

**MUTUAL LEARNING PROGRAMME:
PEER COUNTRY COMMENTS PAPER - NORWAY**

Temporary layoffs – saving jobs or delaying readjustments?

Peer Review on “France”

Peer Review on “Employment measures to tackle the economic downturn: Short
time working arrangements / partial activity schemes”

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1 LABOUR MARKET SITUATION IN THE PEER COUNTRY

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Norway's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

GDP, production and employment

The Norwegian economy has, as many others, been hit by the international economic recession, although the effects have been less severe than in many other countries. The latest estimates suggest a 1.0% increase in GDP for 2010 compared to a contraction of 1.4% in 2009 and a modest growth of 0.8% in 2008. In the period preceding the crisis (2005-2007) the average annual GDP growth was 2.6% (5.0% for mainland Norway, i.e. the national economy excluding the oil and gas activity), indicating a substantial boom in the economy before the present recession (figure 1). The latest figures from Statistics Norway (September 2010) predicts that there will not be an upswing in the Norwegian economy for another two years. The most recent prognosis for GDP development is a growth of 2.4% in 2011 and 2.2% in 2012. The inland consumer demand and business investments are expected to increase from the autumn 2010, but the weak growth in the international economy will influence overall economic developments. The economic growth in the Norwegian economy is expected to be about on trend both in 2011 and 2012 (Statistics Norway *Economic Survey 4/2010 and Economic trends for Norway and abroad*, September 2010).

The economic recession has influenced production and investments in most private sector industries, although the strongest effects have been seen in manufacturing and the construction sectors. Manufacturing production in 2009 (2nd quarter) was 7 percent below the level experienced 2 years before (2nd quarter 2008). For the construction sector, production in 2010 was 2 percent lower than the level in 2008. Total investments also fell substantially, especially in 2009 (-9.1%). At the present time (autumn 2010) both production and investments are improving. High public sector demand – triggered among other things, by the crisis measures adopted by the Norwegian Parliament in January 2009 – has contributed to increase domestic demand, in among others the construction sector.

Norway has followed an expansionary budget policy during the crisis. Public spending - especially infrastructure investments - was increased substantially for 2009. Norway has substantial incomes from oil and gas production, and the Governments use of petroleum revenues (transfers from The Government Pension Fund – Global) increased by 56.7 billion NOK from 2008 till 2009.

The Norwegian unemployment rate is still low in an international context. The LFS measured unemployment rate is estimated to 3.6% for 2010. Unemployment rates have increased rather moderately by 1.2 percentage points from 2007 (2nd quarter) till 2010 (2nd quarter), and is expected to reach a top in 2012 (3.8 percent, Statistics Norway). The (estimated) unemployment rate for the period 2009-2012 will still be below the level Norway experienced in 2003-2005 when unemployment reached 4.5% (2005). The number of registered unemployed increased by 1.2 percentage points from 2007 till 2010), see figure 2. In August 2010 the number of unemployed persons (including persons on unemployment programs) was 89 000 and 73 000 persons were fully unemployed (i.e. not on programs). The increase in unemployed persons has been strongest among construction workers, followed by blue-collar workers in the manufacturing sector (percentage growth from 2008 till 2010). In 2010 the increase in registered unemployed persons has stopped, and for some groups a certain decrease in number of unemployed persons is observed.

Employment, as measured by employed persons or number of hours worked, has decreased since mid 2008. The decrease is most profound in manufacturing and construction, but also notable in parts of private services. The number of public sector employees (especially in health, social welfare and education) has increased during the last 18 months.

2 ASSESSMENT OF THE POLICY MEASURE

In Norway employers may resort to temporary layoffs (“permittering”) on a fulltime or part-time basis. The institution of temporary layoffs has a long tradition in Norway (Evju 2007; Opsal 2007), and allows the employer to reduce the workforce for a limited period of time without resorting to dismissals. At the present time, an employer can utilise temporary layoffs for a maximum period of 52 weeks where the employee is compensated by the state, preceded by an “employer period” of where the employer pays the compensation for the first 5 days and a “waiting period” of 5 days without any compensation to the employee. The arrangement is partly established in collective agreements (today’s practice dates back to 1954, but the institution itself has an older origin), partly in legislation, and partly in tradition. Temporary layoffs may be employed in private sector enterprises, and covers blue collar workers as well as many groups of white-collar employees.¹ Layoffs has mainly been used in relation to blue-collar workers in the manufacturing and construction sector, but during the recent crisis layoffs have been used among other groups as well (Sørbø and Bråthen 2009).

