European Foundation for the Improvement of Living and Working Conditions

Europe in recession: Employment initiatives at company and Member State level

Background paper

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Context

There are increasingly alarming predictions about the employment impact of the most severe crisis in the developed world economies since the great depression of the 1930s. The ILO predicted in January 2009 that global unemployment could increase by up to 50 million in a worst case scenario. Already, most of the developed world has succumbed to recession. Forecasts for future growth have been repeatedly revised downwards and it is unlikely that the EU economy will begin to recover before late 2009 at the earliest.

Unemployment levels in the EU-27 began to increase in May 2008 and the rise has been precipitous in certain Member States (Spain, Ireland, Estonia, Latvia[1] and others) while even those labour markets that have been least affected thus far (Germany, Poland, Slovakia) are beginning to report abruptly worsening conditions.

As unemployment is a lagging indicator, it is most likely that 2009 will see an accelerating deterioration in EU employment levels. Evidence from the last three months from Eurofound's own European Restructuring Monitor[2] – based on media reports of major restructuring occurrences – is that there has been a rising rate of restructuring-related job loss which has spiked upward in particular since December 2008. Employment data from the United States, which led the EU into recession, has also been dismal over recent months.

A high proportion of companies in the automotive sector have already resorted to collective redundancies and lay-offs in the face of unprecedented fall-off in sales volume[3]. But there are signs that many companies are making workers redundant only as a last resort and that a range of alternative responses are being implemented or are under consideration.

This brief paper will seek to describe how some companies, the social partners and Member States in the EU have reacted over recent months to forestall or mitigate the negative employment consequences of the downturn. The emphasis will be on three specific types of initiative: short-term working, paid/unpaid sabbaticals and 'pay for jobs' clauses in restructuring agreements. A common feature is negotiated reduction of working time balanced by increased provision of training. The rationale for such measures is that upskilling during a period of reduced demand retains qualified staff, enhances human capital and preserves internal flexibility in anticipation of an upturn.

While most of the short case examples are recent – from September/October 2008 onwards – it is likely that deteriorating circumstances may have forced employers in some cases to go beyond measures initially undertaken.

Current market conditions may also have revealed in stark outline systemic deficiencies of certain sectors (e.g. over-capacity in the automotive sector). The assumption – or hope – behind many of the measures featured here is that the slump will be severe but finite in duration and that 'business as usual' will resume within twelve months. This was clearly the view of German finance minister, Peer Steinbrueck who announced in December 2008 that the country's

1 This report has been written in response to a request from the Latvian EU representation in Brussels.

2 **http://www.eurofound.europa.eu/emcc/erm**

3 According to ACEA, 'European new passenger car registrations fell by 7.8% to 14,712,158 units in 2008, recording the sharpest decline since 1993. In the fourth quarter of 2008, registrations were down 19.3%.' Heavy vehicle producers have been even worse affected: Volvo Trucks (Sweden) reported a decline in truck sales from 41,970 in the third quarter of 2007 to just 115 in the last quarter of 2008, a decline of 99.7%. See **http://www.eurofound.europa.eu/emcc/erm/static/factsheet_11727.htm**

largest thirty firms (by Dax listing) had agreed on a voluntary no-redundancy policy and would organise company training as an alternative to job cuts. However, as the source for this information indicated (**http://www.fedee.com**), 'it was uncertain how long these companies are expected to sustain the redundancy ban'.

Depending on the depth and length of the crisis, provisional responses to slumping demand may outlive their usefulness quite quickly. Measures intended to secure the survival of viable businesses through short-term difficulties may not be so effective in a context of protracted slowdown or of inherent structural problems.

The main sources for this paper are Eurofound's own European observatories (principally ERM and EIRO), ETUI's Collective bargaining newsletter and as well as general media sources. It should be noted also that ETUI has recently (1 February 2009) published a working paper on 'Plant level responses to the economic crisis in Europe' (Glassner and Galgoczi, 2009) which looks in more detail at the types of scheme briefly outlined here, covers many recent company-level examples as well as presenting tabular data on relevant policies in eleven Member States.

Reduced hours in the auto and steel sectors

There are many established means of adjusting production and aggregate working time to counter temporary slumps in demand. One sector that can serve as a showcase in this regard is the automotive sector where demand has been especially badly hit by the credit crunch, declining consumer sentiment and increasing inventory levels.

