies with the PES and high quality of services to both workers and employers that creates demand for its services.

- Some tracer studies in the United States have shown that job search training yielded
such high benefits in terms of shorter durations of unemployment that participation in such training should be mandatory (Decker and Corson, 1995). Evaluation of United States displaced worker demonstration projects indicated that job search assistance speeds up the reemployment of displaced workers, especially if intervention can begin before workers disperse after layoffs and plant closings, and is cost effective due to modest expenditures per worker (Leigh, 1994).

Some countries have found that combining targeted subsidies with assistance in how to look and apply for jobs is effective in increasing reemployment rates, particularly in increasing workers’ acceptance of jobs that are distasteful in some way. Incentives or subsidies include measures to reduce the costs to the job-seeker in finding, accepting or keeping a job.

- **Mobility subsidies** may be required to enable workers to move their families so that they can accept jobs in distant locations. Subsidies can also reimburse job search expenses, such as interview travel.

- **Earning supplements** have been used in some OECD countries to compensate reemployed displaced workers for loss of income when they have accepted new jobs at lower pay. This is cost effective only if the subsidy is both lower than the unemployment benefit and provided for a relatively short duration.

- **In France**, job-finding bonuses are part of “Conversion Agreements,” or contracts between displaced workers and the government. Workers are paid up to two-thirds of their previous salary (slightly more if previously employed in small firms) for up to ten months, during which they receive counseling, training, and job-search assistance. Displaced workers may receive 65 per cent of their remaining entitlement if they accept a new job before the end of the ten-month period.

Job search efforts can also be undertaken by enterprises for their own released workers. For example, managers and unions can identify employers in the surrounding area that use the same type of skills as those at the closing plant, prepare a list of all the employees looking for new jobs by skill and experience categories, and send it as a package to area employers. The potential gain from this approach may be very high where, as in the United States, many vacancies are not advertised but filled through informal communication. However, company-based job search activities can also be useful in countries where nationwide job listings are comprehensive. For example, in Sweden, the Regional Labour Market Board establishes job-finding centres at facilities announcing large layoffs. The facility links the local job loss site to the nationwide computerized job vacancy identification system, giving access to the national system to which all companies are required to list their vacancies to workers even before they are discharged by their employer (Batt, 1983).
The Manpower Consultative Service (MCS) of Canada Employment and Immigration was noted in the early 1980s for its consolidated and cooperative approach to re-deploying displaced workers. The linchpin of this programme was establishing a Manpower Adjustment Committee as soon as a plant closure or massive retrenchment was announced. The tripartite committees were composed of production and personnel management, union officers, representatives for salaried nonunion employees, and an MCS agent. The company and local and provincial government shared the committee’s expenses for workers’ time at meetings, in-kind space and office service, and a salaried independent chair. The activities of the joint labour-management committee included:

- Signing a standard agreement setting the work procedures for the committee;
- Taking a survey of the displaced workers, creating a one-page summary of each worker’s skills, training, willingness to relocate;
- Determining demand for the workers, with each tripartite member gathering information in unique ways: The company networks among the local business community, its suppliers and customers; the union takes stock of which shops were hiring in the industry; the job service contributes local and regional labour market information.
- Keeping records of the people placed for in-time monitoring.

In 1980, 365 companies and worker groups had signed such agreements in Canada, affecting 200,000 workers. Two-thirds of the participants had found replacement work before or shortly after their retrenchment. In one of the largest cases, a layoff of 2000 workers at an automotive plant, 94 per cent of participating workers found jobs through such an outplacement plan, at a cost of $60,000. "Over the 20 years of experience they’ve had with this approach, the Canadians have found that combined efforts like this, directly involving the company and the union, who know these workers best, prove far more productive in uncovering jobs than do the impersonal and over-worked job service offices."

The government role is critical in creating a regulatory environment that gives enterprises incentives and support to make commitments to extensive outplacement plans. Most importantly, the several months advance notice of impending layoff required by provincial law in Canada was a necessary factor to allow the labour-management team time to organize and formulate an outplacement programme. It was also found that paying severance to all workers, including those that found replacement jobs before dismissal helped give workers incentive to start their job search before they were released (Batt, 1983).

In addition to efforts to replace jobs and income, many of the exemplary local-based job-search assistance programmes also help displaced workers deal with social and emotional problems. Displaced workers with long-standing ties to their employers and whose self-esteem is closely connected to being providers for their families can suffer from shock and depression, which can wreak additional havoc on families and communities. Three elements of successful programmes to deal with this level of the social impact of large-scale downsizing are advance notice and information sharing before retrenchment, maintaining some group identity among workers displaced from the same company or in the same community, and the availability of counselling services.

