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## Short time working arrangements as response to cyclical fluctuations

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# Short time working arrangements as response to cyclical fluctuations

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## **Executive Summary**

### *Public short-time schemes, an important part of the safety net*

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. In a number of Member States, these schemes are an integral part of the unemployment insurance system. They 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. From the workers' perspective, short-time schemes are used to spread the unemployment risks across workers with different characteristics, protecting the jobs irrespective of the characteristics of the job holders (employability, seniority etc.). For firms, they represent a convenient tool to deal with transitory shocks without incurring dismissal costs, preserving the human capital specific to the firm and reducing costs of turnover. In practice, firms make regular contributions to a pool of funds (generally with the unemployment insurance) and then draw money from these funds to compensate workers for the reduction in the hours worked during downturns. Given that those contributing can differ from those benefitting from the schemes - the so-called cross-subsidisation – this can lead to excessive reliance on these programmes, a problem usually dealt with by requiring programmes to be of short-duration. 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.

### *Useful if combined with unemployment benefits...*

STWA are one policy option to deal with cyclical fluctuations. Combined with unemployment benefits, they can contribute to correcting the excess layoffs (i.e. the distortion) created by the cross-subsidisation between firms in the financing of unemployment benefits. In fact, firms paying uniform payroll taxes to finance unemployment insurance fail to internalise the layoff costs on the unemployment insurance system. However, even though short time schemes bring efficiency at the extensive margin, they lead to an inefficiently low (i.e. distorted) average numbers of hours worked.

In principle, firms could be encouraged to internalise these costs by linking contributions to the number of employees laid off or to the amount of short-time work used. This could be similar to the experience rating system used in the USA for unemployment insurance, where the premium is based on the individual company risk profile. However, by putting all costs on those sectors hit hardest by a cyclical shock, complete experience rating would reduce the opportunity for inter-sectoral risk sharing. Conversely, partial experience rating may encourage firms to internalise the effect of their lay-off or

short-time decisions on the unemployment insurance system, while ensuring effective risk-sharing (equity) across sectors.

To avoid excessive reliance on short-time schemes, regulations establish precise criteria for their use, e.g. eligibility conditions such as significant decline of sales, 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.

*...but effective only if transient*

The efficiency of short-time schemes deteriorate quite rapidly when the objective of adjusting the labour input, without incurring 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, especially when the costs of labour reallocation are low and the incentives to restructure high, because the opportunity costs of foregone output is lower in recessions than in booms. By delaying reallocation, short-time work schemes hold back productivity growth and the associated wage gains. Thus, short-time work is beneficial particularly for those with long-term prospects within the firm.

*STWA before the crisis...*

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. Yet, an important distinction concerns the use of short-time work 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, and as such workers have to comply with the normal contributory and job availability requirements, while in the latter (the most usual case) it is used to increase internal flexibility within otherwise tight job protection rules.

Before the crisis, access to STW 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 STWA for the insiders increase the turnover of the outsiders, which reinforces the duality of the labour market and outsiders' job instability. When the outsiders are new labour market entrants, high turnover has undesirable effects on pension contributions and, eventually, on the sustainability of the pension system. Doubts may also arise about the sustainability of a long-term reform process within deeply rooted dual labour markets.

*... and subsequent changes*

Faced with a shock of unprecedented severity and with persistent uncertainty about the recovery, many Member States have temporarily introduced new publicly sponsored STWA 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 yield losses in human capital and potentially impact potential output through hysteresis effects.