Many of the large automotive companies, especially in western European Member States, have extended scheduled seasonal closures over Christmas 2008 / New Year 2009. In the UK, Aston Martin, Mini, Bentley and GM (Vauxhall) all closed for extra weeks during this period[4] as did the large Ford facility at Blanquefort in France and Daimler in Germany.

Even after the resumption of production in 2009, many firms have announced temporary plant closures in 2009. Honda, for example, have announced a four-month closure of its Swindon (UK) plant which will close from February to May this year[5] while Renault Trucks will close three of its French plants for three months in 2009.

Some elements of the Honda closure are interesting[6]. While a core of production and maintenance staff will remain working at the plant, the closure will affect 2,500 of its 3,700 employees who will receive their full basic pay for the first two months and around 60% for the remainder. When the plant reopens in June, employees will have to work unpaid overtime equal to the amount they have been paid for over the four-month period. A similar arrangement is in place at luxury car manufacturer Aston Martin which has agreed with unions on a three-day week regime with employees obliged to make good the time deficit when normal production is resumed[7]. 'Time-banking' arrangements are also in place at Bentley in Crewe (UK).

[4] One consequence was that production figures for the UK car industry for the month of December were nearly 50% down year-on-year. See http://www.smmt.co.uk/articles/article.cfm?articleid=18914

[5] **http://news.bbc.co.uk/1/hi/business/7853883.stm**

[6] **http://news.bbc.co.uk/1/hi/business/7859863.stm**

[7] **http://news.bbc.co.uk/1/hi/england/coventry_warwickshire/7855442.stm**

In some of the bigger sites in the auto and steel sectors, partial plant closures have also been implemented where production lines or units are suspended while core production remains operational. Reduction or elimination of overtime and nightshifts has also been a common response, as has compulsory leave-taking where workers are obliged to take annual leave entitlements in periods specified by their employer (often in conjunction with temporary plant closures). And, either in combination with or in addition to many of the above measures, obligatory periods of unpaid leave and shortened working weeks (three-day weeks and four-day weeks) have become widespread.[8]

Short-time working schemes

Given very different national labour law and collective bargaining regimes in Member States, the public authorities have varying levels of involvement in facilitating company recourse to short-term working.

In the UK, where bargaining is largely decentralised, most of the time-reduction measures indicated above are the outcome of company-level negotiations between management and unions. There is no statewide programme to assist employers in maintaining employment through the use of short-time working.

By contrast, several Member States including the Netherlands, Austria, Germany and France have in place short-time compensation programmes whereby employers can apply for temporary state assistance to top up the wages of workers working reduced hours. Generally, these programmes are conditional on negotiated agreements between the social partners and are subject to triggering by specified negative market conditions or declines of sales levels. They are also supported in most cases by collectively agreed frameworks of working time flexibility.

In France, *chomage technique* or *chomage partiel* is a publicly funded scheme that allows companies in cases of exceptional economic difficulties to have recourse to state-governed funds covering 60% of minimum hourly wages during periods when staff are temporarily laid off. Employers pay their employees directly and are reimbursed by state agencies (DDTEFP or Assedic) based on hourly rates. There has been a large rise in the number of companies applying for the funds, especially in the car and car-components sectors.[9] In mid-December, the French government extended maximum coverage of the scheme from 600 hours per year up to 800 hours in general and up to 1000 hours (equivalent of 28 weeks under the French 35-hour week) in the case of highly exposed sectors such as the textiles/clothing and automobile sectors. It also made reimbursement levels higher and agreed a prolongation of *chomage partiel* from four to six consecutive weeks.[10]

In Germany, a long tradition of negotiated working time flexibility and extensive use of working time accounts provide a variety of instruments to facilitate reduced working time and many are specifically framed as employment-saving measures. As Bosch (2009) comments, in Germany 'the idea to dismiss hours and not workers seems to be well accepted'.

The first line of defence are collective agreements while the federal *Kurzarbeit* system administered by the Bundesagentur für Arbeit (BAA) provides a state-supported back-up for companies resorting to short-time working outside the provisions of collective agreements.

[8] See Glassner and Galgoczi (2009) for an extensive listing of examples at plant level

[9] See 'la carte de la crise sociale' at **http://www.mediapart.fr**

[10] Glassner and Galgoczi (2009).

