

Worksharing: New Developments during the Great Recession and Beyond

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Conditions of Work and Employment Programme

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“‘[S]hort-time work’ (kurzarbeit) is fast becoming an international word...In 2009, our economy contracted by almost 5 per cent because we are so heavily dependent upon exports. And as our country basically does not have any natural resources, we had to pause and consider what it is that makes Germany strong...And it was clear that, on the one hand, our strength lies in our employers—not only our large companies, but also our small and medium-sized enterprises—and on the other hand, in our workers, who have often been with a company for a long period of time. We understood that it was vital to keep this bond between employers and employees during difficult times [and] we therefore introduced short-time work as an instrument proposed by the State...The good thing is that it all turned out well, simply because the companies believed that they had a future, and because the State was ready and willing to actually invest quite a lot of money into the programme...”

GERMAN CHANCELLOR ANGELA MERKEL at the 2011 International Labour Conference in Geneva, Switzerland

Introduction

The global financial crisis which first hit the United States in the autumn of 2008, and then the rest of the world shortly thereafter had a profound effect on the “real” global economy as well. A massive wave of reduced liquidity in the financial sector generated a negative macroeconomic shock which drove down aggregate demand in countries around the world to a degree unseen since the Great Depression—turning the global financial crisis into the Great Recession of 2008-2009 and a deep and lingering global jobs crisis as well. Governments responded with a range of economic policies: first and foremost, Keynesian macroeconomic fiscal stimulus, but also a variety of labour market policies, ranging from unemployment insurance to skill training and a variety of other types of employment assistance. Arguably, however, one of the most effective labour market responses to this crisis deployed by any country was Kurzarbeit: a German word meaning “short-time work”, which as German Chancellor Angela Merkel stated, is indeed “fast becoming an international word”. However, Kurzarbeit was merely the largest and the best known of many similar measures developed and implemented in a broad range of countries to promote reduced working hours in lieu of

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job cuts. These measures, which are known by a variety of different names in different countries, can collectively be referred to as *work sharing*.

Work sharing is a labour market instrument based on the reduction of working time, which is intended to spread a reduced volume of work over the same (or a similar) number of workers in order to avoid layoffs. In the framework of national work sharing programmes, enterprises can receive benefits when they refrain from layoffs, and instead “share” the lower amount of available work by reducing the working hours of all their employees or all members of a specific work unit. Work sharing should not be confused with job sharing, which refers to a voluntary arrangement whereby two persons take joint responsibility for one full-time job; for example, a common form of job sharing is to split one full-time job into two part-time jobs.

National work sharing policies attempt to alleviate problems for workers and employers while helping to keep firms going through hard economic times. First there is a cut in working hours and wages, which though not as bad as unemployment is still a hardship for workers. For this reason most countries with work sharing programmes have developed some type of wage supplement to replace part of the lost earnings. National work sharing programmes also establish specific time limits on the period of application of these programmes in order to minimise “deadweight” (the amount of public work sharing subsidies received by firms who would not have engaged in layoffs in any case) and displacement effects (i.e. a crowding out of emerging businesses and industries by existing, inefficient ones, which could potentially result from the public subsidies). Most work sharing programmes also include training and retraining activities to help workers upgrade their skills to improve their productivity, and if necessary, to new jobs as an economic recovery takes place.

Interestingly, work sharing may also be linked with happiness. Working time is also considered to be an important contributor to individual well-being in the burgeoning new literature regarding the economics of happiness. The happiness literature uses an individual’s “reported subjective well-being as a proxy measure for individual welfare” (Frey and Stutzer, 2010, p. 3). In this literature, unemployment is universally found to be detrimental to happiness, not only due to reduced income, but also because paid work provides people with a sense of identity and opportunities for socialization, while *ceteris paribus* more work hours are positively associated with reported levels of happiness (*ibid.*; see also Commission on the

Measurement of Economic Performance and Social Progress, 2007). By contrast, this is no longer the case when working hours become excessively long. Thus, part of the rationale for work sharing lies in the potential improvements in well-being for the overworked and the overemployed (those workers whose hours are long but could be shortened) as well as for those workers for whom unemployment (or underemployment) could be prevented or lessened via the jobs and hours gained from work sharing.

History of Work Sharing

Historically, the first work sharing agreements were in Germany - the epicentre of work sharing policies. These agreements regarding the reduction of working time with monetary compensation for the reductions (in some cases) were made back in 1881, and unemployment compensation, including short-time work benefits, was introduced at the beginning of the Weimar Republic in 1918 (Will, 2011, p. 3). With the establishment of a government employment agency in Germany in 1927, short-time work became one of its labour market policy tools, where (despite some changes in the institutional framework in the post-WWII period) it has remained to this day (ibid.).

During the Great Depression, a wide range of work sharing initiatives, both industry-led and government-led, emerged in both Europe and North America. Work sharing in the US began with voluntary, business-led efforts to shorten working hours as an alternative to layoffs during the soaring unemployment of the early 1930's, with strong support from the Hoover Administration. (Best, 1981). With the election of the Roosevelt Administration, a modified version of Depression-era work sharing became a major initiative (along with public job creation and unemployment insurance) to combat unemployment. The President's Reemployment Agreement (PRA) announced in July 1933 encouraged individual firms to sign up and consisted of 3 parts: (1) shortening the workweek to 35 hours; (2) increasing hourly wages; and (3) legal recognition of workers' rights to collectively bargain. During the period of post-war prosperity that followed WWII, the concept of work sharing faded into the background as the economies of Western countries boomed and generated a quantity of jobs that was sufficient to keep most of the developed world at or near full employment for nearly three decades. It was only with the "stagflation" that followed in the wake of the oil price shocks of the 1970's that the reduction of working hours as an employment policy re-emerged as a major issue in these countries. And even then, the policy experimentation with working time reductions intended to create or preserve employment which occurred during

that period was primarily in a handful of Western European countries, notably Belgium, Denmark, France, Germany, and the Netherlands.

