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Work sharing: A strategy to preserve jobs during the global jobs crisis

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What is work sharing? Why is it a relevant response to the global jobs crisis?

Work sharing is a reduction of working time intended to spread a reduced volume of work over the same (or a similar) number of workers in order to avoid layoffs or, alternatively, as a measure intended to create new employment. The concept of work sharing originated during the Great Depression, and is reflected in the spirit of the Forty-Hour Week Convention, 1935 (No. 47), adopted at the height of the Depression, which established the principle of the 40-hour week and advocated "that a continuous effort should be made to reduce hours of work in all forms of employment to such extent as is possible" (Preamble).

In the context of the current global economic recession— and the global jobs crisis that it has spawned — there has been a growing interest in work sharing as a labour market policy tool aimed at preserving existing jobs. In the framework of national work sharing programmes, enterprises can receive benefits when they refrain from the use of layoffs, and instead "share" the lower amount of available work by reducing the working hours of all employees or all members of a work unit.

Work sharing should not be confused with job-sharing, which refers to a voluntary arrangement whereby two persons take joint responsibility for one full-time job; for example, a common form of job-sharing is to split one full-time job into two part-time jobs. Unlike work sharing, job-sharing is generally not used as a measure to avoid layoffs or create new jobs, and the reductions of hours under work sharing typically do not reduce hours to part-time levels.

The reduction in working hours under work sharing is often (although not always) coupled with reductions in wages, which are typically proportional to the reduction in workers' working hours (although this may not always be the case). However, this constraint can be alleviated by government wage subsidies, which are often provided through partial unemployment compensation, although they can also come from general government revenues.

However, work sharing is much more than "pay cuts": it is a measure designed to share the burdens of a difficult economic situation — not only among workers, but between workers, employers and governments as well. If work sharing policies are properly designed and implemented, the result is a "win-win-win" solution: enabling workers to keep their jobs and even to prepare for the future; assisting companies not only to survive the crisis, but to be well-positioned to prosper when growth returns; and minimizing the costs of social transfer payments and, ultimately, social exclusion for governments and society as a whole.

What are the key elements of work sharing policies and programmes?

There are essentially five elements that may be included in work sharing policies and programmes, not all of which are present in all work sharing programmes. Nonetheless, proper consideration needs to be taken of all these elements, and the more elements that are present, the more effective the programme is likely to be in achieving the desired result.

The key elements of work sharing policies and programmes can be summarized as follows:

- The reduction of working hours for all workers in a company or a specific work unit within a company, in lieu of layoffs. For example, instead of laying off 20 per cent of the workforce, a company would reduce the working hours of *all employees* by 20 per cent. Thus, in this case, if workers were working a standard 40-hour week, they would now be working 32 hours under work sharing (or four eight-hour days instead of five eight-hour days).

- The reduction in working hours is accompanied by a corresponding (pro-rata) reduction in wages/salaries. Thus, in the above example, the salaries of all employees whose hours are reduced by 20 per cent would also be reduced by 20 per cent. This reduction in salaries, a serious hardship for workers, is necessary for companies to be able to achieve a similar level of savings in labour costs as with layoffs — but without laying off any workers.

- The provision of wage supplements to affected workers is a crucial element of an effective work sharing programme, in that it helps to "cushion" the effects of temporary reductions in earnings. These wage supplements are public subsidies that provide employees whose hours and salaries have been reduced with partial replacement of their lost earnings — typically around half (or slightly more) of the amount by which their salaries have been reduced.

- The establishment of specific time limits on the period of work sharing. Such limits are essential to ensure that the work sharing programme is indeed a temporary measure in response to the economic crisis or to facilitate mutually agreed-changes, *not* a permanent reduction in hours and pay. Making such measures temporary also limits any potential displacement effects that might arise as a result of work sharing— i.e. a "crowding out" of some emerging businesses and industries by existing, inefficient ones as a result of public subsidies. Work sharing programmes implemented in response to the global jobs crisis should be targeted on firms experiencing problems due to the business cycle — rather than on those facing structural economic adjustments— recognizing that this can be a difficult distinction to make in practice.[1]

- The creation of links between work sharing programmes and training / retraining activities. While not an integral element of work sharing, encouraging employees who are on work sharing schemes to participate in training and retraining activities can upgrade their skills, so that they can be more productive when demand for the company's products or services rebounds. Should that fail to occur, the workers at least will be better prepared to move to new jobs during the economic recovery.

