

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

Can simple subsidy for shorter working hours efficiently preserve jobs in an economic crisis without causing labour hoarding?

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

France, 27 - 28 September 2010

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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 Slovenia'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.

1.1 Economic situation

Average annual GDP growth in Slovenia in 2004–2008 (5.1%) was more than twice higher than in the EU (2.1%) or France (1.8%). High GDP growth in 2006 and 2007 in Slovenia (5.9% and 6.9%, respectively) was mainly export and investment (construction) driven. As a result of the current crisis, GDP growth already slowed down in 2008 to 3.7% and a modest decline of GDP was recorded in the last quarter of 2008. Due to the economic crisis, openness of the economy and the completion of the highway investment cycle in 2009, Slovenia's gross domestic product declined by 8.1% (substantially more than GDP in the EU or France). Slovenia ranks among the countries with the biggest declines in GDP in 2009. The highest decline in value added was recorded in manufacturing (16.5%) and construction (15.9%) (See Figure 1). A slow economic recovery in Slovenia is forecast for the 2010- 2012 period,¹ however, with no improvement of the labour market situation due to the expected unemployment hysteresis. The economic crisis in 2009 widened substantially the general government deficit, to 5.5% of GDP, up 3.8 percentage points on 2008.

1.2 The impact of the crisis on the labour market

Slovenia entered the crisis with a relatively low unemployment rate, 4.4% in 2008 (France: 7.8%; EU: 8.9%). However, the extent of the increase in the unemployment rate during the crisis is quite similar in Slovenia and France (see Figure 2).

Labour market adjustment in the private sector started at the end of 2008 with a reduction in the number of employees, mainly through non-renewal of fixed term contracts. In 2009 the number of people in employment declined by 2.4% (the fall in the private sector was 3.5%, while in the public sector employment increased by 2%). The decline in employment was the greatest in manufacturing (10.1%). Since the measures aimed at preserving jobs² were used to the greatest extent by manufacturing companies, the decline in employment could have been even larger, had the measures not been put in place. Labour market adjustment is expected to continue due to the delay in adjustment and to the big difference between the decline in value added and the decline in employment (see Figure 3).

The Partial Subsidising of Full-Time Work Act, which was adopted in January 2009, stirred great interest among companies.³ From February (the start of payments) to December, subsidies for short-time work were paid for 32,540 employees on average per month, which is 4.2% of total employment in this period. In the period from July (the start of payments) to December, partial reimbursement of wage compensation was paid for 4,841 employees on average per month, which is 0.6% of total employment in this period. According to the data on subsidies paid for shorter working hours, the number of workers in the scheme is declining from month to month (see Table 1).

The economic crisis affected most notably the labour market position of men, the low and medium skilled and young people. The increase in the unemployment rate of men was higher than for women⁴ (see Figure 4). The public services sector, employing more women

¹ IMAD forecasts 0.6% GDP growth for 2010, 2.4% for 2011 and 3.1% for 2012. (IMAD; 2010 Spring forecast).

² Those Acts are: Partial Subsidising of Full-Time Work Act and Partial Reimbursement of Payment Compensation Act.

³ Companies submitted more than half of all applications for full-time work subsidies in the first quarter of 2009.

⁴ Unemployment rate for men increased to 5.9% in 2009 (up 1.9 p.p from 2008), for women to 5.8% (up 1.0 p.p from 2008)

than men, was much less affected by the crisis. In terms of the level of education, the most significant reduction in the employment rate of the medium and low skilled population was recorded in 2009.

To avoid dismissal costs, companies first responded to the crisis by not extending fixed-term employment contracts, which was (as in other countries) reflected in a lower share of temporary employment as a proportion of total employment. The economic crisis brought about an increase in the prevalence of part-time employment in Slovenia, which was also a result of the introduction of the measure to subsidise shortened working hours (see figure 5).

The Slovenian labour market is characterised by strong age segregation. There is an extremely high prevalence of temporary employment among the young population (15–24 years), which is the highest in the EU and is a result of a high volume of students in work (students have specific institutional arrangements, which represent very flexible forms of work), contributing to labour market adjustment. Šušteršič et al (2010) estimated the volume of student work in 2008 to be 18.5% of young people in employment.