- As already noted, advance notice enhances the efficiency of the employment adjustment process in the face of corporate retrenchment: It is associated with shorter periods of unemployment and higher-wage replacement jobs. It also allows workers that had enjoyed long-term job security to adjust to the shock emotionally before having to deal with the economic repercussions of job loss and the uncertainties of finding a new one.
- A job search area set up at the plant that provides telephone access, sample resumes, office equipment and computer hook-ups to national job postings creates a positive...
The Trade Adjustment Assistance program was established in the US in 1962 to compensate workers for trade-related income losses and help them adjust to changes in industry and labour markets. Eligibility for the extended unemployment benefits and training depended on US Department of Labour determination that international trade (mainly import competition) had contributed to the layoffs. Over the span of more than three decades the programme shifted emphasis away from unemployment payments to job training, prompted by programme evaluation which showed that job loss due to import competition tended to be permanent and that workers required retraining, counselling and job search assistance to be able to move into new jobs in other sectors. Between 1982 and 1990, an average of 30,000 persons began receiving financial assistance each year, and about 13,000 entered training (Decker and Corson, 1995).

- Telephone crisis lines, counselling services and referral systems have often been instituted by local NGOs or the public employment service to help displaced workers and their families deal with the emotional impact of job loss and unemployment. Such seemingly modest efforts can have a major impact on helping workers adjust emotionally to job loss, to accept the fact that the job loss was not due to their inadequacies, that other workers and families face the same challenges, and that they had not been abandoned as individuals by their companies and communities just because they were, temporarily, displaced from their previous productive role in society. Termed "job clubs" in the United States during the recession of the early 1980s, centres to bring displaced workers together and provide basic job-search training were found to be effective in warding off the isolation that is often a debilitating effect of job loss (Batt, 1983). It is difficult, but nonetheless an important and fairly inexpensive part of job search assistance, to help individual workers accept that while their job loss was due to larger economic forces beyond their own control, there are effective steps they can take to improve their reemployment prospects.

C. Supply-side measures: Targeted programmes for specific groups of workers

Some active labour market programme target specific groups of workers whose job loss was directly caused by a change in public policy. The programmes are intended to compensate groups of workers that bear the brunt of the adjustment costs for changes that are expected to have an overall positive impact on the economy. On the issue of equity, these programmes are designed to spread the benefits of general improved economic performance. On the issue of efficiency, they are supposed to reduce resistance to transformation that may be painful but desirable from a long-term or country-wide perspective.

One prominent example in the United States is trade adjustment, which compensates workers adversely affected by opening the economy to import competition. For another, in Western Europe, conversion assistance to ease adjustment to decreased government defence spending in the wake of the Cold War has become a feature of area-based redevelopment funds. The two common features of such programmes are that workers' eligibility is determined by having been adversely affected by a change in public policy and that the adjustment assistance package is tailored to the needs of these groups of workers.

One possible criticism of such programmes is that they do not target the most “needy”
displaced workers, in terms of income or skill levels. But they do target workers who are permanently displaced and who because of the nature of their former jobs, the type of public policy change, and their regional concentration have greater difficulty finding new jobs than the average unemployed worker.

Active labour market policies often target vulnerable groups of workers whose re-employment prospects and earnings in replacement jobs are likely to be lower than for the average displaced worker. For example, a major survey of displaced workers in the United States found that one fourth of the displaced women workers had left the labour force, compared to one tenth of the displaced male workers. Re-employment status varied by education level, area unemployment rates, and age, as well as by gender. Younger workers were more likely to be displaced, but more likely to find new jobs than older workers. Older workers may be protected from displacement by seniority, but when displaced face greater risks in terms of longer search for new jobs at lower earnings (Richards, 1991).

In Germany and Japan when firms find retrenchments unavoidable, the selection of which workers to be released must include consideration of the severity of the consequences on certain groups of workers. For example, the German Dismissal Protection Act obliges companies to take into account workers’ age, as displacement may pose a more severe penalty for older workers due to loss of seniority, discrimination in finding new jobs, and high probability of loss of earnings. Rules for compensation agreed to in Social Plans often include continuing payments for older workers and adding an increment to their unemployment benefits (Tuselmann, 1996; Leckie, 1993).