What are some of the advantages and disadvantages of work sharing?

Advantages for employers

- Enterprises adjust working hours to fluctuations in demand for their products/ services, thus acting as a substitute for layoffs.
- Retention of skilled workers, thus avoiding the substantial costs of recruiting and training new workers when demand recovers.[2]
- Reduction in labour costs in the short term, and productivity improvements in the medium term through reorganization of their production or service delivery processes or increased training investments.
- Enhanced employee morale (vis-à-vis layoffs), leading to lower turnover costs than with layoffs.

Advantages for workers

- Enhanced job security, at least temporarily, due to the preservation of existing jobs.
- Higher levels of income for workers than they would have received if they had been laid off.
- Avoidance of skills loss or skills depreciation that is often associated with unemployment.

Disadvantages for employers

- Substantial adjustments in human resource management practices.
- Additional administrative costs in the short term due to changes in scheduling and work organization.

Disadvantages for workers

- Substantial reductions in their earnings (these reduced earnings may be partially compensated by public wage subsidies).
- Decline in worker morale, especially if wage reductions are substantial and no wage supplements are provided.

Work sharing schemes also benefit governments by helping to avoid, or a least reduce, the number of layoffs, thus helping to maintain existing levels of employment. Keeping employment higher and unemployment lower can, in turn, reduce the costs associated with unemployment, such as social transfer payments, and also help to avoid the serious problem of social exclusion that is often associated with long-term unemployment. Nonetheless, there are some up-front costs of work sharing programmes to governments, although such costs would likely be substantially less than the costs associated with layoffs and potentially long-term unemployment.

How is work sharing being implemented? Some recent country experiences

The vast majority of those countries that possess active work sharing programmes are in the industrialized world: Austria, Belgium, France, Germany, Japan, the Republic of Korea, the Netherlands, Switzerland and a number of individual states in the United States. By contrast, these programmes are quite rare in developing and transition countries. Nonetheless, in the context of the global economic and jobs crises, a few developing and transition countries have begun to discuss and experiment with some basic forms of work sharing, including Chile, Costa Rica and Uruguay in Latin America, and the Czech Republic, Hungary, Slovakia and Slovenia in Eastern Europe.

How are work sharing programmes initiated?

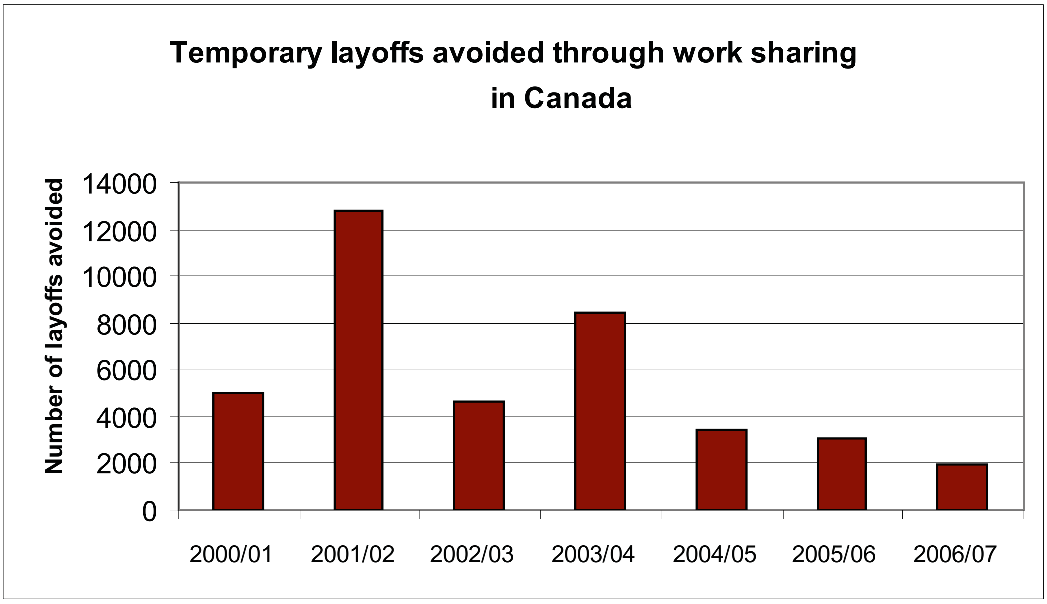
There are a number of different approaches for implementing work sharing. First, national laws (and also sub-national laws in federal systems) often promote — but do *not* mandate — the implementation of work sharing schemes, and provide companies with incentives for adopting them. For example, the German national work sharing (or "short-time working") programme, called *Kurzarbeit*, is available to establishments facing a temporary, unavoidable loss of employment due to economic factors (Wießner et al., 2009). Work sharing has also been commonly used in the Republic of Korea, based on their experiments with different forms of work sharing during the financial crisis of 1997-98. The Korean government has been actively promoting work sharing in specific companies by introducing a wide range of financial incentives (Korea International Labour Foundation, 2009). In the United States, work sharing laws and programmes — while authorized under a provision of federal law enacted in 1992 — exist on a state-by-state basis (there is no national programme). To establish a state work sharing programme, companion state-level legislation is required; a total of 17 states have programmes, but only half a dozen are of a substantial size[3] (Balducchi and Wandner, 2008).