A temporary lay-off is a suspension of the employment relationship for a certain period, and may be used by an employer in situations where an enterprise is forced to reduce its activities for a transitory period. Such situations might be related to the market situation (typically lack of orders) as well as to other situations where production has to stop or be reduced due to unforeseen events (weather conditions, industrial conflicts, fire, nature disasters etc.). A precondition for using temporary layoffs is that the problems are of a passing nature, and not due to more permanent economic problems/lack of profitability, and that the situation is “unforeseen”.

A temporarily laid-off employee is defined as unemployed, and is entitled to unemployment benefits if the reduction in working hours amounts to 40 percent or more, and the employee otherwise qualifies for unemployment benefits.² The employee is required to apply and be available for employment otherwise during the period s/he is without employment.³ The gross compensation rate is on average 62% of the previous wage level, the net (post-taxes) rate is higher. There is also a cap/ceiling on the wage level that will be the basis for compensation (NOK 454 000 per September 2010).

When the period of temporary layoff is over, or the employer is able to go back to normal activity, the employee is obliged to go back to work. The relevant legislation (*Lov om lønnsplikt under permittering*) regulates among others, the maximum period a temporarily laid off employee can be compensated through the unemployment benefit scheme, the period during which an employer has to pay compensation (“employer period”) and the number of weeks an employee can go back to work (i.e. a short break in the temporary layoff period is allowed) before the temporary layoff is seen as terminated and a new “employer period” is

¹ Temporary layoffs can also be used in the municipal sector, although not for the type of situations discussed in this peer review. Regulations in the finance sector may be described as somewhere between the private sector (LO/NHO Basic Agreement) and the municipal sector. The collective agreements in the state sector do not open for the use of temporary layoffs.

² Unemployment benefits in Norway is a state financed arrangement. The coverage is universal, i.e. the same arrangement for all sectors and occupations, and payouts are based on previous employment and income.

³ There are no recent figures on the number of laid off employees who find other work (temporarily) during the layoff period or who change to another employer (i.e. quit their original job). The impression is that this group of unemployed is not seen as ordinary jobseekers by the local NAV offices, and that they are not encouraged or pressed to apply for jobs that are available through NAV (Hansen and Kvadsheim 2008).

triggered. Temporary layoffs amounting to less than 40 percent of the ordinary working time (for instance one day per week) are allowed by collective agreements, but in such cases the employee will not receive any compensation from the state.

The main reason for allowing temporary layoffs is that it eases the situation of enterprises through a situation in which full-scale production is not possible due to unforeseen/temporary circumstances. With the exception of the employer period (5 days), the enterprise will not have any wage costs for the laid-off employees. The arrangement therefore effectively reduces costs in a difficult situation since dismissals will be more expensive in a situation where the need to reduce the workforce is temporary. The temporary lay-off institute will also make it easier to start up full-scale production, since the employees are obliged to go back to work without delay when notified. Since dismissals in many situations will be an alternative to temporary layoffs, the institute is seen to be protecting jobs, and therefore supported by trade unions.

The temporary layoff institute and the present economic crisis

The legal regulations regarding compensation for laid-off employees, employers period, etc. have been subject to changes over time, mainly depending on the situation in the labour market. In periods with a tight labour market, the regulations have been more restrictive, whereas for instance the maximum period has been extended in periods with increasing unemployment. The maximum period for layoffs was extended from 30 weeks till 52 weeks on 1 February 2009. The employer period, i.e. the period an employee will be laid off and compensated by the employer, was reduced from 10 till 5 days on 1 April 2009. Prior to the crises, an employee would have to be subject to at least a 50% lay off from his/her job in order to qualify for unemployment benefits. The private sector trade unions and employer organisations wanted to lower this threshold in order to allow for alternative combinations such as 3 days of work and 2 days of inactivity. The threshold was reduced to 40% as a response to these views. Moreover, the social partners wanted the regulations to be changed in order to make it easier to use so-called rotating layoffs. To this end the period during which an employee may return to work without triggering a new employer period has been extended from 4 till 6 weeks (1 July 2009).