2 ASSESSMENT OF THE POLICY MEASURE

2.1. Short description of the measure in Slovenia

Partial activity in France could be compared with the partial subsidising of full-time work in Slovenia, while the total partial activity is similar to the Slovene measure of partial reimbursement of payment compensation. A short description of both measures is provided below.

The Partial Subsidising of Full-Time Work Act was adopted in January 2009. The aim of the Act is to preserve jobs during the economic crisis. The measure was adopted as a response to the economic crisis and no similar measure pre-dates the crisis. Under the measure, a company could file a request for subsidy to Zavod RS za zaposlovanje (Employment service of Slovenia – hereafter, ESS), which implements the measure. The company must have reached agreement with representative trade unions on providing employment with reduced working hours. Full-time working hours could be reduced by a maximum of eight hours to 32 hours per week. In cases of reduction of full-time working hours to 36 hours per week, the company would receive a subsidy of 60 EUR per worker per month. The level of the subsidy per worker depended on the number hours reduced. In cases of reduction by the maximum of eight hours, the subsidy is 120 EUR per worker per month. In the period of receiving the subsidy, the company had to pay wages and social contributions for workers in the scheme of shorter working hours, could not lay-off workers for economic reasons and had to ensure employees did not work over-time. With the adoption of the Act in January 2009, the period of receiving the subsidy was limited to a maximum of six months. However, amendments of the Act in July 2009 introduced the possibility to extend the subsidy for a further six months. The initial aim was to preserve around 25,000 jobs.

At the end of May 2009, the Partial Reimbursement of Payment Compensation Act was adopted, which regulates partial reimbursement of wage compensations to employees who are on forced temporary leave ("on waiting" at home). The aim of the measure is to preserve jobs and provides training for temporarily laid-off workers. Although labour law has allowed temporary forced leave of workers since 2003, no active measure to support temporary forced leave pre-dates the crisis. In contrast to the Act on subsidising full-time work, this Act introduced formal eligibility criteria: the company had to prepare a report on the effect of the crisis on business results and draft a programme to preserve and improve the quality of jobs and human capital. The employer is able to place a maximum of half of its workers on temporary leave and should pay wage compensation to the workers affected

for 85% of their average wage in the previous three months. The state reimburses 50% of this compensation to the employer. Workers on forced temporary leave have the right and obligation to spend 20% of their time in training. Training programmes must be provided by the employer, but are co-financed by the state at EUR 500 per employee.

The reduced working hours in the shorter working hours scheme could also be used for training, but there was no legal obligation for this. However, few companies in the scheme applied for funding for employees' training and it is likely that the reduced working hours were not used for training. Similarly, training programmes provided for workers on forced temporary leave have only been carried out to a modest extent and mainly through internal education programmes led by internal mentors.

According to ESS data, companies more often used shorter working hours than temporary lay-offs in order to preserve jobs. This might be a consequence of the introduction of additional eligibility criteria in the measure to subsidise temporary lay-offs. As manufacturing was strongly hit by the economic crisis, around half of employers who concluded a contract with ESS on partial reimbursement of wage compensations and subsidies for full-time work were manufacturers. In this activity, it was mostly large companies that applied for the scheme; the share of manufacturing in the total number of employed people involved is therefore even larger (76% in reimbursement of wage compensations and 80% in full-time work subsidies). As Table 1 shows, 4% of all manufacturing companies concluded a contract on partial reimbursement of work compensation, for a total of 7.2% of those employed in manufacturing, and 5% of companies concluded a contract on subsidies for full-time work for 27.7% of the employed. Transport and storage activity also stand out as a consequence of the inclusion of Slovenian Railways in the scheme.

The first response by the government was to subsidise shorter working hours, which was adopted very quickly after the beginning of the crisis. Due to this quick response, and in the absence of strict eligibility criteria directly connected to the crisis, the measure was widely used. The measure of shorter working hours can be seen as a form of encouragement of internal labour market flexibility. But on the other hand, subsidising forced temporary leave might in some companies cause postponement of necessary restructuring, and even labour hoarding.