Second, national framework agreements can provide an overall framework for action at the enterprise level. The example of Japan shows how a tripartite agreement at national level can promote the adoption of work sharing schemes in specific companies, providing both strong normative encouragement as well as financial incentives. A tripartite agreement to attain employment security and creation was concluded on 23 March 2009 by the Prime Minister, Nippon Keidanren (Japan Business Federation), the Japan Chamber of Commerce and Industry, the National Federation of Small Business Associations, and the Japanese Trade Union Confederation (RENGO). This tripartite agreement includes four components, one of which is the "Maintenance of employment through promoting the (so-called) 'Japanese-model' of work sharing" (ILO, 2009). Along similar lines, the governments of Chile and Uruguay are currently considering discussing and elaborating work sharing instruments in response to the crisis. Chile's initiative links reduced hours with training, while the one in Uruguay involves negotiating an agreement on reduced working hours and salaries between the social partners for implementation in particularly vulnerable industries (China Economic Net, 2009).

Finally, work sharing can be adopted and implemented through collective bargaining at both industry and establishment level. In Germany, most industry-level and establishment-level collective agreements contain provisions allowing companies to reduce working hours by as much as 20 per cent in order to avoid the loss of employment (Bosch, 2009). However, even in the absence of national work sharing programmes or tripartite framework agreements, work sharing schemes can nonetheless be adopted and implemented by specific companies. When one company in the United Kingdom, which has no national-level programme or agreement on work sharing, entered into negotiations with the trade union regarding planned layoffs, the union suggested the alternative of cutting working hours in order to save jobs. This resulted in a temporary reduction of the workweek from 39 to 34 hours, saving 350 jobs (Haipeter and Lehndorff, 2008).

Do work sharing programmes preserve jobs?

Research by the German Institute for Employment Research on the *Kurzarbeit* scheme — currently the largest work sharing programme in the world — indicates that during 2002-03 two-thirds (67.1 per cent) of all companies participating in the scheme maintained the same level of employment in their establishment, and 7 per cent actually increased employment by hiring new employees (EUROFOUND, 2009, p. 4). Further, work sharing programmes tend to be highly countercyclical, expanding during economic downturns and then declining as the economy improves. As seen in the chart below, the number of layoffs avoided in Canada through work sharing varies substantially with the business cycle: rising to a high of 12,836 during the 2001 recession, and then declining to approximately 3,000 per year during the economic expansion of the mid-2000s and even less in 2006-07.



Source: HRSCD, 2007, p. 1.

What types of companies are eligible for work sharing programmes?