The number of temporarily laid off employees has increased substantially since 2008 (figure 3). By the start of 2008, 2552 persons were registered by The Norwegian Labour and Welfare Administration NAV as temporarily laid-off. In January 2010, 16109 persons were registered as temporarily laid-off. Seasonal variations taken into account, the number of temporarily laid off persons reached a top during the summer of 2009. Part-time layoffs constitute 40-50 percent of all laid-off persons.

Figures from NAV show that temporarily laid-off persons make up a substantial part of all registered unemployed persons, especially among men (NAV memo 2009). In March 2009 19 percent of the fully unemployed men were temporarily laid-off (i.e. had a job), compared to 6 percent of fully unemployed women. Temporarily laid-off persons make up a considerable part of the group part-time unemployed. Temporary layoffs may therefore be seen as an important measure to adjust the workforce for enterprises facing a decline in demand (Olberg 2010).

Temporary layoffs and training measures

Unemployed persons receiving unemployment benefits from the state cannot (with the exception of very special situations) take part in ordinary studies/training activities as they are required to look for work and be able to start working immediately. In principle temporarily laid off persons may take advantage of labour market measures as other unemployed persons, but will, in practice, seldom be given priority as such measures normally are targeted at long time unemployed, young unemployed etc. As temporary lay offs suspends the employment contract for a temporary period, the employer may not use these periods of inactivity to upgrade the skills and competence of the workforce through in-house training. In cases of

part-time layoffs, employees may participate in training during their ordinary working hours (i.e. the hours paid by their employer), but not during the time in which they are inactive/not paid by the employer.

Norway has a financial scheme for in-house training (BIO) administered by NAV. This scheme has traditionally been invoked in connection with major restructuring processes and where these are seen to have substantial labour market effects (for instance a cornerstone company facing major financial challenges). In 2009 (from 1 October) the BIO scheme was extended to companies that had experienced a temporary market slump due to the present economic crisis (temporary changes that will be in force until the end of 2011). In such situations an enterprise can have their training activities partly funded by the state though the local NAV offices.

The BIO scheme is seen as an alternative to temporary lay-offs as well as dismissals, i.e. the company may train their employees with financial support from the BIO-scheme instead of reducing their workforce. BIO funding may be used in combination with part-time layoffs, but an employee cannot undergo training during inactivity periods. The funds earmarked for employment measures – including the BIO-scheme – have been increased substantially during 2009 and 2010. According to NAV, the use of the BIO-scheme increased substantially during 2009 compared to the pre-crisis period, and NAV offices are active in encouraging companies to consider BIO-funding as an option in periods with reduced production/when they are unable to fully utilise their workforce as normal.

Similarities and differences between Norway and France

The Norwegian scheme (fulltime as well as part-time layoffs) and the French schemes for combining work/periods of inactivity (partial activity) share many **similarities** both with regards to the intentions behind the schemes as well as some of the main features of the schemes.

- An important rationale behind both the Norwegian and the French scheme is to allow enterprises to reduce their costs effectively and quickly in a situation like the present without resorting to dismissals. In such situations the state takes over the main responsibility for compensating workers whose work has come to a temporary halt in the enterprise. The schemes are also adapted to allow for a return to normal production without significant delay, because the enterprise does not have to hire new employees when the demand for their products regains momentum.
- The schemes cover more or less the same type of situations, and in both countries they are based in collective agreements as well as legislation. The schemes are designed to cover unforeseen and temporary reductions in production, but not more permanent situations with low profitability.
- The schemes are flexible in the sense that they have been extended to cover the current economic situation, among others, by extending the maximum period a company may utilise the temporary lay-offs scheme/partial inactivity.
- An enterprise may employ schemes for (partial) inactivity over a substantial period of time.