Sectoral collective agreements as well as plant/company level agreements include options to reduce working hours in order to maintain employment. The classic example was Volkswagen's withdrawal of plans to dismiss 30,000 workers in 1993–4 based on an agreement with unions to reduce the working week from 35 hours to 28.8 hours (5 to 4 days). A current example cited by ETUI (Glassner and Galgoczi, 2009) is the IG Metall working time agreement which 'includes the option to reduce working time to 30 hours (West Germany) and 33 hours (East Germany) per week in order to avoid redundancies'. Additionally, under the Pforzheim Agreement (2004) the scope for plant/company level agreements to deviate from higher level collective agreements is extended to cover a variety of motivations including that of protecting employment levels or creating new jobs.

When a company's need for working time flexibility extends beyond – or has exhausted – what has been collectively agreed, it can have recourse to the federal *Kurzarbeitgeld* (short time working fund). Existing *Kurzarbeit* arrangements were extended in 2008 from 6 to 18 months and made cheaper for companies. Under the scheme, employers are subsidised up to 67% of an employee's wages by the BAA in the case of temporary layoff or reduced working hours occasioned by sharp declines in demand, *force majeure* or structural changes within the company. The employer generally tops up the BAA contribution and the employee also retains rights to all his or her social security entitlements. Granting the short-time allowance to companies is conditional on overtime having been abolished and working time account credits having been used up.[11]

There was a more than five-fold increase in the numbers of workers potentially benefitting from 'kug' payments in the period October–December 2008.[12] According to the ETUI, workers at Daimler's German plants will account for a significant inflow of new beneficiaries: '*a "Kurzarbeit" arrangement will be in force from 12 January to 31 March 2009 for two thirds of the 28,000 strong workforce and during the same period in its Unterturkheim plant for about 10,000 of 18,000 workers*'. Up to the end of 2008, Daimler had been able to manage working time reductions using working time accounts and other forms of negotiated flexibility.

How effective are the German *Kurzarbeit* arrangements at maintaining employment? Research by the German institute for employment research (Institut für Arbeitsmarkt- und Berufsforschung der Bundesanstall für Arbeit – IAB) paints a favourable picture, although with a strong caveat that the period covered (2002–3) was much less challenging than the current one. According to an EIRO summary of the research in 2005:

> *"Almost 33% of establishments that announced short-time working made staff redundant during the first half-year of 2003. Nonetheless, the bulk of firms (67.1%) maintained, at the very least, the level of their workforce. Indeed, almost 7% of establishments hired new entrants, even though they had announced short-time working. Figures for employment trends from July 2002 until June 2003 reveal a very similar picture. In addition, labour turnover is, except for companies in the commerce, transport and financial-services sectors, negatively correlated with the incidence of short-time working. According to the study, short-time working enables firms to retain trained workers and preserve firm-specific human capital."* [13]

The Austrian *Kurzarbeit* system is similar to the German one but with less extensive coverage. Support can be offered to employers up to a maximum of three months. The level of support is based on the unemployment benefit level and access to the funds is dependent on companies and worker representatives agreeing on the level of 'top-up'.

[11] Bosch, G. (2009).

[12] From 51,667 persons in Oct 2008 to 294,713 (preliminary data) in Dec 2008, Glassner and Galgoczi (2009), Appendix (Germany).

[13] **http://www.eurofound.europa.eu/eiro/2005/05/inbrief/de0505102n.htm**.

More recent short-time working initiatives, implemented or planned, in the Netherlands and Slovenia also merit attention.

The Dutch authorities agreed in January 2009 to extend a scheme whereby companies are assisted from public unemployment funds (under the *Werkloosheidswet* – Law of Unemployment) to cover 70% of the salary costs of permanent workers who are temporarily laid off or put on short-term working. Under the scheme, which originally formed part of a general stimulus package announced by the government in November 2008, companies experiencing a fall in sales of 30% or more over two consecutive months may apply for the financial support. Hitherto, the regulation on short-time work had applied to situations of *force majeure* closure. The Dutch authorities added 200 million euro to the public unemployment funds in order to extend its coverage to firms severely affected by the economic downturn. In return, they are expected to undertake (re)training of temporarily laid-off staff who continue to receive their normal pay for between 6 and 24 weeks. By mid-January, 223 companies had taken advantage of the scheme with payments covering the costs of 340,000 working hours.[14]

A bill is also before the Slovenian parliament that would provide job subsidies to companies that agree to cut the working week rather than make employees redundant. Under the provisions of the bill, companies reducing the working week from 40 to 36 hours would receive 60 euro per worker and those reducing the working week from 40 to 32 hours would receive 120 euro per worker. The subsidy will be available for a period of six months, during which time redundancies would be prohibited. The subsidies would be subject to agreement between a company and a representative trade union.