In general, work sharing programmes are targeted at those companies which are experiencing temporary, cyclical declines in demand for their goods or services. Company management in Germany can request short-time work (work sharing) if there is a temporary, unavoidable loss of employment due to economic factors or to an unavoidable event (Wießner et al., 2009). Likewise, Canada's Work-Sharing Program provides businesses with an alternative to layoffs in situations where there is a reduction in demand for a company's products or services — defined as a "demonstrated decrease in sales/orders of at least 10 percent" (Service Canada, 2009, p. 1). To be eligible for the programme, companies must show that the work shortage is temporary and unavoidable and the need for reduced hours is also unavoidable, and explain how the business will maintain its activities for the duration of the agreement and return to normal working hours during the subsequent economic recovery. The law authorizing the French work sharing scheme, *chômage partiel* ("partial unemployment"), clearly specifies that this measure is to be used only in "exceptional circumstances" in enterprises which are facing severe financial difficulties (Calavrezo, Duhautois and Walkowiak, 2009, p.1).

What types of workers are eligible for work sharing programmes?

Work sharing programmes are generally targeted at those workers who have a substantial labour force attachment, typically permanent employees. The German *Kurzarbeit* scheme is available for all workers covered by the social security system with a loss of at least 10 per cent of their gross monthly earnings. In Canada, full-time or part-time permanent employees in participating companies who are eligible to receive regular unemployment benefits, called "Employment Insurance" (EI) benefits, are also eligible for the Work-Sharing Program. In a typical American state work sharing programme, once an employer plan has been approved, employees in these companies whose normal workweeks have been reduced at least 10 per cent receive "short-time compensation", which is a pro-rata share of their unemployment benefits (Balducchi and Wandner, 2008).

Nonetheless, in response to large numbers of layoffs of non-standard workers, more countries are now making work sharing available to workers who do not have regular employment contracts. The Government of Japan recently introduced the Subsidy for Employment Maintenance through Overtime Reduction Programme. This innovative new programme will provide lump-sum payments to companies which (1) reach agreement with workers' organizations on the reduction of overtime and develop an overtime reduction plan, and (2) maintain the employment of fixed-term and temporary agency employees working in the company over a one-year period (ILO, 2009). Likewise, temporary agency workers in Germany have also recently been made eligible for the *Kurzarbeit* scheme (Bosch, 2009).

What is the expected duration of work sharing measures?

All of the various work sharing schemes that have been introduced or expanded in response to the crisis have *specific time limits*. The maximum duration of the German scheme was increased first to 12 months, then to 18 months, and finally to 24 months in May 2009. The maximum duration of the *chômage partiel* scheme in France is limited to six consecutive weeks at any one stretch and, in total, cannot exceed 800 hours for most enterprises and 1,000 hours for firms in particularly vulnerable industries, such as the textile, garment and auto industries. The Japanese Subsidy for Employment Maintenance through Overtime Reduction Programme has a specific duration of one year for maintaining the employment of fixed-term and temporary agency employees working in a particular company (ILO, 2009). The duration of Work-Sharing Program agreements in Canada has been extended from 38 to a maximum of 52 weeks; this new time limit will be effective until 3 April 2010 (Service Canada, 2009).

What types of government subsidies or incentives are provided for enterprises and employees participating in work sharing?

Government work sharing initiatives can also play an important role in smoothing abrupt organizational and individual changes from full to reduced work hours through the use of directed subsidies and incentives, such as financing (or "kick-starting") programmes to initiate work sharing in companies; providing wage supplements to affected workers to partially offset reductions in wages; and disseminating information about successful company experiences. In the German *Kurzarbeit* scheme, employees with at least one dependent child receive payments (*Kurzarbeitengeld*) equal to 67 per cent of the normal wage for the hours they are not working; 60 per cent for workers without dependants. In addition, employer contributions to the social insurance of short-time workers are reduced when their employees participate in training or qualification measures while they are working reduced hours (Wießner et al., 2009).

Similarly, the French *chômage partiel* provides affected workers with partial wage compensation equal to a specified proportion of their gross earnings. Specific regulatory changes in the scheme, which went into effect in January 2009, increased the duration of the scheme from four to six consecutive weeks, and also raised compensation from 50 to 60 per cent of workers' gross earnings and from a minimum of €4.42 per hour to €6.84 per hour; compensation was further increased to 75 per cent of gross wages, effective as from April 2009. *Chômage partiel* is paid directly by employers to employees along with their regular wages; in return, enterprises receive a fixed subsidy per employee hour of work sharing: €3.84 per hour for firms with 250 employees or less, and €3.33 per hour for firms with over 250 employees. These allocations are exempted from employer social contributions, but remain subject to certain other government levies[4] (Calavrezo, Duhautois and Walkowiak, 2009, p. 2).

