



# Extending flexicurity – the potential of short-time working schemes

ERM REPORT 2010

## Executive summary

### Introduction

Never before have short-time working schemes been so prominent as in the last two years. Many Member States expanded their existing schemes and others introduced them for the first time. Such schemes have been widely seen as successful in mitigating the worst effects of this very serious recession.

While publicly financed short-time working and temporary layoff schemes are the main focus of the report, it is important to emphasise that there are many other means by which working time can be reduced. These include company-initiated reductions in overtime, the use of working time accounts and holiday entitlements and numerous other types of bilateral arrangements between employers and employees.

The report shows that five million fewer people were in employment in the first quarter of 2010 compared with the onset of the crisis in mid-2008. Construction and manufacturing alone account for a net decline in employment of five million persons. Significant decline has also been observed in the transport and retail sectors. Sectors in which employment is growing include health and education, computer programming and consultancy, and other professional and scientific activities. Levels of large-scale restructuring in the ERM database began to revert to long-term average levels in mid-2009, after the sharp spike of activity recorded during the fourth quarter of 2008 and the first quarter of 2009.

### Policy context

Even if an upturn in the business cycle may subsequently reveal some negative aspects of short-time working schemes – for example, lower job transition rates – they do appear to have been a successful business-cycle instrument. The question is whether they can be

something more, not least in terms of addressing some of the structural problems facing the European Union up to 2020. This report argues that they can.

Publicly subsidised short-time working schemes provide perhaps the best example of how the costs of labour market adjustment can be more widely shared. This report shows the extent to which real consensus on these schemes has been achieved among many social partners in Europe. It suggests that this consensus could be harnessed to develop these schemes further towards a more active policy orientation, an extension of the flexicurity concept and, more concretely, the generation of new skills for the jobs needed to put Europe on the path to recovery and further on to the visions of Europe 2020.

### Key findings

- Working time reduction was particularly prevalent in Germany, Belgium, Italy, France, the United Kingdom (UK) and Sweden. This contrasts with the Czech Republic, Slovakia, Bulgaria, Portugal, Slovenia, Hungary, Spain and Lithuania, where most of the net adjustment was due to job losses.
- The number of economic short-time workers (ESTW), not necessarily on publicly subsidised schemes, tripled to almost two million between 2008 and 2009.
- ESTW, as a percentage of all workers, are most prevalent in Italy, Germany, Netherlands, Slovenia and Belgium and least prevalent in Sweden, UK and Luxembourg.
- Workers in manufacturing and with low levels of education, in blue-collar occupations are more likely to be ESTW; again, however, there is some variation between Member States.

- The 15 short-time working schemes studied in the report vary greatly in the extent of the maximum working time reduction. The schemes may cut working time by between 10% and 100%, and compensate for between 55% and 80% of the foregone pay.
- The compensation of lost social security entitlement rights is not widespread, though there are examples of this being done by the employer and the state.
- In principle, all parties agree that training should be provided and in some schemes training is mandatory. Despite this, the uptake is limited and there are quality concerns. Workers are not always motivated to take part; firms may have limited experience; and the capacity for training, particularly in small and medium-sized enterprises (SMEs) is very problematic, as is the fragmented nature of training systems in some countries.
- The uncertainty regarding when the employee may have to return to work, possibly at short notice, makes the planning of training difficult.
- There has been a recent tendency to provide more income compensation when the worker participates in training.
- While training costs are sometimes subsidised, this is generally not the case and financing is a major problem in many schemes.
- Administrative difficulties are common and the delay between application and reimbursement varies from 15 days to two months. Schemes that were up and running when the crisis hit and those with close social partnership have had fewer implementation problems.
- The often-cited problem of the schemes' only propping up ultimately unprofitable firms can be minimised through a proper allocation of costs and other sanctions and incentives; this can encourage the self-selection of firms that are in only temporary difficulties and that have a viable economic future. The support should, however, be temporary.

## Policy pointers

- Short-time working schemes do provide numerical flexibility for the employer together with job and income security for the employee; in addition, they do comply with many of the 'common principles of flexicurity' outlined by the European social partners.
- It is, above all, the lack of training that hinders these schemes in addressing the challenges of modern labour markets and achieving closer integration with the goals of the European Employment Strategy.
- Training should not just be firm specific but also include more general skills. The training should be organised in modules to provide the flexibility required for workers on these schemes.
- There is probably a role for these schemes even beyond the anti-crisis package context in which many were introduced.
- A tripartite approach facilitates policy implementation.
- There is little logic in limiting these schemes to certain sectors or types of workers.
- Wage compensation should be related to the level of the national unemployment benefit payment.
- If short-time working is conducted for longer periods, some form of compensation for loss of social security rights should be considered.

The overarching policy conclusion is that the consensual nature of these schemes provides a promising basis for further tripartite cooperation. Just as the last two decades saw a reorientation from passive to active labour market policy, so should a flexicurity-aligned system of short-time working adopt a more active stance. This facilitates the internal restructuring of the firm during the downturn and is a useful means of inducing a more countercyclical emphasis to training. It also improves employability on the external labour market, should dismissals eventually become necessary.

### Further information

The full report, *Extending flexicurity – the potential of short-time working schemes: ERM report 2010*, is available at [www.eurofound.europa.eu/publications/htmlfiles/ef1071.htm](http://www.eurofound.europa.eu/publications/htmlfiles/ef1071.htm)

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