Some differences may also be observed:

- The Norwegian scheme provides compensation from the state directly to the laid-off employee, with an intermediary 5 day employer period, which means that companies do not have any expenses during the rest of the lay-off period. The French schemes are constructed as a “wage subsidy”, meaning that employees are compensated by the employer, and that the enterprise will have some costs over the whole period (although low compared to standard wages).

- The link between reduced working time (inactivity) and vocational training is different. In Norway temporarily laid-off employees are supposed to seek alternative employment during the inactive period, and cannot take part in vocational training during inactivity unless required by NAV (this will usually not happen). In France there is an opportunity to make use of inactivity periods for vocational training purposes.
- In Norway the employer has no obligation to protect laid-off employees from dismissals during the initial period of returning to work. If production and the demand for manpower do not go back to normal, dismissals will follow normal procedure (usually dependent on employees' length of service and making the standard dismissal period of 1-3 months applicable).
- The Norwegian scheme seems less complicated than the various French schemes for partial inactivity, i.e. the regulations and the compensation scheme applies to all sectors and companies.
- In Norway working hours have to be reduced by at least 40 percent, and the regulations have no preference for part-time layoffs compared to full-time layoffs.

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

The economic situation in Norway, and the relatively moderate increases witnessed in the unemployment rate, suggests that we are not likely to see any major changes in or extension of the present system of temporary layoffs and other employment measures. The system of temporary layoffs is strongly supported by trade unions and employer organisations, and the system as such is not politically controversial. Wage subsidies are restricted to situations where it is important to encourage enterprises to employ certain vulnerable groups facing entry problems in the labour market ("supported employment").

A few reflections on transferability of the success factors can be made. A main concern of the Norwegian system of temporary layoffs – especially voiced by labour market economists as well as by the Ministry of Labour on several occasions⁴ – **is whether the incentives to minimize the inactive period are strong enough.** After the "employer period" (today 5 days pay) a Norwegian employer does not have any costs related to the lay-off period as the rest of the period is covered by the state. The Norwegian lay-off institution may therefore be criticised for allowing the enterprises to shift wage costs onto the state in situations where these (as labour economists would argue) should have been shared between the employer and the state. A related question is whether the design of the system leads to "labour hoarding" in cases where employees should be dismissed (and thereby encouraged or forced to find alternative employment) or taken back in ordinary employment sooner than what is the case today. It is widely recognised that the use of temporary layoffs – in situations where it is not obvious or likely that the employer may return to his/her employer – also will have negative effects for the employees in question. If dismissed he or she would have searched for other employment, and been able to transfer to new employment at an earlier stage. **A central question is, therefore, whether the French part-time arrangements - in which the employer pays a share of the compensation over the whole period – contributes to shorten the periods of inactivity.**

Another aspect that might be discussed is the different approaches to **training during inactivity.** Whereas the French system of partial inactivity encourages inactive workers to

⁴ See Opsal 2007 for a discussion on the legislation regarding temporary layoffs and the labour market effects of the institution in 1987 where a certain tightening of the lay-off scheme was passed by the Norwegian Parliament. Røed and Nordberg (2001; 2003) also discuss this from the perspective of the functioning of the labor market (labour market economist perspective)

seek vocational training, the system in Norway does not allow laid-off employees to participate in any kind of training during the inactive period. It might be argued that since the majority of temporarily laid-off employees probably do not actively seek other employment, as they plan to return to their original employer, the period of inactivity would provide a good opportunity to improve qualifications through vocational training. However, it is not likely that the relevant authorities in Norway will consider opening up for training during inactive periods, since temporarily laid-off employees are defined as unemployed – and will have to comply with general regulations regarding state financed unemployment benefits.

The last aspect that is worth mentioning is whether the strong emphasis on **partial** activity in France, improves the changes that employees take part in in-house training, or otherwise make the period of inactivity less demanding for the employees concerned since the ties to the employer will be stronger.