The paper has reviewed Member States' STWA before and after the crisis, providing a detailed description of each Member States' scheme. Acknowledging the main national specificities of the schemes, the following common characteristics emerge:

- In nine Member States (BG, CZ, HU, LT, LV, NL, PL, SL, SK), where no scheme existed before the crisis, publicly supported short-time working was temporarily introduced to stabilise employment. Compared to countries with long standing programmes, those introduced in these countries are generally less generous in terms of duration and benefits and impose stricter conditions on the causes and temporary nature of the reduced sales or demand for their services. Yet, their coverage is wider, as no distinction is made on the basis of the contract type or of the company size.
- In almost all countries with well established STW schemes, where employees have access to short-time compensation simply because of their employment contract (usually open-ended), the coverage of the schemes was extended to atypical workers (notably in Austria, Belgium, Germany, France and Luxembourg). In Italy, the coverage was temporarily extended to employees in companies previously excluded from the STW scheme.
- The maximum duration of STW compensation was temporarily raised in this same group of countries, in some cases quite drastically (notably from 3 to 24 months in Austria and from 6 to 18 months in Germany), with the exception of Italy and Portugal, where the compensation for the reduction of hours worked when there is a temporary slack in demand can in any case be paid for a quite long time.
- The conditions for the use of these schemes were eased in Austria, Germany and Luxembourg. In Denmark and Germany employers were also given more flexibility in the management of the scheme.

- The compensation for the income lost due to reduced work hours paid by the employers was increased in France and Finland, where the schemes were previously less generous than the unemployment benefits, but also in Belgium, where UB and STW are paid the same benefits. In France, to partly compensate for this increase, the subsidy to employers was increased as well. In order to increase employers' incentives to take up STW schemes, cuts in employers' social security contributions related to hours on work sharing or higher subsidies to employers were also applied in Austria, Belgium, Germany, Luxembourg and Spain.
- Finally, incentives for training were included in almost all new measures, both in countries where STW schemes already existed before the crisis and in countries where new schemes were temporarily set up, albeit participating in training was made compulsory for workers on STW only in four countries where the scheme was newly introduced (Czech Republic, Hungary, The Netherlands, and Slovenia). Incentives for training were the main element of the new measures adopted in Ireland, Latvia, Poland and Portugal.

In response to the crisis, many Member States have therefore increased the generosity and relaxed the conditions for the use of short-time schemes. *Keeping people in viable employment, notably by providing financial support to temporary flexible working time arrangements ("short-time") in line with production needs...* was one of the policies advocated by the 2009 Spring European Council to avoid wasteful labour shedding. Although it is too early to draw final conclusions on their effectiveness during the crisis, empirical analysis shows that STW schemes have been effective in reducing the vulnerability of employment during the global recession. 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*<sup>1</sup>. Thus the effects of STWA can be short-lived. Maintaining a high level of benefits and an extended maximum duration could potentially soften the effect of welfare reforms enacted before the crisis. In fact, the maximum duration has been extended and the benefits increased without bringing about a reduction in workers' entitlement for regular benefits. This increases the payoff of unemployment and reduces the search costs of workers that are at risk of being laid off, implying higher unemployment duration.

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 should gradually be withdrawn, when the recovery is secured*<sup>2</sup>. Concretely, this requires stronger work test availability for workers and

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<sup>1</sup> Ecofin Council Conclusions on exit strategies for crisis-related measures in labour and product markets.

<sup>2</sup> Ecofin Council Conclusions on exit strategies for crisis-related measures in labour and product markets.



stricter conditionalities for firms – e.g. an assessment of the long-run demand conditions and competitive positions.

The primary role of STW is to allow firms to reduce the labour input without shedding workers during downturns. However, even aggregate shocks intensify reallocation needs, as the foregone output when restructuring is lower during recessions than expansions. Yet, it is difficult to identify a pure transient shock from the need for structural changes delayed during expansions, and STWA should be re-designed to stabilise employment without distorting production efficiency. In practice, this may require reforms which introduce job search obligations for workers in short-time (including the reduction of individual entitlement to unemployment benefits) combined with incentives to support job mobility and stricter control of firms long-term demand prospects.

## 1. The rationale of short-time work

In the current downturn, many companies reduced their production level in response to lower demand. There are a number of flexible instruments to adapt labour input to normal cyclical fluctuations, including compulsory holidays, temporary closures, use of working time accounts, working time reductions and layoffs.