2.2. Comparison with France

Slovenia adopted subsidies for reduction of full-time working hours as a response to the current economic crisis. Due to its socialist background and the low wage levels, Slovenia, unlike France, has not developed a tradition of partial activity or flexible working time. Full-time working in Slovenia is 40 hours and longer than in France and internal labour market flexibility regarding reduction of working hours is not frequently used (except for overtime work); thus, in Slovenia, the response to the economic crisis was a reduction of overtime work. In the economic downturn, the first response of the companies was reduction of overtime work.

The main objective of the measure of partially subsidising full-time work in Slovenia is very similar to the objective of partial activity in France: preservation of the contractual link between company and employee. Each measure encourages labour market flexibility in both countries and supports labour market adjustment.

The objective of Slovenia's Partial Reimbursement of Payment Compensation scheme is similar to the objective of France's measure to support shorter working hours. Employers are obliged to prepare training for the temporarily laid-off workers and are financially supported by the government to do so. Therefore, the Slovene measure could be seen as more ambitious in terms of improving the employability of workers: compared with their French counterparts, not only that they are obliged to provide training for workers involved,

Slovene employers are also financially supported by the government (companies receive 500 EUR per worker for training of temporarily laid-off workers in the scheme).

The maximum duration of total partial activity for an individual worker in France (1,000 hours) is similar to the duration of involvement (up to six months) of a worker in the measure to subsidise temporary lay-off (partial reimbursement of wage compensation) in Slovenia.

2.2.1. Level and determination

The level of the subsidy for shorter working hours in Slovenia depends on the number of reduced weekly working hours. As mentioned above, the subsidy amounts from 60 EUR to 120 EUR and is to be used for wages. The balance sheets of companies, which received subsidies, for 2009, show that those subsidies represent a relatively small part of total labour costs, even in industries with the highest share of employees in the scheme (on average 2.1% of labour costs in manufacturing) (IMAD, 2010).

The level of subsidy was determined in relation to the monthly gross minimum wage at the time of introducing the measure. The subsidy of 120 EUR is equivalent to around 20% of the monthly gross minimum wage. Due to the difference in wage levels between Slovenia and France, the subsidy for a reduction of one hour of working time in Slovenia, which is paid to the employer (3.75 EUR), is lower than the payment from the state to the employer under the partial activity scheme in France (5.23 EUR).

The Slovene Act does not determine the wage arrangement for shorter working hours and was not established to compensate for the net loss of employee income, as in France. The agreement between company and trade unions can potentially include wage cuts, despite the state subsidy.

The level of subsidy in partial reimbursement of wage compensation in Slovenia depends on the wage of the employee. Employees on temporary forced leave receive, from their employer, 85% of their base wage over the previous three months. The company is refunded with 50% of the affected employee's wage, up to a maximum amount equivalent to the maximum level of the unemployment benefit (805 EUR in 2009, 1,003 EUR since January 2010).

2.2.2. Targeting, eligibility, timing, funding

Subsidised reduction of working hours should be temporary and connected with the current economic crisis. However, unlike the position in France, such eligibility criteria are not formalised in the Act on Partial Subsidising of Full-Time Work. Potentially, any company can request a subsidy if it has concluded an agreement with trade unions on a reduction from full-time working hours. The request could be made for all employees with full-time arrangement (with no conditions of seniority, occupation, activity, or fixed-term or open contracts). In Slovenia, the measure is available to all employers (both companies and individuals who employ workers), with no limitations regarding activity, while some limitations exist in France.

The measure to support shorter working hours was put in place on a temporary basis only, by imposing a maximum period (six months) for receiving the subsidy and by stating the final date for accepting requests (which was later extended). Upon implementation of the measure, the period for accepting requests was to run up to the end of September 2010. In July 2009, this period was extended up to the end of March 2010 and it was made possible for companies to request an extension of a contract for an additional duration of up to six months.

The Partial Reimbursement of Payment Compensation Act included formal eligibility criteria: any company involved had to prepare a report on the effect of the crisis on business results and present a programme for preserving and improving the quality of jobs and human capital. The maximum number of workers from a company in the scheme is limited to 50% of total employees.

The Partial Reimbursement of Payment Compensation Act will be in force up to the end of March 2011, while partial compensation of wage compensation will be paid out up to the end

of September 2011. The Act on subsidising reduced working hours was in force up to the end of March 2010,⁵ while subsidies can potentially be paid out until the 30 March 2011. In Slovenia, both measures will stay in force longer than in France, where long lasting partial activity is limited from May until December 2010.

