

Short time working arrangements as response to cyclical fluctuations

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Publicly sponsored short-time schemes have been intensively used during the recession, to prevent otherwise profitable enterprises from going bankrupt, and to avoid unnecessary labour shedding and the consequent losses in human capital with potentially adverse effects on output growth through hysteresis effects. The empirical evidence suggests that short-time schemes have been effective in reducing the vulnerability of employment during the global recession. These schemes provide firms with a buffer to avoid mass lay-offs during temporary downturns, while sharing the burden of the adjustment among workers and between workers, government and employers. Through the regulation of short-time work and the state contribution, public authorities are able to influence the adjustment of the labour input between changes in employment levels and changes in the average hours worked.

To avoid excessive reliance on short-time schemes, regulations establish precise criteria for their use, including eligibility conditions such as significant decline of sales, specific time duration of the scheme, usually limited to transient shocks, procedures for their activation and plans for returning to normality. Yet, once the scheme has been authorised, firms should be allowed the flexibility to tailor reductions in the working hours to the characteristics of the workforce and of potential job quitters, without engaging in long and untimely procedures.

The efficiency of short-time schemes deteriorate quite rapidly when the objective of adjusting the labour input, without incurring in mass redundancies, conflicts with the need to maintain an efficient allocation of labour across sectors. An extended use of short-time work supports the demand of declining sectors, eventually delaying their restructuring. Thus, these schemes should be associated to an efficient unemployment benefits system that promotes labour reallocation.

The paper discusses the use of government sponsored short-time working schemes before and after the crisis, providing in an annex a detailed description of each Member State's scheme. There is considerable institutional variation in short-time work programmes across Europe. Differences concern the coverage, the level of wage compensation and contributions paid by the state. An important distinction concerns the use of short-time work either as a form of income support in the transition towards a new job or as a form of job protection. In the first case (the minority), the reduced

hours' scheme is a type of unemployment benefit, where workers have to comply with the normal contributory and job availability requirements, while in the latter (the most usual case) it is exclusively used to increase internal flexibility within otherwise tight job protection rules.

Before the crisis, access to short-time working schemes was largely limited to workers with open-ended contracts, especially in countries where strict employment protection legislation for regular contracts makes work-sharing a more attractive option than dismissal. Yet, in dual labour markets short-time working schemes for the insiders increase the turnover of the outsiders, which risk reinforcing the duality of the labour market and outsiders' job instability.

Faced with a shock of unprecedented severity and with persistent uncertainty about the recovery, many Member States have temporarily introduced new publicly sponsored short-time working arrangements or increased their generosity (level, coverage and duration) and made their use more manageable. For a limited period of time this may have helped to stabilise employment levels and cushion social hardship. This was largely justified on the grounds of preventing otherwise profitable enterprises from going bankrupt because of subdued demand and the credit crunch, and to prevent unnecessary labour shedding that would have yielded losses in human capital and impacted potential output through hysteresis effects.

Looking forward, these schemes are likely to lose their effectiveness if a weak labour demand persists. The risk is that a too late withdrawal of measures may carry substantial costs in terms of locking-in labour to declining activities, thereby preventing the necessary reallocation of resources, damaging future growth prospects, distorting competition and interfering with the functioning of the internal market. As suggested by the 2009 Spring Council, short-time arrangements need to be supplemented by measures that support employability and ease transitions to new jobs. Thus, increases in the generosity of *governmental schemes subsidizing temporary working-time reductions should gradually be withdrawn, when the recovery is secured*. Concretely, this requires stronger work test availability for workers and stricter conditionalities for firms – e.g. an assessment of their long-run demand conditions and competitive positions.