Short-time work (STW) can be defined as a temporary reduction in working time intended to maintain an existing employer/employee relationship. It can involve either a partial reduction in the normal working week for a limited period of time - i.e. a partial suspension of the employment contract - or a temporary lay-off (zero hours' week) - i.e. a full suspension of the employment contract. In both cases, the employment contract continues and is not broken. Several Member States have a longstanding tradition of well developed publicly sponsored Short-Time Work Arrangements (STWA), while others, especially the new Member States, introduced these schemes only recently in response to the current crisis. All have made intensive use of STWA to avoid redundancies. STWA seem to be prevalent in manufacturing, construction or banking (Euro-foundation, 2009, p. 77f). For the EU as a whole these sectors account for about 40% of respectively total business sector employment and value added.

### *The employers' perspective*

STW enables companies to easily reduce labour costs in the short-term without resorting to layoffs. Many companies use STW to hoard labour during downturns for several reasons. First, losing a well trained workforce would constrain the capacity to quickly adjust labour inputs to cyclical fluctuations in labour demand. Second, in highly regulated labour markets it avoids incurring in costly and long dismissal procedures. Third, firms may prefer to retain skilled workers during recessions saving on recruiting and training costs of new workers during recoveries. Fourth, the specificity of human capital may be an additional factor for keeping their workforce<sup>3</sup>; the ageing of the population may increase this specificity and the costs of a good match. Thus, during economic downturns enterprises may resort to STW to keep the workforce and avoid the destruction of jobs otherwise viable in the long-run. Fifth,

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<sup>3</sup> For a particular firm, the economic value of a worker is related to the competences acquired within the firm. If the worker's marginal product in the firm exceeds his wage during normal periods, as it must be if the firm is to receive any returns on its investment, the firm will be less likely to lay him off during a demand decline. This is the more the case as firm specific investment in human capital will be sunk cost if the workers leave. In practice, the distinction between general and firm-specific human capital is not clear (Lazear, 2003). Yet, in the more rigid European countries, with a relatively low turnover and long tenure, firms may have the incentive to preserve long-term relationships with workers by developing in house a combination of general skills that become specific to the firm.

by spreading the burden of adjustment over workers with different tenure and wages, the total labour cost would be lower under STWA than under layoffs. In fact, if the less productive low wage workers are laid off the firm save less than when the wage of all workers is reduced by a certain percentage. Finally, by keeping their workers in difficult times, firms may enhance their public image and acquire a reputation of being socially responsible.

### ***The employees' perspective***

From workers' perspective, showing up at work every day, even for shorter hours, keeps workers in contact with the labour force, which reduces the risks of skills deterioration, preserves their search ability, ultimately minimising the risks of being disenfranchised from the labour force. STWA can be seen as a "solidaristic program" alternative to seniority-based layoff (Vroman and Brusentev, 2009), which keeps groups at high risk of inactivity - such as women, minorities (Walsh et al, 1997), young or older workers, the latter especially if the unemployment benefits are generous - attached to the labour market. STWA can also play an important role to gradually accompany restructuring. Moreover, the expected income of workers during spells of short-time employment and when returning to full time work is likely to be higher than if they were laid off and paid unemployment benefits, as they would most likely be rehired at a wage rate lower than previously earned. This is especially true in countries where the allowances for short-time work are at least as generous as the unemployment benefits.

### ***The perspective of the unemployment insurance (UI) scheme***

From UI's perspective, a number of risks are associated with STW schemes. First, STW schemes could cause deadweight costs as they constitute an in-work subsidisation setting the incentive to employers to enrol in such scheme even if no layoff is planned (windfall profits being sought by companies). Moreover, STWA could prove inefficient in a way that it fails to save jobs permanently. Periods of STW could be followed by layoffs so that unviable jobs will be kept alive by STWA (displacement costs). If so, even worse, the total spell of unemployment might have been shorter without STWA as the newly unemployed person would have made an effort earlier to get a job elsewhere. As a consequence, with STWA, benefits (short-time compensation and unemployment benefits) were likely to be paid to more people over a longer period. Thus, when layoffs are inevitable, STWA can be quite costly for unemployment insurance and the public budget, especially if the period of short-time work

does not reduce entitlement to unemployment benefits. These types of imperfections may lead to excessive take-up and constitute a financial burden to the UI scheme. As a result, taxes or contribution rates would have to be increased, eventually imposing even larger layoffs given higher wage costs (Walsh et al, 1997).