Concession bargaining: your wages or your jobs

There have been some interesting variants of concession bargaining in recent months, where employers have sought to link employment security (or, perhaps more accurately, withdrawal of compulsory redundancy plans) to pay freezes or pay cuts. In general, employees and their representatives have been put in the position of having to select the least bad outcome in terms of employment, pay and conditions although, in some cases (see Aer Lingus below), there has been a high level of positive response to management's second-round proposals.

Finnair announced in December 2008 its plans to temporarily lay off 1,700 cabin crew on a staggered basis during 2009 in order to cut costs. The lay-offs will take place in April–May 2009 and will last two to three weeks per staff member affected. The move came after staff had earlier rejected an offer of voluntary wage cuts of 5% or a freeze in previously agreed pay increases for 15 months in order to avoid the definitive cutting of 400 jobs at the airline. A rolling series of restructurings at the Finnish national carrier over recent years has seen over 1,000 staff leave the company.[15]

Irish airline, Aer Lingus, has also been engaged in serial restructuring in recent years, both before and after its part-privatisation in 2006. In November 2008, the former national airline decided to abandon previously announced plans to outsource 1,500 jobs after management reached agreement with unions on an innovative 'leave and return' option in a bid to secure cost cuts. Under the deal, some 850 workers have chosen to take a lump sum severance payment and leave

[14] See Glassner and Galgoczi (2009), p.21-22 for more details.

[15] See ETUI-REHS (2008). Also **http://www.eurofound.europa.eu/eiro/2008/11/articles/fi0811029i.htm**

the company before returning on reduced pay and conditions. The terms of the deal were sufficiently attractive that 80% of those eligible voted for the package, many more than the 50% that the company had indicated as its minimum threshold to secure cost cuts of 50 million euro.[16]

Irish media group Independent Newspapers tabled a package of wage cuts and new working time arrangements in December 2008 to avert job losses. The proposed wage cuts are 'progressive' in character. Unions have urged staff to reject the offer which reneges on pay increases agreed at national social partnership talks. A wage freeze rather than cut would apply to staff earning less than 40,000 euro per annum with various bands of salary reduction applying to higher earners. Senior staff, those earning over 100,000 euro per annum, would suffer 10% cuts and would also forgo bonuses in 2009. A sweetener was the grant of share options to staff proportionate to the size of the paycuts. It remains to be seen whether staff at the newspaper group accept the offer but the alternative is, according to management, compulsory redundancies.

Recession sabbaticals

A sign that employers are in earnest about retaining staff through the current economic turbulence have been offers of paid career breaks. One example was the offer by Irish Life & Permanent's banking units of two and three year paid career breaks in October 2008. To date, 140 of the bank's 2,500-strong workforce – primarily younger staff – have applied for the offer of up to €20,000 for a two-year break and up to €35,000 for a three year break. The scheme is aimed at cutting the lender's costs during the downturn while retaining trained staff in anticipation of a recovery in 2010–12. It may be extended to the company's insurance arm[17] which employs a further 2,500 people. There are also indications that other Irish banks may be considering similar schemes.[18]

Staff of financial services company KPMG in London have also recently been offered paid work breaks, although for shorter periods and on less generous terms.[19] Up to 11,000 UK staff have been given the option of switching to a four-day working week, with a 20% pay cut or a sabbatical of between one and three months on 30% pay. Similar arrangements are likely to be offered to the company's staff in other member states. The programme will run until September 2010.

Other global financial service companies are reported to be considering similar offers. Again, the motivation is explicitly one of retention of qualified/trained personnel. Hiring freezes during previous recessions led to a shortage of staff when the economy picked up.