In Slovenia, both measures are financed by the government budget, as is the long-lasting partial activity measure in France. In 2009 around 42 million EUR (0.12% of GDP) was spent on measures, and labour market expenditures in Slovenia increased from below 0.2% of GDP in the 2000–2008 period to 0.36% of GDP. Unlike in France, the government in Slovenia also provides funds for training of temporary lay-off workers in the amount of 500 EUR per worker.

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

The potential success of the measure in Slovenia is connected to the lack of any tradition in flexible working hours. Internal labour market flexibility has largely been limited to the use of overtime work and shift work (Kanjuro Mrčela, A, Ignjatović, M (2004)).

Although it is too early to make exact estimations of the number of jobs preserved due to the adopted measures, it could be said that the fall in employment would have been greater in the absence of these measures.⁶ However, it is questionable whether measures only postponed the necessary labour market adjustment and caused labour hoarding. The real success of these measures to a large extent depends on the process of economic recovery and increasing the employability of workers during the partial activity or temporary lay-off.

The reduced working hours or temporary forced leave provide additional time for training and education for affected workers. Training helps them acquire new skills to improve employability. Since some preliminary data show that training is not very frequently performed, both countries should improve the training of employed persons involved in the measures and use the time of the crisis (total partial activity or temporary lay-off) to acquire new skills. Although it is too early to assess the outcome of any training of employees involved in the measures, it seems that companies did not change their training policies during the economic crisis. Therefore, it might be appropriate to engage some kind of external consultants to prepare training programmes for companies. Those consultants should come from public or private institutions, which have knowledge about adult training and could suggest the kind of programmes that could increase employability of temporary laid-off workers, which could potentially become unemployed.

The number of reduced working hours in Slovenia under the measure of subsidising shorter working hours is limited. If economic recovery will be recorded sooner than expected, it might be worth reconsidering introducing a limit to the reduced hours of working time in partial activity in France in order to support fiscal consolidation.

Due to relatively poor performance of training for the affected workers, France might introduce more binding conditions regarding engagement of employees in training during the reduced working hours or forced temporary leave.

Slovenia could learn from France about issues related to payment regulations for workers on shorter working hours, since according to announcements by companies and trade union information, the wages of affected workers have been reduced despite the state subsidy (not used as intended to compensate for workers' loss of income due to shorter working hours). However, given the timing of the measures in Slovenia, it is now too late to make

⁵ End of the period of applying for the subsidy.

⁶ This estimate is based on the number of granted subsidies, which was relatively high in the first half of 2009 (see table 1).

adjustments, but this information may be valuable if similar measures are prepared in the future.

4 QUESTIONS

1. Can partial activity be combined with partial unemployment?
2. How is the implementation of the partial activity monitored?
3. Are there any special tenders or programmes for training of employees in partial activity?
4. What kind of impact on the labour market situation is expected after expiry of the anti-crisis measure at the end of the year?
5. Will the 'pre-crisis' form of partial activity continue after the economic crisis?

ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
<ul style="list-style-type: none"> • The unemployment rate in Slovenia has been below EU average, both before and during the economic crisis. • As a result of the economic crisis, the extent of the increase in the unemployment rate is similar to the increase in France. • The economic crisis has had the greatest effect upon the labour market position of men, low and medium skilled people and young people.
Assessment of the policy measure
<ul style="list-style-type: none"> • Two measures have been adopted in Slovenia to preserve jobs during the crisis: a subsidy for reduced working hours, and a subsidy scheme for employees on forced temporary leave. • The measure of subsidising shorter working hours is a simple subsidy with a wide coverage of sectors. • The decline in employment would have been greater in the absence of the measures. • The measures support and encourage internal labour market flexibility. • The measure of subsidising shorter working hours does not have strict eligibility criteria. • The shorter working hours and forced temporary leave arrangements are not frequently used for acquiring new skills.
Assessment of success factors and transferability
<ul style="list-style-type: none"> • In the future, Slovenia could introduce some additional conditions regarding payments to workers on a shorter working hours scheme. • Both countries should improve the training of employees in the scheme to increase their employability.
Questions
<ul style="list-style-type: none"> • Can partial activity be combined with partial unemployment in France? • How is the implementation of the partial activity monitored? • Are there any special tenders or programmes for training of employees in partial activity? • What kind of impact on the labour market situation is expected after expiry of the anti-crisis measure at the end of the year? • Will the 'pre-crisis' form of partial activity continue after the economic crisis?