## **2. STWA as a component of the social safety net**

In theory, complete insurance against labour market risks and production efficiency could be achieved if labour contracts could be made contingent to all types of labour market transitions. Yet, unforeseeable uncertainty and asymmetric information make these contracts incomplete and the insurance partial. By specifying the conditions under which departures from (incomplete) contracts are state contingent<sup>4</sup>, public policy interventions reduce the informational asymmetries and deliver efficient allocation and fair outcomes, even when individual contracts are incomplete (Bertola and Koeninger 2007, 2009). With risk adverse individuals, labour market and social policies may address the shortcomings of incomplete insurance and uninsurable risks (Bertola 2009). From this perspective, STWA provide insurance against unemployment risks when it is not possible to have labour contracts that take into account all possible contingencies. In theory as well in the practice of all countries with public schemes, including the US, STWA are an integral part of the unemployment insurance system.

The typical scheme provides an income compensation for the wage loss of those working at reduced hours drawing on a central pool of funds. Thus, employers are able to temporarily cut net labour costs without firing workers, spreading hourly cuts across all employees. By regulating the eligibility, coverage and generosity (i.e. the state support relative to the compulsory contributions that firms are required to pay) of short-time working schemes, public authorities are able to influence, at the initial stage of an economic downturn, the relative use of unemployment insurance and the balance between the adjustment at the intensive and the extensive margins. If the aim of the scheme is to reduce wasteful labour shedding, these conditions should be relatively generous at the onset of the recession while more strict conditionality may be needed at a later stage to avoid interfering with the need of labour reallocation in certain sectors.

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<sup>4</sup> Contracts are said to be state contingent when they foresee all possible contingencies so that it is possible to derive conditional claims on labour and income. Since private contracts of this type are not feasible (e.g. Stiglitz and Lazear), designing government sponsored schemes that prescribe certain rules conditional on the state of the business cycle can be valuable.

Evidence for the U.S. suggests that the practice of temporary layoffs, in which unemployed have a spell of unemployment but return with their original employer, is substantially encouraged by high replacement rates (Feldstein, 1976, 1978a). Without short-time schemes, firms would be tempted to rely on unemployment insurance to finance lay-offs, especially when unemployment benefits are generous (Burdett and Wright 1989). Therefore, a system combining at various stages of the economic cycle STWA with unemployment benefits is more equitable and efficient (i.e. with higher employment levels) than a system with only unemployment benefits. This system would be more equitable because short-time schemes distribute the adjustment burden on a large number of workers (Walsh et al, 1997; Vroman and Brusentev, 2009, Abraham and Houseman, 1994, OECD, 2009). It would also be more efficient - i.e. reduce the moral hazard inherent in explicit insurance – insofar as it reduces the excessive lay-offs encouraged by the existence of subsidies paid out of the public unemployment insurance system.

This policy framework would be optimal for risk adverse workers, which prefer work sharing to lay-off, and for firms, which, if the technology is not biased against work-sharing<sup>5</sup>, would be indifferent between lay-off and short-time (Burdett and Wright, 1989; Jehle and Lieberman, 1992; Abraham and Houseman, 1994).

As with other public insurance policies, STWA are subject to "moral hazard" problems - i.e. to partial internalisation by firms and workers of the costs of an excessive use of the schemes - and, consequently, to policy failures. In fact, the same moral hazard problem plaguing unemployment insurance, i.e. excessive lay-offs in the case of partially experience-rated unemployment insurance - see box for a description of experience rating - creates distortions also under short-time working. The U.S. experience with the experience rating (Hamermesh, 1989) suggests that firms' decision to make layoffs in response to demand shocks are significantly influenced by the rate of cross-subsidisation. Incomplete experience rating implies a cross-subsidisation between firms which leads to excessive layoffs over the cycle. For the same reason, cross-subsidisation of short-time schemes bias downwards the average