The package of measures that target identified groups of workers typically encompass both demand and supply-side efforts. In addition to extra income maintenance assistance, retraining, and attention in job search programmes, public policies have featured hiring subsidies (also typically for the long-term unemployed and workers with disabilities), community redevelopment (for example small communities where military facilities have closed), and priority consideration in self-employment promotion schemes. In some cases subsidies have been provided to employers who find hiring from the pool of unemployed unacceptable in some way - taking their employment status as an indicator of undesirable worker characteristics. In Japan, because unemployment is less common and therefore more likely taken as an indicator of poor work skills or habits, this type of subsidy has been used to persuade employers to hire workers displaced for economic reasons.

Evaluation suggests that in general terms, subsidies to employers are relatively high cost per net job created, and may have high deadweight effects (i.e. subsidize employers for what they would already find in their own interests to do apart from public policy objectives.) Nevertheless, subsidies targeted at the most disadvantaged groups of displaced workers (lowest skills, older workers, in depressed areas) for whom other measures have proved ineffective can improve their re-employment prospects.

4.2 Demand-side measures
A. Demand-side measures: Job creation schemes

Initiatives which create employment directly for some unemployed workers are intended to provide a bridge back to the regular labour market, particularly from long spells of unemployment. Such measures are normally in “socially-useful” activities which do not in principle displace market activities. Traditional job creation schemes create (usually short-term) jobs in the public or quasi-public sectors for the unemployed in “non-market activities.”
Small-scale, often local or community-based programmes aim at generating employment in the ‘intermediate labour market’, often via special ‘re-integration enterprises’ or ‘community businesses’ set up for this purpose. Although these measures must rely on some form of state subsidy, they often benefit from the involvement and support from non-governmental bodies (Meager, 1997).

An advantage of public works or service schemes is that they can provide income to those currently unemployed as well as invest in the transportation infrastructure, environmental protection or cleanup, or community amenities (recreation, schools, utilities) that help attract new investment, retain local businesses, and create more viable long-run jobs. Investment in public services is more labour intensive, and can also be directed at improving long-term productivity, for example through improved education or health care services.

The United States and European countries have resorted to this approach during severe depressions, when immediate assistance was needed for a large portion of the population and government support was needed to boost aggregate demand. Apart from these times, the drawbacks of this approach have tended to outweigh their advantages in public policy debate: The public expenditure required is extensive; many projects are capital intensive, and if not warranted on their own merit provide neither productive assets nor sufficient immediate employment; public works projects may be manipulated to provide political and regional favours. Some public works projects have been viewed as grandiose make-work projects, some very ill-conceived from an environmental protection point of view. Also, there is a risk that participants become ‘stigmatized’ in employers’ eyes and that repeat participation in such schemes itself becomes a dimension of social exclusion. These possible negative consequences have severely limited the use of employment-intensive public works schemes in the transition economies of East Central Europe and the newly independent states of the former Soviet Union, despite the prolonged recessions and the need for transportation infrastructure, environmental cleanup and new housing in many of these countries.

The conditions under which public works and public services job creation measures are appropriate are fairly clear: First, the project and services must contribute to long-run productivity. Second, they must target public goods and services which cannot be supplied efficiently or in sufficient amount by private providers. Third, they must be tapered off gradually so as to allow a smooth reabsorption of workers by the normal labour market. In addition, such programmes can often serve the additional objective of easing unequal rates of development, for example by investing in rural or remote areas.

B. Demand-side measures: Local and regional development schemes

Certain regions, like groups of workers, can also be affected disproportionately by economic transformation, especially mono-industry areas dependent on a single declining industry. Among OECD countries, many mining areas, steel mill regions, shipbuilding ports, and clusters of textiles and shoes manufacturers have experienced substantial erosion of the local employment base due to changes in the international competitiveness of these industries. Examples of successful adjustment can be found across a variety of redevelopment strategies, all of which share the key element of building a new investment and employment base.

Some depressed regions of OECD countries have rebuilt the local employment base by attracting outside investors to the area, including affiliates of foreign-owned companies. Some regions in Wales and Ireland have been well documented as examples of successful efforts to attract and keep foreign direct investment. Investment in human capital, including basic
An example in Sweden illustrates the principle of coordinated adjustment in a company town. When a large steel company announced the closure of the steel mill in a small rural community, a community plan was formed under the aegis of the Regional Labour Market Board. Their plan centred on recruiting new industries to locate in the former mill buildings, including one to produce a product developed by former steelworkers. State subsidies were provided to help the new companies create jobs. The city built access roads. During the transition the company employed the workers to rehabilitate the old mill structure, attend vocational school, or work on loan for a local forestry agency. During the 2-3 year adjustment period the Labour Market Board subsidized 75 per cent of the wages. All 440 of the mill’s employees were re-employed through this sustained and coordinated effort (Batt, 1983).