The Employment Adjustment Subsidy Programme in Japan provides direct subsidy payments to support companies in maintaining employment. Subsidy rates have recently been increased by the Japanese Government to three-quarters of labour costs for large companies and nine-tenths of labour costs for small- and medium-sized enterprises (SMEs) (ILO, 2009). In addition, the Japanese Government recently introduced the Subsidy for Employment Maintenance through Overtime Reduction Programme (see above).

The Korean Government offers subsidies to companies which adopt work sharing schemes, and these employment retention subsidies are designed in favour of SMEs. Other incentives are also provided through tax cuts, reduced contributions to social security schemes, and supporting training and workplace innovation programmes. These extensive measures have meant that negotiated reductions in wages are more acceptable to both workers and employers in order to avoid layoffs (e.g. in the case of wage reductions, companies can obtain reductions in social security contributions). As a result, work sharing has been widely introduced in the Republic of Korea in recent months (Korea International Labour Foundation, 2009).

In Canada, eligible workers receive a pro-rata share (depending upon the percentage reduction in their normal working hours) of the EI benefits to which they would otherwise have been entitled had they been laid off. Employers are encouraged to permit employees to participate in training activities during the days when employees are not working (Service Canada, 2009). American state work sharing programmes are similar, as eligible workers receive “short-time compensation” (STC) which, like Canada’s EI, is a pro-rata share of the unemployment benefits to which they would otherwise have been entitled had they been laid off (Balducchi and Wandner, 2008).

It should be noted that in many of those countries in which compensation is provided to workers participating in work sharing schemes, the public employment service (PES) has the primary responsibility for the implementation of these programmes. The PES acts as a gateway to both partial unemployment benefits and training for programme participants.

What are the key factors for achieving an effective work sharing programme?

First and foremost, social dialogue, collective bargaining and other forms of negotiations play an essential role in determining the conditions for the implementation of work sharing programmes. Key issues include the specific workers to be covered by the work sharing agreement; the extent of the reduction in working hours; the extent of corresponding wage decreases; the distribution of reduced hours of work over time; the length of the agreement; and the effects on employment—in particular, guarantees that specified levels of employment will be maintained over the period.

Wage compensation is perhaps the most crucial issue. Substantial reductions in both hours of work and wages inevitably mean serious hardships for workers. Under these circumstances, public wage subsidies providing workers with partial replacement of lost income have become an extremely important feature of effective work sharing schemes, particularly for low-wage workers.

IN SUMMARY

Work sharing policies and programmes are more likely to result in a “win-win-win” solution benefitting workers, employers and governments when:

- Governments take an active role in promoting work sharing.
- Work sharing schemes are negotiated and implemented through social dialogue at national level and via collective bargaining at industry level and in specific companies.
- Wage supplements are provided to partially offset the reduction in workers’ earnings.
- Work sharing schemes are inclusive, covering both regular and non-standard workers.
- Managers make necessary changes in the work environment to make work sharing pay off, including redesigning work processes when needed and supporting adequate training.
- Both organizational and wage changes are not too abrupt.

[1] This is not to say that work sharing policies have not be used in companies and industries facing structural economic decline, but such policies have generally proven to be ineffectual, such as the use of so-called *Transfer Kurzarbeit* to try to avoid layoffs during the economic transition in Eastern Germany (Wießner et al., 2009).

[2] The costs of recruiting and training new employees can be quite substantial, ranging from less than US$ 1,000 to more than US$ 10,000 per person hired (Schnars and Kleiner, 2000; Snell, 2009).

[3] Arizona, Arkansas, California, Connecticut, Florida, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Missouri, New York, Oregon, Rhode Island, Texas, Vermont and Washington. The State of Louisiana enacted a work sharing law but does not have an operational programme (CLASP, 2009).

[4] Specifically, these allocations are subject to *la contribution sociale généralisée* (CSG) (general social contribution) and *la contribution au remboursement de la dette sociale* (CRDS) (contribution to reimburse the social debt).

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