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<sup>5</sup> The technology is not biased against work-sharing when reducing hours per worker decreases labour input by no more than reducing the number of workers; in this case the employer is not made worse off by using work sharing. In addition, if wages were fully flexible, their decline in response to the shock would create the possibility of a quit for those workers whose reservation wage is above the wage offer, ultimately, destroying the human capital specific to the firm. See Hall and Lazear (1984). In the standard case, labour input (L) is the product of number of hours worked per person (h) and the number of persons (n), so  $L=h * n$  (with elasticities of L with respect to both h and n equalling 1). However, one might think of a situation where an increase in n and a proportional decrease in h would lead to a lower L than before. In that case, the economy would lose resources (L) by work sharing, i.e., when trying to "replace" h by n.

number of hours worked through excessive use of STWA (Burdett and Wright, 1989; Walsh et al, 1997). Thus, if technology is not biased against work sharing and there are no adverse tax-incentives, STWA combined with unemployment benefits makes the unemployment insurance system in principle neutral in relation to the decision of employers to respond to a certain decline in demand with layoffs and/or with a reduction in hours worked per worker (Burdett and Wright, 1989; Hamermesh, 1989).<sup>6</sup>

To avoid inefficiently low hours and employment, some have argued in favour of full experience rating. However, participation in the scheme should be made mandatory to avoid adverse selection problems - i.e. that only firms more likely to use short-time have the incentive to contribute, which makes the scheme not viable. Yet, employers should not be penalised for a reduction in the hours not worked due to their excessive use of STWA. Thus, risk sharing may require a partial subsidisation to firms that have reduced their working hours in response to a transient shock.

In practice, the balance between moral hazard and adverse selection is achieved with a partial cross subsidisation combined with specific limits to the use of the scheme. Thus, STWA cannot be an effective tool to respond to persistent cyclical fluctuations without modifying this balance. A persistent use of the scheme would alter the structure of production and consumption towards firms and workers in industries with a structurally low or volatile demand, ultimately hampering labour reallocation. More generally, by subsidising wage cuts in declining sectors, short-time public schemes increase the costs of mobility for workers or, equivalently from the economic argument viewpoint, the reservation wage of those moving to other jobs. By protecting jobs more than workers at times of declining labour demand, STWA smooth out the effect of cycle on job losses and reduce pressures on wages. Unit labour costs rise because the decline in productivity due to labour hoarding is not accompanied by a decline of wages.

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<sup>6</sup> The incomplete experience rating implies a cross-subsidisation which may modify the structure of production when the distribution of firms accessing the benefits is non random. In fact, under complete experience rating, firms with a more volatile demand (e.g. construction) are likely to contribute less relative to the benefits they receive than firm where demand is less volatile (e.g. finance, utilities etc). Thus, on average subsidised firms are benefitting from lower wages, higher employment and/or higher profits. The subsidy paid to firms with more volatile demand reduces their costs and distorts the structure of production and/or the distribution of profits within the economy: unstable firms/sectors expand while stabilising firms/sectors decline. Moreover, if firms with more unstable demand are also generating more unemployment than otherwise, a partially experienced rated compensation system is in practice leading to excessive unemployment through a net tax on more stable industries; subsidised firms have the incentive to layoff and net contributing firms are supporting higher costs.. Thus, the structure of costs changes and the sizes of demand changes as consumers switch towards subsidised jobs.

### **3. The complementarity between public STWA and EPL**

Compared to the U.S., where STWA are a underutilized instrument to enhance job security in a context of a more convenient adjustment by means of layoffs (Abraham and Houseman, 1994), short-time schemes in Europe are a tool to gain internal flexibility over the cycle (Calavarezo et al, 2009), within the context of tight employment protection legislation, high costs of searching, screening and training new employees.<sup>7</sup>