Example Box 9: Regional Reconstruction

An example in Sweden illustrates the principle of coordinated adjustment in a company town. When a large steel company announced the closure of the steel mill in a small rural community, a community plan was formed under the aegis of the Regional Labour Market Board. Their plan centred on recruiting new industries to locate in the former mill buildings, including one to produce a product developed by former steelworkers. State subsidies were provided to help the new companies create jobs. The city built access roads. During the transition the company employed the workers to rehabilitate the old mill structure, attend vocational school, or work on loan for a local forestry agency. During the 2-3 year adjustment period the Labour Market Board subsidized 75 per cent of the wages. All 440 of the mill’s employees were re-employed through this sustained and coordinated effort (Batt, 1983).

There are several points to make about this kind of intervention, besides to underscore the obvious, that substantial resources were required. First, the costs were acceptable because they were perceived to be borne equitably by the company who stood to profit by closing a facility, by the town, by the workers and the State. Second, expenditures were regarded as an investment in the future productivity of the town, rather than as an unemployment payment to individuals. Third, alternatives to this coordinated effort were seen to be more expensive:
state expenditures for longer periods of unemployment benefits, loss of corporate tax revenue, and out-migration. Community-based efforts such as these can help deter urban migration that often results from economic depression in small towns in rural areas following plant closure.

Example Box 10: New Business Generation
Following a long period of decline marked by bitter strikes and massive layoffs in the 1970s, the British Steel Corporation founded "BSC Industries" to find new jobs for redundant steel mill workers in depressed areas dependent on steel production. The main strategy was to foster the development and growth of new businesses on the sites of closed steelworks. Between 1975 and 1987, BSC Industries initiated the creation of 60,000 jobs. The company acted as a go-between, accessing public funds (British, EEC and local), combining it with money (£40 million) and land and mills donated by British Steel, and providing consultancy services to local entrepreneurs about prospects for various types of businesses and ensuring that projects were well integrated into the local economy. Public subsidies were related to jobs created (£2000 per job). An evaluation conducted in 1987 found the local unemployment rate to be 7 points above the national average, but 4 to 5 points below the unemployment rate in the post closure period (Campbell, 1991).

Both of these examples illustrate the case of closure of one (or even several) plants but not the bankruptcy of the enterprise. In this circumstance there are better prospects that the firm can provide assistance to workers and communities than if the closure is part of the total demise of the enterprise. National policies can help make it attractive for enterprises to sell facilities to other firms, tipping their closure plans in favour of job creators rather than in mothballing plants. For example, tax write-offs can reward donations of plants, offices and other facilities to communities, which can be salvaged, rehabilitated and used to attract new smaller companies. As with physical capital, public policy can reward companies for providing human capital for restructuring plans (for example business training or consulting services). Enterprises can also guarantee purchases of a share of products or services from the startup companies. Also, the option of taking severance payments in a lump sum severance payments can enable some displaced workers to start their own businesses.

One potential disadvantage in regional reinvestment schemes is that startup enterprises on the premises of old mills may create more jobs for young workers than for older displaced workers. While some of these workers may find jobs elsewhere in the local economy, public job-creation subsidies may need to target displaced workers and combine investment subsidies with worker retraining. Investment subsidies must also be administered in such a way so as to encourage long-term commitment and discourage new businesses from leaving after a few years in search of new subsidies offered elsewhere.
Austria set up Employment foundations (Arbeitsmarktservice) as a comprehensive approach to large-scale reductions in the steel industry. The foundations act within the framework of enterprise social plans in agreement with works councils and provide services packaged to individuals’ needs, including vocational guidance, job search assistance, and support for establishing small enterprises. The steel companies provide services (in-kind contributions such as training premises and training personnel). Solidarity contributions are made by workers still employed (0.25% of workers’ gross wages), participants pay a modest subscription fee, and the Employment Service pays unemployment benefit to the participants. Like other active policy measures, the employment foundations are designed to cushion the negative aspects of structural reform and improve workers’ chances of participating in economic improvements. A particular feature of the employment foundation approach is that the members are no longer isolated dislocated workers, but are rather part of a new group whose “work” is to resolve their employment problem. An evaluation found that some 90% of former members found a new job or were undergoing training. A success rate helped, no doubt, by the high level of commitment: Displaced workers can receive training for up to four years. (Information provided by Arbeitsmarktservice, Austria)