ANNEX 2: REFERENCES

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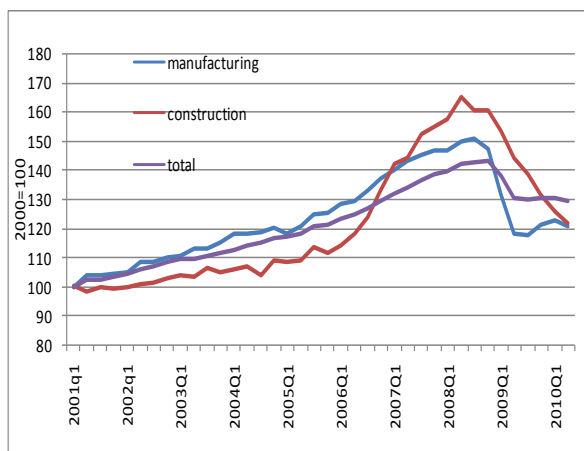
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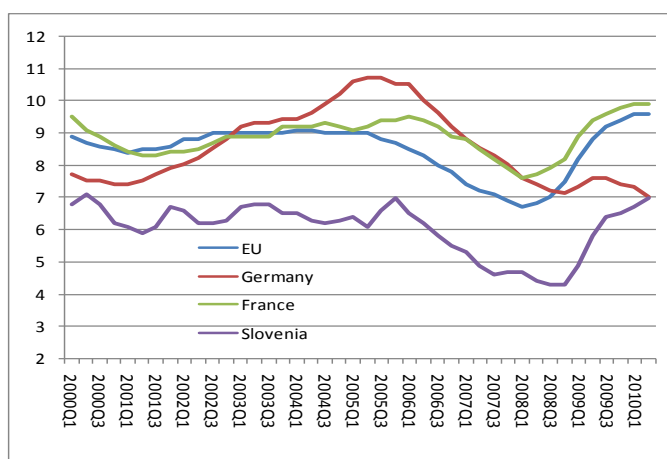
ANNEX 3: GRAPHS AND TABLES