The regulation of short-time is inherently associated with that tightness of employment protection, in particular with the level of severance payments. Severance payments have ambiguous effects on the employment contract. On one side, unemployment benefits combined with one-off severance payments could make the lay-off option more attractive for workers, especially when these benefits are generous - which is the case of long tenured workers. On the other side, high variable firing costs could deter firms from laying off people. Instead, in order to adjust labour input, preference may be given to work-sharing. The latter shifts the bargaining power towards workers, who would be able to bargain increases in hourly wage when firms cut hours.<sup>8</sup> This implies that hours should be more flexible in countries where severance payments are high and the schemes more generous. In fact, it is the generosity of STWA relative to the unemployment benefits, combined with costly and unpredictable firing procedures, which make firms to adjust the average hours to avoid the restrictions on the volume of hours worked imposed by the firing restrictions. Van Audenrode (1994) finds that short-time schemes generate stronger changes in working hours when they are more generous than the general UI schemes.

A corollary of this is that to give adequate margin of adjustment, the rules for entering and exiting the short-time schemes should be more flexible where firing restrictions are more binding. The cost to firms of having restrictions on layoffs is partly borne by the Governments in the form of income support for workers on short-time work (see Abraham and Houseman (1992)).

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<sup>7</sup> The 2008 composite OECD index measuring the strictness of employment protection legislation (EPL) was only at 0.25 for the U.S., far below OECD average (1.94) and continental Europe (for example, DE, FR, NL, IT, FI: all around 2; E, FR around 3). See <http://stats.oecd.org/index.aspx>. The OECD indicators of employment protection are synthetic indicators of the strictness of regulation on dismissals and the use of temporary contracts. For more information and full methodology, see [www.oecd.org/employment/protection](http://www.oecd.org/employment/protection).

<sup>8</sup> However, the 2008-2009 recession is the most severe since long time, and it is unlikely that the use of STW has increased the workers' bargaining position.

One relevant aspect in the European context is that public short-time working schemes have been developed to cushion the effect of transitory demand shocks on seasonal workers and workers with long job tenure, the latter usually employed in sectors exposed to international competition. Conversely, in some countries limited or no coverage was given to those with short job tenure and flexible contracts, which, as consequence of the partial labour market reforms of the last two decades, represented an increasing share in total employment. Thus, by hitting disproportionately groups with limited job protection, the crisis has increased the duality of the labour market.

In all countries the jobless rate has achieved levels unseen since more than a decade. In countries with tight EPL, STWA reduce the employment fluctuations and the incentives to hire during upturns. This implies that the unemployed have less chances of exiting unemployment, i.e. the unemployment duration increases, with risks of higher unemployment persisting even after the crisis (hysteresis).

Under the emergency of the crisis, many countries extended the coverage of short-time schemes to previously unprotected groups, their duration and their generosity. In the next sections, we provide some evidence that this policy response has been successful in stabilising employment in manufacturing. Yet, it is too early to say if these measures have protected the labour demand of jobs viable in the long-run or delayed the destruction of jobs in declining sectors. Even so, support to labour demand via use of short-time schemes needs to be temporary to avoid undermining labour market efficiency, especially in cases of clear needs of restructuring. Short-time schemes could protect from a fall in demand for labour, but their use should be transient and well-targeted to those firms without a structural surplus of labour.



### **Experience rating**

The American system of UI (including STWA) is not organised as a collective system based on mutuality. This means that the level of financial contribution an American employer has to pay to the UI and to STWA does not reflect the system's overall balance of payment in a certain period but is rather fixed individually, i.e., reflects a company's *individual* risk to lay-off people as observed in the past. Under "experience rating", which is at place in most U.S. States, the employers' history of using the UI system determines their UI contribution rate. To the extent the experience-based rate is calculated properly, theoretically, layoffs should be financially neutral to the UI system at least in the long term because layoffs (and payments made to the unemployed) today will increase tomorrow's tax liability (Walsh et al, 1997). In other words, firms will keep a balanced account in the long run with credits (contributions paid to the UI scheme) equalling debits (benefits paid to workers after dismissals; see European Commission, 2006, p. 79f). However, some authors stress imperfections in experience rating in a way that the increased contribution to UI will be less than the UI's payments made to the unemployed (Feldstein, 1976). In that case, in the absence of STWA, there would be a subsidisation of layoffs through UI. STWA, then introduced, might face low take-up because it might be cheaper to firms and more attractive to redundant employees to stick with unemployment benefits (Abraham and Houseman, 1994).