Example Box 11: Employment Companies

The German approach to privatizing and restructuring enterprises in the former East Germany built on its earlier experience with similar “employment and training companies.” This concept had been developed during the recessions of the 1980s as a means of coping with mass redundancies in individual sectors (iron and steel, mining and consumer electronics.) Non-profit “employment companies” were set up to offer opportunities for workers at risk of dismissal to receive training in a “labour pool” and, at the same time, make proposals for the diversification of the firm’s activities in order to create alternative job opportunities (Bosch and Knuth, 1993). As adapted to the large-scale redundancies in East German states, employment companies operated in firms’ premises, transferred employees into training programmes before they had been formally discharged, placed workers in subsidized jobs in public works (particularly environmental projects) and cooperated with, or acted as a catalyst for, regional redevelopment efforts. They played an important role in implementing active labour market policies and “cushioning the transition of redundant workers in a socially acceptable manner primarily by administering short time working schemes, organizing temporary job creation projects and brokering training” (Hess, 1994).

C. Demand-side measures: Local enterprise development

Schemes which subsidize the unemployed to start their own businesses have generally been found to require modest subsidies and administrative expenditures and are thus an important element of active labour market policy. Programmes to foster small and medium-sized enterprises (SME) must consider the effects of a wide set of policies that can discourage or encourage small business establishment and development: business taxes, wage-based taxes, credit institutions, managerial training, business registration and other regulations, and the effects of labour market regulations and social security measures.

The viability of startup businesses can be supported by measures targeting horizontal linkages - enhancing cooperation among local businesses, and vertical linkages - attaching local companies to national or international markets. Horizontal linkages can be used to make up in cooperation some of the advantages that accrue to larger enterprises by the scale of their operations, such as sharing the costs of research and development investment, worker training, dealing with regulations concerning environmental protection and safety and health
standards, and buying materials or shipping product in large quantities. As was mentioned, some countries allow displaced workers to take unemployment insurance payments as a lump sum to use as startup capital for small businesses.

However, evaluations (see, for example, Meager, 1997) have also drawn attention to limitations of SME-led strategies and best practices for how to avoid various difficulties:

- It appears that the most disadvantaged groups among the unemployed are significantly under-represented among participants in self-employment schemes. Besides the social choice this entails, it raises the possibility that startup subsidies will go to enterprises that would have been started anyway.

- On the other hand, enterprises started only because displaced workers were persuaded to do so by the availability of subsidized finance appear to have lower survival rates. This underscores the importance that most SME programmes place on entrepreneurship or management training, the preparation of bona fide business plans as condition of eligibility for assistance, and the availability of follow-on services to mentor first-time business operators. Evaluations of programmes have also shown that structuring the subsidy as a one-off grant to cover initial capital costs may be more effective in supporting viable businesses than payment of the subsidy as a regular allowance over time, which may encourage dependence.

- Subsidized businesses are sometimes concentrated in low-margin service sector activities where earnings are low, survival prospects poor, and the risk of displacing other businesses (that are excluded from public subsidies) high. Risks of failure are also higher during recessions, just when the number of unemployed interested in self-employment rises.

- Workers in small and medium-sized establishments are rarely represented by collective bargaining. Furthermore, regulations governing working time, benefits, wages, etc., are sometimes relaxed for small businesses (on the grounds that they impose such an unduly heavy burden that they hinder the development of the sector.) Alternative rules and protection may be required that target workers in this sector and forge a balance between good jobs and good business prospects. Special efforts by other forms of workers organizations, public interest groups and government agencies and legislation may be needed to ensure adequate worker protection in startup businesses.

5. **Conclusion**

This review has focused on the employment challenge that arises from industrial restructuring. Displacement in this context is typically from well-paid, stable jobs in large manufacturing enterprises and is one of a number of important aspects of the employment challenge in OECD countries. The nature of the displacement problem is that job loss is due to fundamental reorientation of national or regional economies. Waiting for old jobs to return or looking for the same job elsewhere may not be viable options for most of the displaced workers.

A model programme to deal with this type of worker displacement would attempt to maximize the potential for labour redeployment within firms and smooth the process leading to reemployment in new jobs elsewhere. Most of the examples of effective measures were based on coordinated effort among official agencies, employers and workers, and communities. The specific measures taken in any example reflect the opportunities and
constraints presented by the larger employment system: the regulatory, legislative, and judicial framework, the nature of management-labour relationships and the strength of collective bargaining.