4 QUESTIONS

The host country review indicates that the long lasting partial activity scheme is relatively new, and that it is still early to evaluate the effects. In addition to the information in the review, two questions may be further elaborated. Firstly, whether and to which degree, the incentive structure encourages employers to minimize the period of inactivity or not? Secondly, is there any information on whether the part-time inactive employees leave their employer (look for other/full time employment), or they stay in the company. Recent research from Norway indicates that employers experience that employees tend leave the company during longer periods of lay-offs, and that the employer risks losing the most qualified employees (Kvadsheim and Hansen 2010). A third issue relates to how the inactive period is spent (training, other employment, etc.). Related to this issue – and the fact that in Norway working hours has to be reduced by at least 40 % in order to trigger compensation – what type of working time patterns/rates of reduction are normally employed in France in situations with partial activity?

ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
<ul style="list-style-type: none"> • Unemployment increased by 1.2 percentage points from 2007 till 2010 • The Norwegian unemployment rate is still relatively low, and the LFS unemployment rate is estimated to 3.6% in 2010 • Unemployment is highest among workers in the construction sector and in manufacturing • The economy is still in recession, but no longer on a downward trend
Assessment of the policy measure
<ul style="list-style-type: none"> • Temporary lay-offs are regulated by collective agreements, and allow companies to temporarily suspend the employment contract and reduce wage costs on short notice • Temporary laid-off employees are defined as unemployed, and compensated accordingly • The temporary lay-off scheme is well established and supported by labour market parties, the labour market authorities and politicians • The scheme has been adjusted during the current crises, making it easier for enterprises to use temporary layoffs • Part-time layoffs are compensated by the state as long as the working hours are reduced by at least 40%, and opens up for rotating layoffs as well as reduced working week/days (part-time layoffs)
Assessment of success factors and transferability
<ul style="list-style-type: none"> • The temporary layoffs scheme in Norway is well established, and seen to fulfil the intentions behind the scheme. Major changes are not to be expected. • The fact that temporarily laid-off employees in Norway are regarded as unemployed means that the possibilities to combine inactive periods with training are limited • One factor to be considered is whether the incentive structure in France – where employer pays a share or the employee compensation throughout the period of partial inactivity – helps to shorten the period of inactivity, i.e. discourage unnecessary long periods without work • The Norwegian system does not have any institutionalised preferences for part-time layoffs at the expense of full-time layoffs. Experiences from France on whether part-time activity is preferred to full-time layoffs – especially regarding in-house training and – might be useful
Questions
<ul style="list-style-type: none"> • It would be useful to have more information on whether the incentive structure in the French schemes (wage subsidies throughout the period of partial activity) contributes to shorter periods of reduced production • Is there any information on whether partially active employees remain in their present employment relation, or whether they look for alternative (full time) employment, especially if their working hours are reduced for longer periods? • Is there any information on how inactive time is spent by the employees, and which working time patterns are normally seen in companies utilising partial activity schemes