In European countries no such direct link between the company's individual layoff risk and the insurance premium is dominant. According to Abraham and Houseman (1994), the lack of an experience-rated firm tax in Europe explains why most European countries experience lower layoff rates than the U.S. (also Walsh et al, 1993, p. 3-6). However, their argument is less convincing because in Europe, in the absence of experience-rating, the implicit individual subsidisation of layoffs should be even stronger in theory: Companies and their workers may take profit of the UI scheme whereas layoffs go at the expense of the entire unemployment insured community including all companies paying employer's contribution. That is, only at macro level, UI financial constraints tightening in times of mass layoffs will result in higher contribution rates - a shared burden distributed across *all* companies.

## **4. The effectiveness of STWA: review of the empirical evidence**

As regards the efficiency of STWA schemes in stabilising employment, there is no uniform empirical evidence giving emphasis to one consistent lesson to learn for policy makers. A common conclusion of country specific studies is that STWA increases the internal flexibility, while retaining the workforce attached to the firm (Abraham and Houseman, 1994). For countries such as Belgium, France and Germany the lower external flexibility was compensated by working-hour adjustments. Yet, the effectiveness of the STW as a measure to increase the flexibility of hours worked depends on the substitution with other work-sharing mechanisms such as those introduced bilaterally (e.g. the time accounts or the sabbatical leave) or through government regulation (e.g. work sharing achieved with a reduction of the legal working time). In the case of France, the reduction of the legal working time coincided with a decline in the use of *chômage partiel*. Using statistical methods to control for firms specific characteristics, Calavrezo et al (2009) find that the introduction of the law on

working time led firms to use shorter hours to increase the flexibility of the volume hours worked. This has led to a gradual reduction in the use of the *chômage partiel*, which has been mainly used by firms with more structural problems, but for shorter periods. More broadly, STWA can smooth out employment fluctuations only when the standard hours worked are not too low, so that firms already use intensively the hours worked as a margin of adjustment in normal times.

During the recession of the 1970s there was a remarkable increase of German Kurzarbeit, mainly in the industrial sectors. Flechsenhar (1979) found that following the slump in demand in the German engineering sector, only 40% of the declining labour volume was absorbed by cutting jobs and 60% by decreasing working hours - two thirds of the working hour decline being allotted to "Kurzarbeit" -, while without the scheme twice as much jobs would have been destroyed. Deeke (2005) showed that a high proportion of firms using Kurzarbeit not only did not reduce their payrolls but even hired new staff, albeit with more flexible non-standard work contracts such as "Mini-Jobs"<sup>9</sup> or jobs on call. In fact, companies employing workers with flexible work contracts (e.g. temporary and part-time contract, freelancer) rely less on short-time schemes (Crimmann and Wießner, 2009), which suggests that STWA are a form to enhance internal flexibility (Deeke, 2009)<sup>10</sup>, especially when EPL is tight. A high share of high-skilled tends to increase propensity to draw on Kurzarbeit (Crimman and Wießner, 2009), which is consistent with the view that firms tend to voluntarily hoard talented labourers, and to save the costs of hiring highly qualified staff, because of the specificity of human capital (Hart and Malley, 1996). Bach and Spitznagel (2009) show that despite massive public support, companies take their own share in the cost of Kurzarbeit, because other fixed wage costs (special payments for holiday or old-age provision, for sickness etc.) are not reimbursed. This limits firms' incentives to use the scheme to seek windfall profits. Most authors conclude that Kurzarbeit could help companies overcome the crisis. During a limited period it would help to stabilise employment levels and cushion social hardship. However, they also warn that Kurzarbeit is not a long-term labour market instrument. Windfall profits could result in higher cost - alongside the risk that financially supported

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<sup>9</sup> Mini-Jobs in Germany are a special type of employment where the employee's social contributions are substantially lower than with a regular employment. In addition, instead of the individual tax rate, (low) lump-sum taxes have to be paid. There is a threshold of 400 Euro (gross earnings) a month. One can have one or more Mini-Jobs, but altogether the earnings achieved must not exceed the threshold. Otherwise total earnings will be considered regular income (from regular employment).