The onset of the Great Recession and the global jobs crisis that it spawned led to a dramatic re-emergence of work sharing as a labour market policy tool aimed at preserving existing jobs. Work-sharing programmes had already been implemented in a number of countries in the industrialized world prior to the onset of the global economic crisis, including: Austria, Canada, Belgium, France, Germany, Switzerland, the Netherlands, and small programmes in some individual states in the United States. Preserving jobs during the recent global crisis was also a top priority in many middle-income countries, which were particularly hard hit by job losses in their formal economy, often in export-oriented or consumer goods industries. These countries include: Argentina, Chile, Mexico, and Uruguay in Latin America; Bulgaria, the Czech Republic, Hungary, Romania, Slovakia, and Slovenia in Eastern Europe; and also South Africa and Turkey.

Structure of the Volume

This volume examines the resurgence in the interest in and use of work sharing as a job preservation strategy during the Great Recession, with the objective of learning lessons for the future from its successful use as a crisis-response measure in a number of countries. In addition, the volume will also consider the implications of the crisis experience for the application work sharing as an employment creation measure, thus contributing to the ongoing debate on the efficacy of this form of work sharing. Chapter 1 provides an introduction to the background and history of work sharing as well as identifying how widespread versions of it have been applied at national level. Chapters 2 and 3 investigate the use of work sharing and related measures (e.g., working time accounts, establishment-level agreements) as a job preservation strategy in Europe during the crisis. It begins in Germany whose work sharing programmes, was the largest in the world during the Great Recession, then in four other European countries (Austria, Belgium, France, and the Netherlands) that substantially revised and expanded their work sharing programmes during the crisis. Chapter 4 provides analysis of an Asian experience, Japan, a country which made extensive use of several mechanisms for the adjustment of working hours to avoid layoffs. Chapters 5 and 6 then review two of the new work sharing measures which emerged in a number of middle-income countries for the first time during the Great Recession. Chapter 5 analyses the Reduced Working Time Programme in Turkey, which was by far the largest work sharing measure in

any developing country during the recession. Chapter 6 turns the focus to Latin America, and specifically to Uruguay, where two different instruments were implemented—one combining work sharing with training and the other sharing work by linking rotating, temporary layoffs with unemployment benefits. Chapter 7 explores the potential of work sharing not only as a strategy to preserve existing jobs, but also as a tool to create new employment by means of permanent reductions in working hours. This chapter will also consider the potential benefits of such “permanent” work sharing beyond its effects on employment and unemployment, including promoting improvements in individual well-being. Finally, the concluding chapter of this volume synthesizes the main findings of the preceding chapters and considers their implications for the future of work sharing—learning the lessons of the Great Recession, but moving beyond it toward the goal of promoting a sustainable, job-rich recovery.

Conclusions

The preponderance of the evidence presented in this volume demonstrates that one of the key lessons learned from the experience of work sharing programmes and measures during Great Recession is that cutting hours of work can have positive effects on employment levels during economic crises. Although available estimates of the employment effects of crisis work sharing measures vary considerably across countries—and even within countries as well—nearly all of them concur that crisis work sharing measures preserved jobs, typically with minimal deadweight effects. However, the design of the programme is crucial for making crisis work sharing measures effective.

Work sharing as a measure designed to create new employment also involves a downward adjustment of hours of work. However, in this case the reduction of working hours is not being made in response to a decline in the demand for a firm’s products or services, but rather is the result of an explicit government policy. Such reductions in average hours of work can be achieved by different methods, ranging from legally-mandated reductions in the normal or standard legal workweek in a country to collective bargaining in specific industries to the use of tax incentives (e.g., reduced payroll taxes or tax credits) provided to companies which reduce the average workweek of employees in their enterprises on a weekly, monthly, or even an annual basis, or some combination of policies. Regardless of the specific method used, the objective of this form of work sharing is the same: to reduce average hours of work per worker in order to increase employment. However, there are a number of different factors (e.g., overtime leakages, productivity offsets, the existence of skills shortages in industries or

occupations where hours are reduced, potentially increased unit labour costs, etc.) that might substantially reduce the extent to which reductions in hours of work are translated into new employment. Nonetheless, it appears that a reduction in average weekly hours could potentially induce employers to move more quickly to expand hiring than would otherwise have been the case.

The proven job preservation effects and the potential job creation effects of work sharing programmes and measures are important reasons for considering the use of such measures. Their benefits to those who would be unemployed without work sharing are obvious. However, there are other potential benefits of such measures as well. For one thing, the existence of substantial portions of the workforce who are overworked (and thus more likely to experience health problems and work-life conflict) side-by-side with substantial proportions of the workforce who are unemployed or underemployed suggests that the current distribution of hours of work is less than optimal in many countries. Those workers who are most at risk of overwork (those suffering from symptoms of work-related fatigue and stress) could benefit from reduced hours. In addition, workers who are overemployed (that is, those who would prefer shorter hours of paid work even if it results in reduced earnings) could benefit from reduced hours as well. Both of these groups of workers could also potentially benefit from improved work-life balance due to shorter hours.

All of this is not to say that work sharing is some sort of a magical “silver bullet”. However, as countries (particularly those with advanced economies) are discovering, regardless of their economic and fiscal policies economic growth is increasingly moving to the developing world. Perhaps this is simply inevitable, as countries which have lagged behind the West economically for various reasons are now starting to close the gap. While it is clear that work sharing cannot meet such an enormous challenge alone, it can be one of a number of measures which help to promote improved work-life balance, more sustainable economies, and ultimately, more equitable societies.