Figure 1: Value added in several in sectors in Slovenia



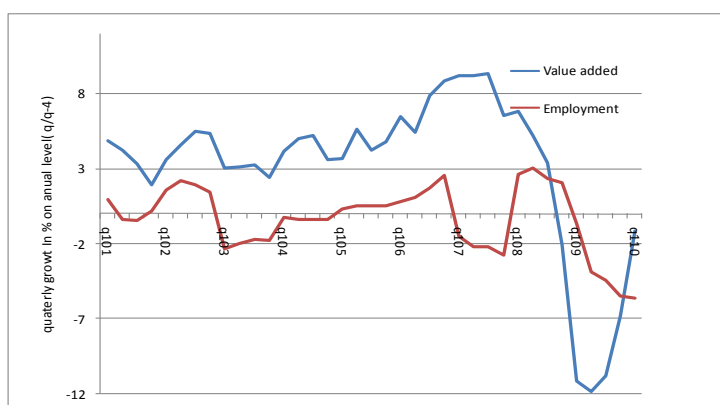
Source: SORS, own calculation

Figure 2: Unemployment rate in selected countries



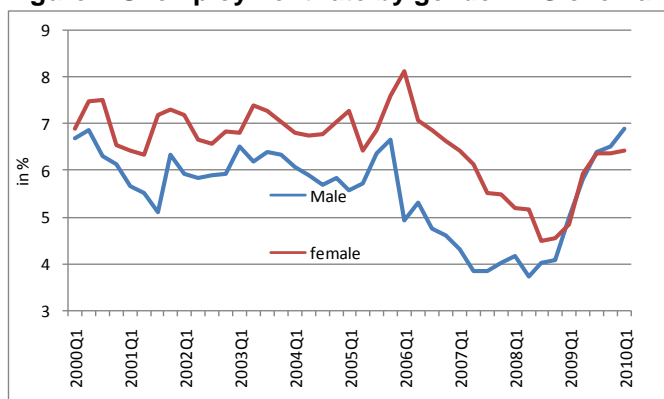
Source: Eurostat

Figure 3: Value added and employment in private sector in Slovenia



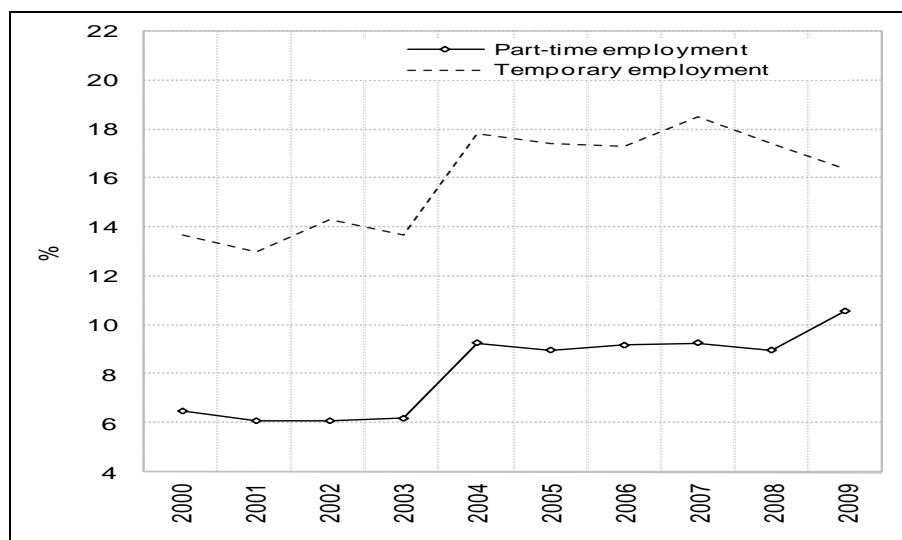
Source: SORS, own calculation

Figure 4: Unemployment rate by gender in Slovenia



Source: SORS, seas. Adjusted by IMAD

Figure 5: Share of part-time and part-time employment in total employment in Slovenia



Source: Eurostat

Table 1: Number of employees subsidised within companies under the two intervention acts, monthly

	Partial Subsidizing of full-time work	Partial reimbursement of payment compensation
February 2009	25664	
March. 2009	34846	
April 2009	39571	
May 2009	40562	
June 2009	41780	
July 2009	37297	
August. 2009	31114	3932
September 2009	34114	5035
October 2009	24145	5883
November 2009	24219	4769
December 2009	22671	5429
January 2010	13520	3674
February 2010	9009	4859
March 2010	7653	3137
April 2010	6936	4805
May 2010	5417	4562
June 2010	5053	5270

Source:ESS

Table2: Share of companies and persons for whom a contract was concluded under the two intervention acts in the total number of companies and wage recipients by activity

	PSFTW		PRPC	
	Share of companies	Share of employed	Share of companies	Share of employed
A Agriculture, forestry and fishing	0.9	5.5	0.9	0.4
B Mining	2.8	4.5	1.5	0.3
C Manufacturing	5.0	27.7	4.0	7.2
D Electricity, gas, steam and air conditioning supply	0.4	1.1		-
E Water supply, sewerage, waste management and remediation activities	1.1	0.7	1.1	0.5
F Construction	0.7	2.5	0.8	0.9
G Wholesale and retail trade, repair of motor vehicles and motorcycles	0.8	1.8	0.5	0.3
H Transportation and storage	0.6	15.6	0.5	5.9
I Accommodation and food service activities	0.6	1.5	0.7	1.1
J Information and communication	0.6	0.7	1.0	1.2
K Financial and insurance activities	1.0	2.8	-	-
L Real estate activities	0.6	2.7	0.5	0.5
M Professional, scientific and technical activities	1.7	2.4	0.5	0.8
N Administrative and support service activities	0.8	2.3		
P Education	1.0	3.2		
Q Health care and social assistance	0.2	1.5		
R Culture, leisure and recreation activities	0.7	2.6		
S Other service activities	1.1	6.5		
Total	1.3	12.3	1.0	2.7

Source: ESS, SORS; calculations by IMAD

Note: PSFTW- partial subsidizing of full-time work, PRPC- partial reimbursement of payment compensation.