According to the 2007 CBI/Pertemps annual employment trends survey (UK), the proportion of UK companies offering career breaks/sabbaticals rose from 20% in 2004 to 37% in 2007.[20]

[16] http://www.eurofound.europa.eu/eiro/2008/12/articles/ie0812029i.htm

[17] http://www.independent.ie/business/irish/permanant-tsb-workers-to-start-taking-paid-break-1609671.html

[18] http://www.rte.ie/business/2009/0127/mibusiness.html

[19] http://www.ft.com/cms/s/0/9cf3f6fa-e3f1-11dd-8274-0000779fd2ac.html
Also http://www.personneltoday.com/articles/2009/01/20/49049/kpmg-staff-told-to-take-sabbaticals-to-save-jobs.html

[20] http://www.eurofound.europa.eu/eiro/2007/11/articles/uk0711039i.htm

Finally, in the automotive sector, management at the GM Vauxhall plant at Ellesmere Port (UK) have offered 2,000 staff the the opportunity to take a sabbatical of up to nine months from January-September 2009 on 30% pay. According to a company spokesman, GM Vauxhall is 'working with unions to cut structural costs and get us through 2009 without losing staff', although it did not foresee a huge take-up on the sabbatical offer, presumably because of the low level of replacement income.[21]

Conclusions

The reasons why companies prefer to avoid forced job cuts are various. Certainly, the financial cost of redundancies is one motivation but there is also widespread anecdotal evidence that companies have been chastened by previous experience of downturns where the dismissal of trained and experienced staff undermined efforts to restore levels of production during the recovery phase. In some countries, public schemes to finance temporary layoffs and reduced working times provide an incentive for companies to use these mechanisms. After several good business years, many companies have healthy balance sheets which allow for flexibility at least in the short term.

Human resource management policy in large firms may also be more focused than before on the medium to long term, where unfavourable demographic profiles in many countries will severely limit labour supply. The future value of responsible corporate behaviour now (in terms of reputation, good industrial relations, etc) may incline employers to be more creative in considering alternatives to lay-offs.

And recent policy activity in the flexicurity debate may have generated increased awareness about possible implementations of flexible working time. These clearly have some role to play in addressing the requirements of operational efficiency as well as of enhanced employee work–life balance. In countries like Germany with a tradition of negotiated flexibility, they also provide useful templates for adapting labour supply to abruptly worsening market conditions while maintaining employment (at least in the short term).

Another feature of the German system is that it offers a broader set of linked and in practice cascading measures: if cancellation of night shifts is not sufficient then use working time accounts; if this is not sufficient, use employment-saving working time reduction clauses; if this is not sufficient, have recourse to short-time working arrangements – and so on.[22]

It is significant in this regard that many of the examples of sabbaticals and pay-freeze/cut negotiations come from two Member States in particular, the UK and Ireland. Company-level initiatives of these types – involving both wage and time flexibility – are more likely in countries where collective frameworks of agreed working time flexibility are absent. Different types of time-reducing/employment-saving initiative emerge from different labour market institutional contexts.

The current economic problems in the 'real economy' stem from abrupt declines in demand related to instability in financial markets, associated credit restrictions and general uncertainty about future prospects. In the short case examples cited here, the main trade-off is between employment and working time, although pay is clearly a linked variable on one side of the equation.

[21] http://news.bbc.co.uk/1/hi/england/merseyside/7827865.stm

[22] When we extend this sequence and redundancies are implemented, the vulnerability of non-permanent workers becomes very evident. Recent ERM cases as well as Glassner, Galgoczi (2009) suggest that a disproportionately high number of job losses in the automotive sector have been among fixed-term or agency workers.

In terms of macro-economic considerations, on the one hand working time reductions and pay cuts are likely to exacerbate such insecurities and contribute further to slumping demand. On the other hand, the main alternative – compulsory redundancies and higher unemployment – could arguably have an even more negative impact on demand.

It is reasonable to expect that macro-economic problems will be addressed at a different level and by different policies. Both the EU as well as most Member States have announced substantial economic stimulus measures. Many of these plans include employment-maintaining measures such as the broadening or extension of some of the policies cited in the text such as the French chomage partiel and the German Kurzarbeit schemes. Many also envisage much more substantial – and generously funded – demand-stoking measures such as major investments in public infrastructure, green car technology/car scrappage premia, etc. If and when these gain traction, and more importantly if and when normal credit channels are restored, the economic situation may improve and the pressures on short-term employment fixes may abate.

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