Successful models to avoid or limit worker displacement during enterprise restructuring or economic downturns included the following measures:

- Ongoing training to enhance flexible allocation of labour within the enterprise
- Advance notice to workers’ representatives
- Consultation with workers to devise work adjustment and compensation plans
- Cooperative efforts to implement response plans

Successful models to speed reemployment, drawn from the many policy evaluations and programme examples reviewed, included the following measures:

- Advance notice to government authorities
- Labour, management, community outplacement committee
- Rapid response capability by local government agencies
- Income maintenance and social services provision
- Job search assistance
- Social support networks
- Job skill training
- Community and regional industrial development

There is no single model that is appropriate for all circumstances. Combining various elements into effective response packages depends first of all on the degree of intervention that is required. This ranges from enabling a manufacturer to remain competitive through temporary public support for training or employment subsidies; to implementing plans forged by joint labour-management committees to redeploy workers before a plant closes; to compensating displaced workers and helping them prepare for and find replacement jobs; to improving the conditions for existing and new enterprises to create jobs.

To review briefly, the response elements can be summarized in terms of meeting immediate, medium-term, and long-term (or institutional) needs:

(i) Immediate measures

- Advance notification to workers, their representatives and local government agencies of impending enterprise changes that will affect labour demand is a necessary condition for effective adjustment. Within the firm it prompts the consultation or negotiating process, where required by law or collective bargaining agreement, to draft contingency plans within the enterprise. It also prompts the public employment service to plan provision of services to workers.

- Most adjustment plans begin with measures that can be implemented quickly within the firm, such as reallocating workers or lowering work hours in order to reduce the number of layoffs. Internal adjustment measures for reducing labour supply in Germany have emphasized work time reductions, work share arrangements, and early retirement schemes; in Japan they have focused on reduced work time, retraining and reallocation of workers among affiliated firms.

- Immediate measures to facilitate adjustment through the external labour market begin with the variety of tasks undertaken by the Public Employment Services, including serving as a clearinghouse between job vacancies and job applicants, enrolling displaced workers for unemployment benefits, and assessing workers’ skills and training needs.
(ii) Intermediate measures
- Job search assistance and skill training are the principal services required by workers. In Germany and Japan, both often take place within the firm, without displacing workers from the employers. In the United States, retraining may be made available following displacement, on the basis of tuition subsidies paid by government agencies to qualified training institutions.
- Adequate income maintenance is necessary to enable those workers who are most in need of assistance to be able to participate in available job search and retraining programmes.
- Social support networks are most effective if activated during the notification period, rather than after displacement, to help workers and their families cope with the trauma of job loss, economic uncertainty, and loss of status. They may be needed throughout the duration of the retraining, job search and relocation process.

(iii) Long-term measures
In the long-term, institutional measures may be needed to improve the mechanisms of both external and internal adjustment. This could include building a supportive legislative and regulatory framework for enterprise adjustment and public policy programmes to improve the functioning of the labour market.
- Some measures may target the industrial relations system and the mechanisms of internal adjustment during demand downturns and long-term restructuring. This could include providing legislative or regulatory support for improving communication, notification, and cooperative approaches to restructuring between employers and workers representatives. Labour market regulations and laws may need to be examined in the light of their effect on employers' ability to limit displacements or to expand employment (such as regulations concerning working time, retirement, and retraining.)
- Within the enterprise, an important long-term labour adjustment mechanism is cross-functional and upgrade training. Enterprises and workers that have jointly encouraged this type of long-term investment have reaped the benefit in terms of speedier adjustment to external change with a lower threat to employment levels.
- Some measures may seek to strengthen the ability of communities or regions to diversify their employment base, attract new industries, or create a more favourable environment for small and medium-sized local businesses. This may include examining incentives for employee buyouts, the availability of credit institutions and business services that target small businesses, and programmes that improve cooperation among small businesses.
- An evaluation of the Public Employment Service's ability to implement active labour market policies may be needed. Consideration of its ability to collect vacancy information from employers, to respond rapidly to employment shocks, and to counsel job-seekers and assess their skills and retraining needs are among its important roles that may need to be strengthened.

The approach taken to respond to the employment consequences of enterprise adjustment and economic restructuring reflects societies' experiences and policy objectives. These approaches have been shown to combine measures intended to accelerate economic restructuring in order to improve employment growth with others aimed at preventing individual job loss from becoming long-term unemployment and poverty.
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