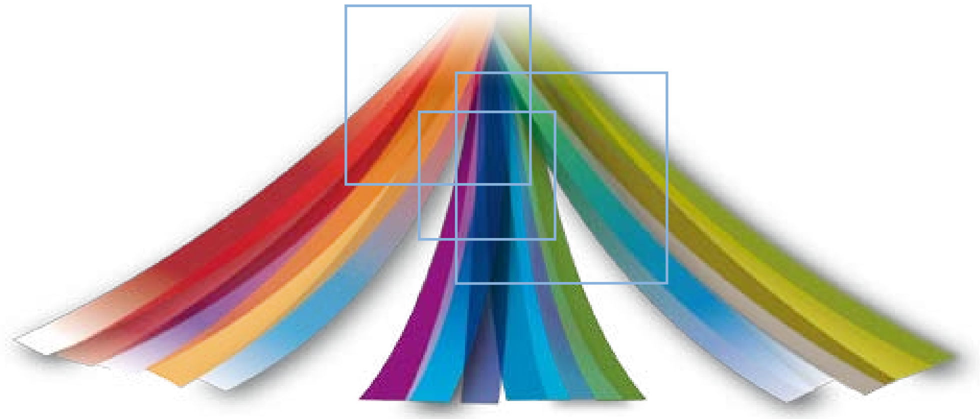
BRIEF Nº 18

GLOBAL JOBS PACT POLICY BRIEFS

International Labour Organization



WORK SHARING : WORKING TIME ADJUSTMENTS AS A JOB PRESERVATION STRATEGY

1. Executive summary

Working time adjustments offer an important tool for limiting or avoiding job losses and supporting companies in retaining their workforces until demand recovers. One such approach is work-sharing[1] : a reduction of working time intended to spread a reduced volume of work over the same (or similar) number of workers in order to avoid lay-offs. When work-sharing policies are properly designed and implemented, the result is a "win-win-win" solution benefiting workers, businesses, and governments.

Many existing work-sharing programmes in developed countries were revised and expanded during the crisis. In addition, a number of middle-income countries also developed and implemented some basic forms of work sharing. The most important constraint on the use of such types of work-sharing measures is the need to target them on firms facing temporary declines in demand. The targeting approach likely to be most effective is setting time limits on work-sharing subsidies to ensure that they do not block inevitable structural adjustments.

There is evidence from previous recessions that work-sharing programmes have helped to avoid layoffs. There is also early evidence from the crisis that work-sharing measures have helped avoid layoffs in Germany and a number of other countries as well. Work sharing is more likely to result in a "win-win-win" solution when : governments take an active role in promoting it ; schemes are negotiated and implemented through social dialogue and collective bargaining ; wage supplements (e.g. partial unemployment benefits) are provided to help offset workers' reduced earnings ; measures are inclusive, covering regular and non-standard workers ; and managers make necessary changes in the work environment, such as redesigning work processes and supporting training.

[1] This type of work-sharing is also known as "short-time work" and as "partial" or "technical" unemployment.

2. Description of the policy challenges

Preserving jobs during a recession

Work-sharing is a reduction of working time intended to spread a reduced volume of work over the same (or similar) number of workers in order to avoid lay-offs, or alternatively, can also be a measure intended to create new employment (see Messenger, 2009). This reduced working time may take a variety of forms, most typically shorter working weeks (for example, three- or four-day working weeks, instead of the more usual five-day working week), but also reduced daily hours or even temporary plant shutdowns for periods of several weeks or even months. 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

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

More briefs can be found and downloaded at http:www.ilo.org/jobspact "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 global economic crisis and the global jobs crisis that it spawned, there has been a tremendous interest in work sharing as a labour market policy tool aimed at preserving existing jobs. In the framework of national work sharing programmes, enterprises 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. 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). This constraint can be alleviated by government wage supplements, which are often provided through partial unemployment compensation, although they can also be funded from general government revenues. 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. Work sharing and partial unemployment benefits are policy responses suggested by the Global Jobs Pact, adopted by the ILO's tripartite constituents in June 2009, to limit or avoid job losses and to support enterprises in retaining their workforces (ILO, 2009, Section III, Point 11.4). Likewise, various European Union bodies have highlighted the use of temporary "short-time working" arrangements as one of the measures which can help to manage the impact of the global jobs crisis and maintain employment, especially if accompanied by financial support to mitigate workers' income losses and training measures (see, e.g., European Commission, 2009; Council of the European Union, 2009).

3. Policy options to address the challenges

Work sharing 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. Work sharing not only helps to avoid mass layoffs, it also allows businesses to retain their workforces, thus minimizing firing and (re)hiring costs, preserving functioning plants, and bolstering staff morale during difficult times.