ANNEX 2: REFERENCES

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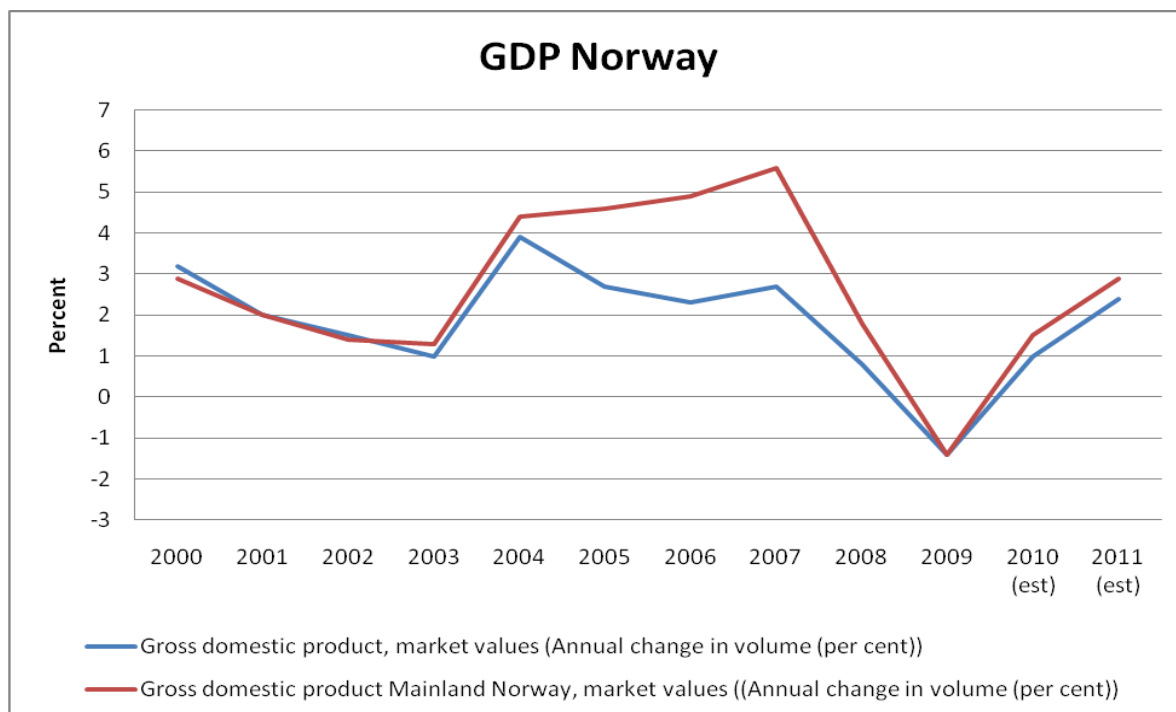
Statistics Norway *Economic Survey* 4/2010.

Figures from Norwegian Labour and Welfare Service (NAV) on number of unemployed persons (registered unemployment) and number of temporary layoffs.

Information from NAV in English on the temporary layoff arrangement:
<http://www.nav.no/English/Social+security/101590.cms>

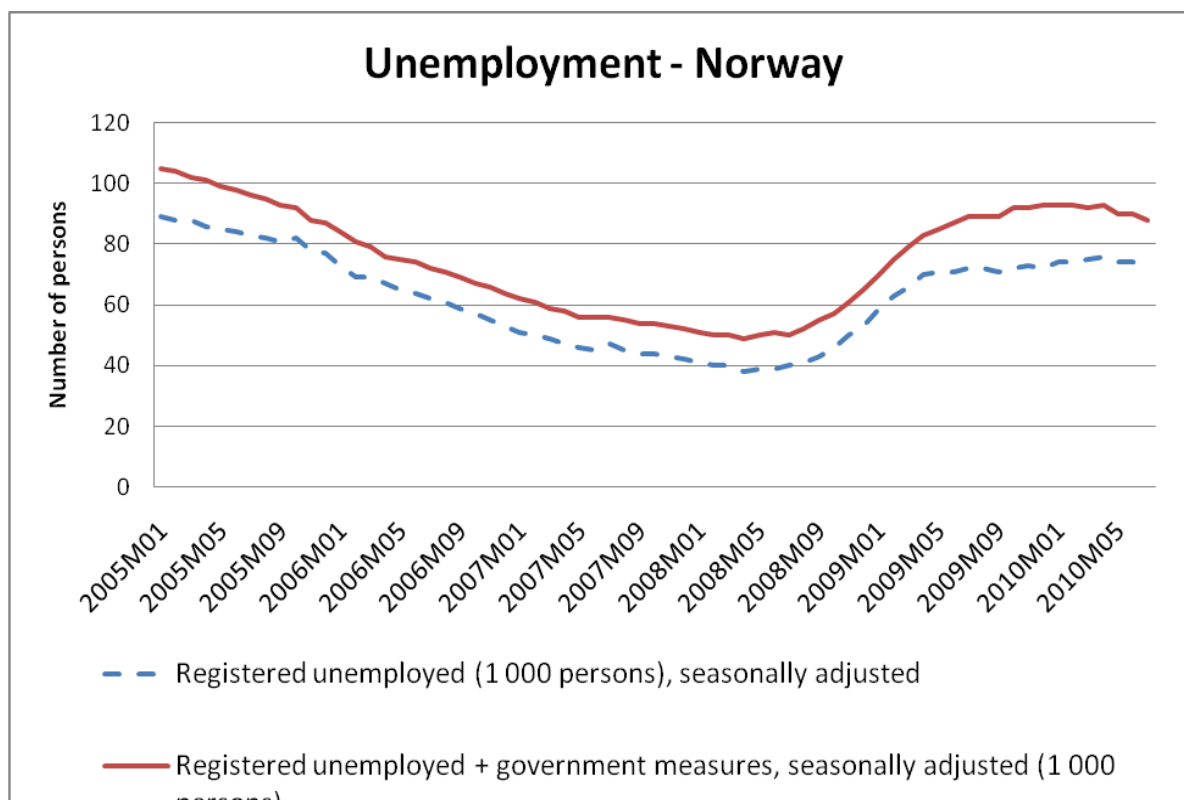
ANNEX 3:

Figure 1 GDP. Percentage change in volume from the previous period.



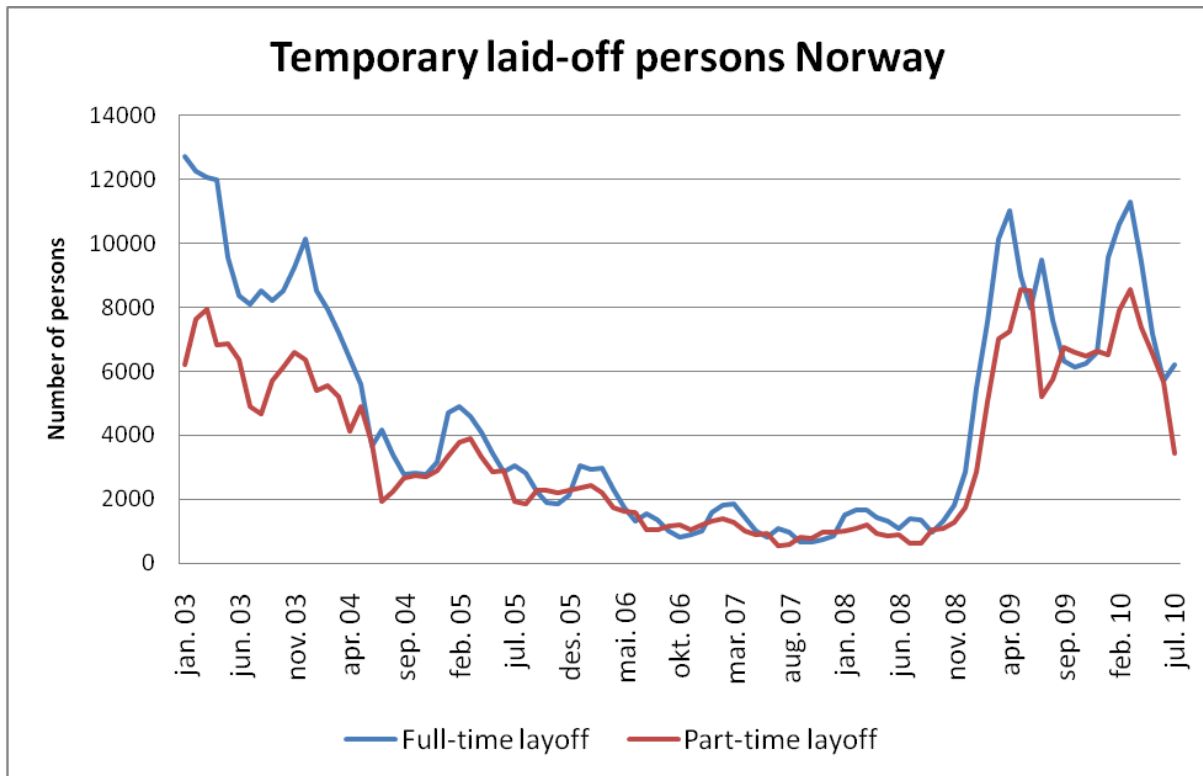
Source: Statistics Norway, National accounts and Economic Survey 4/2010

Figure 2 Registered unemployed persons (1000 persons).



Source: Norwegian Labour and Welfare Service (NAV)

Figure 3 Temporarily laid-off people. Per month.



Source: Norwegian Labour and Welfare Service (NAV)