There are essentially five key elements that may be included in work sharing policies and programmes designed to avoid layoffs, not all of which are present in every work sharing programme (see Messenger, 2009). These key elements are 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;
- a corresponding (pro-rata) reduction in earnings (total wages);
- the provision of wage supplements to affected workers to "cushion" the effects of temporary reductions in earnings;
- the establishment of specific time limits on the period of work sharing (to ensure that the programme is a temporary measure in response to the economic crisis); and
- the creation of links between work-sharing programmes and training/retraining activities.

In addition to these elements, engaging workers' and employers' organizations in the design and implementation of government-sponsored work-sharing programmes is common and can increase their likelihood of success.

Some country experiences

Work-sharing programmes had already been implemented in a number of countries in the industrialized world prior to the onset of the global economic crisis, including : Austria, Canada, Belgium, France, Germany, Switzerland, the Netherlands and small programmes in a number of individual states in the United States. The German Federal work sharing programme, called Kurzarbeit, was by far the largest work sharing programme in the world during the crisis, reaching a maximum participation of approximately 64,000 establishments and 1.5 million employees at the height of the crisis in mid-2009[2] (Crimmann, Wiessner, and Bellmann, 2010). Many of these existing work-sharing programmes were revised and expanded during the crisis. For example, the French chômage partiel programme extended the upper limit of non-worked hours covered by the partial unemployment contractual allowance from 600 to 800 hours per year, and up to 1,000 hours for firms in particularly vulnerable industries, such as textiles, garments, and automobiles. (For further information regarding work sharing programmes in industrialized countries, see Messenger, 2009).

Preserving jobs during the global crisis was also a top priority in many middle-income countries, which were particularly hard hit by job losses in their formal economy, often in export-oriented or consumer goods industries. As a result, during 2009 a number of these countries acted to discuss, negotiate and implement some basic forms of work-sharing or other working time adjustments – often (but not always) with links to training. These countries include : Argentina, Chile, Mexico, and Uruguay in Latin America ; Bulgaria, Croatia, the Czech Republic, Poland, Hungary, Romania, Serbia (company-level only), Slovakia, Slovenia and Turkey in Eastern Europe ; and also in South Africa. Despite the differences among the work-sharing measures across these countries, some common principles prevail. One important similarity is that the level of development and implementation of work-sharing programmes in the two regions has been at the national level. Another similarity is that many countries have made an important effort to extend unemployment benefit schemes and/or expand their coverage to workers with reduced hours ; for example, some countries have expanded the application, eligibility, and coverage of partial unemployment benefits (for further information regarding work sharing measures in middle-income countries, see Messenger and Rodríguez, 2010).

Trade-offs and constraints

A distinctive characteristic of this type of tool is its counter-cyclical nature. While in general it is available during all phases of the economic cycle, it is far more widely used during recessions, helping to cushion any immediate increase in unemployment. One objection to schemes of this type is that in many cases they only postpone lay-offs that are inevitable at some point in the future and are thus a "waste" of resources. While there are few estimates of the jobs lost once workers have exited these programmes, in Canada it has been estimated that during the early 1990s, half of all the workers whose jobs had been preserved as a result of the programme were eventually laid off after they left the work sharing scheme (HRSDC, 2004). Although this may create some uncertainty about the merits of the scheme, in times of crisis when job opportunities are scarce, preservation of existing jobs is not the only benefit : unemployment is postponed until recovery is under way, reducing the likelihood of workers joining the ranks of the long-term unemployed. Another objection has been that such schemes may have the effect of keeping economically non-viable enterprises on "life support", thereby interfering inefficiently in the normal processes by which enterprises are created or go under. This is why work sharing programmes should be targeted on firms experiencing temporary problems resulting from a cyclical downturn – rather than those facing structural economic adjustments – recognizing that this can be a difficult distinction to make in practice.

There several approaches that attempt to target work-sharing measures on firms experiencing problems resulting from the business cycle. One approach is an explicit requirement that the positions supported by the programme be continued following the end of the subsidy period. Another strategy is a requirement that firms repay all or part of the subsidy payments if the employee is laid off after the programme ends. An example of this is the requirement in the "part-time unemployment" scheme in the Netherlands, Deeltijd WW, that companies repay half of the part-time unemployment benefits paid to their employees if the employees are laid off in the three months following their participation in the scheme (OECD, 2009).

Nonetheless, the targeting approach that appears likely to be the most effective is to set time limits on work-sharing subsidies to ensure that the schemes do not block inevitable structural adjustments. Such time limits help ensure that the work-sharing programme is indeed a temporary measure in response to the economic crisis or to facilitate mutually agreed changes, and not a permanent reduction in hours and pay. Making such measures temporary limits the deadweight loss (that is, providing public subsidies to firms that would not have engaged in lay-offs). This approach also limits any potential displacement effects that might arise as a result of work-sharing, essentially the crowding out of emerging businesses and industries by existing inefficient ones as a result of the public subsidies.

[2] Several other working time adjustment measures were also widely used in Germany during the crisis, for example working time accounts and establishment-level agreements.

Effectiveness, costs and benefits

There is substantial evidence from previous recessionary periods that work-sharing programmes can avoid layoffs (see e.g., Messenger, 2009). There is also some evidence from earlier periods that such programmes may not always prevent dismissals in the long-run, but rather may simply postpone redundancies in times of severe economic difficulties (see e.g., Calavrezo, Duhautois and Walkowiak, 2009). Nonetheless, even this latter result can be considered a positive outcome if the work sharing measure is linked to training and the work-sharing period is used to prepare workers to move to new jobs when the economy recovers.

Data on the effects of work-sharing/short-time work since the onset of the global economic crisis are limited, in large part because many of the work-sharing programmes and measures are relatively new—at least in their current form. Nonetheless, a number of very recent studies specifically investing the effects of work sharing schemes on job preservation have concluded that these programmes do in fact reduce layoffs by increasing per capita reductions in working hours (Arpaia, et al., 2010 ; Crimmann, Wiessner, and Bellmann, 2010 ; OECD, 2010). To quote one of the main conclusions of the OECD report, “The results provide evidence that short-time work schemes helped preserve permanent jobs during the economic downturn, while also increasing average hours reductions among permanent workers” (p. 68).

4. Conclusions and recommendations

In the context of the global economic and jobs crises, countries that had already implemented work sharing programmes prior to the crisis have had considerable advantages over those which have had to design and implement new measures during the crisis to address its serious effects on the labour market. In fact, countries that were already using work sharing before the crisis have been able to leverage their advantages to minimize the effects of the recession on employment through specific amendments to expand them and tailor them to the current situation in their economies and labour markets, while entirely new schemes appear to have been less effective (see, e.g., OECD 2010). Thus, even with the coming of economic recovery, it makes sense for countries that do not yet have work sharing programmes to develop and implement them in preparation for the next economic downturn. Likewise, those countries that have recently developed and implemented such schemes should carefully evaluate them and make any necessary revisions to them now, in order to ensure that they will function as efficiently and effectively as possible in the future.

In developing a new work sharing schemes or revising an existing one, it is important to keep in mind that work-sharing policies and programmes are more likely to result in a “win-win-win” solution benefiting 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 firms
- wage supplements (e.g., partial unemployment benefits) are provided to partially offset reductions in workers’ earnings ;
- work-sharing schemes are inclusive, covering 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 training.

5. Further reading and resources

- Arpaia, A.; Curci, N.; Meyermans, E.; Peschner, J.; Pierini, F. 2010. *Short-Time Working Arrangements as response to Cyclical Fluctuations. European Economy Occasional Papers No. 64.* (Brussels, European Commission, Directorate-General for Economic and Financial Affairs and Directorate-General for Employment, Social Affairs and Equal Opportunities).

- Calavrezo, Oana; Duhautois, Richard; Walkowiak, Emmanuelle (2009) : *"Chômage partiel et licenciements économiques"*, in *Connaissance d'emploi*, March, No. 63.

- ILO. 2009. *Recovering from the crisis : A Global Jobs Pact.* Resolution adopted by the 98 th Session of the International Labour Conference, Geneva, 19 June.

- OECD. 2009. *OECD Employment Outlook : Tackling the jobs crisis* (Paris, OECD).

- OECD. 2010. *OECD Employment Outlook : Moving beyond the jobs crisis.* (Paris, OECD).

- Human Resources and Skills Development Canada (HRSDC). 2004 : *"Evaluation of the Work-Sharing Programme : February 2004",* at http://www.hrsdc.gc.ca/eng/publications_resources/evaluation/2007/sp_ah_212_02_04e/page00.shtml

- Several recent ILO publications, including : Messenger, J.C., *"Work sharing : A strategy to preserve jobs during the global jobs crisis",* TRAVAIL Policy Brief No. 1, June 2009; Messenger, J.C. and Rodríguez, S., *"New developments in work sharing in middle income countries",* TRAVAIL Policy Brief No. 2, February 2010; and Crimmann, A.; Wiessner, F., and Bellmann, L. 2010. *The German Work-Sharing Scheme : An Instrument for the Crisis,* Conditions of Work and Employment Series No. 25.