<sup>10</sup> Deeke finds that fluctuation ratio is lower among Kurzarbeit using companies than among those not subscribing to Kurzarbeit (3.6% against 5.3%).

STWA will hinder structural change in the long run, i.e., the optimal allocation of resources. Eichhorst and Marx (2009) come to very similar conclusions. They outline the significance of Kurzarbeit as a means to stabilise the economic cycle but not to alleviate the implications of structural changes. They claim limits as concerns the length of the support period and criticize its extension. From this perspective it is interesting to note that Kurzarbeit very much concentrates on the manufacturing sector - where structural changes have been most severe: Meanwhile, manufacturing represents less than a quarter of employment but almost 80% of all employed subsidised over Kurzarbeit. Similarly, manufacturing represents less than every 10th company in Germany, but more than every fourth company actually use Kurzarbeit (Schwengler and Loibl, 2010).

In contrast to most studies on Germany, recent work on France is less sanguine on the effectiveness of STWA schemes to prevent layoffs. Calavrezo et al. (2009) do not find evidence of a trade-off, but rather a positive relation between redundancies and STWA (considering companies with minimum 50 employees), which would complement each other in difficult times. Hence, extended use of STW schemes could signal higher future layoff for economic reasons, a finding which seems supported also by simple correlation on the basis of German data (see below).

Evidence covering three big U.S. states confirms that layoffs were reduced by STW schemes, though for companies using STWA these were still the most important means of reduction of the labour input. Yet there is evidence that the total amount of work reduction compensated through both UI and STWA was higher than for firms using only UI (Kerachsky et al, 1986). One reason of this might be that companies use STWA as a means of workforce reduction rather than a substitute for layoffs, i.e. benefitting from windfall profits. Similarly, Walsh et al, (1997) find that layoffs remain the primary remedy of workforce reduction among U.S. firms using STWA - although a substantial share of firms using STWA uses the programme repeatedly. Thus, for these firms the UI charges because of the experience rating is higher than, on average, their STWA charges. Moreover, since STWA benefits are experience rated, at least by as much as other unemployment insurance benefits, this contributes to the financial sustainability of the unemployment insurance funds. All in all, the impact of STWA on UI funds appears to be minimal.

However, deadweight and displacement effects clearly constitute major problems associated to STWA, implying that STW subsidies should be limited in duration - but yet sufficiently long to preserve jobs which are sustainable in the long run.

## **5. Institutional characteristics of short-time work schemes**

Public STW schemes, intended both to stabilise employment and to provide assistance to firms in economic difficulty, provide a strong additional incentive for STW in adjustment situations. Such schemes cover *"benefits compensating for the loss of wage or salary due to formal short-time working arrangements, and/or intermittent work schedules, irrespective of their cause, and where the employer/employee relationship continues"*<sup>11</sup>. Like most public programmes, they can have multiple goals, which can be summarized in the two typical situations hereafter<sup>12</sup>:

1. To help firms to cushion a temporary decline in demand for labour. The goal of STW schemes in this case is to stabilize employment temporarily and to assist the enterprise in retaining human capital within a given time horizon;
2. As an accompanying measure of structural change, to cushion the social consequences of mass redundancies. This application may involve either the termination of part of the work-force in an enterprise undergoing internal restructuring or the prolongation of the adjustment process in connection with the closure of an establishment. In this case, STW schemes are mainly used as a shock absorber to buffer social tensions.

By regulating and subsidizing STW, public labour market policy encourages the spread of this form of internal flexibility in adjustment situations. The over-riding interest of public policy in promoting the use of STW appears to be to substitute this form of work-sharing for open unemployment.

There is a considerable institutional variety in short-time work programmes across Europe. In France, Belgium and Luxembourg, STW and temporary lay-off public schemes are known as 'partial' or 'temporary unemployment'. These schemes should be distinguished from 'part-time unemployment', which indicates a situation where jobseekers would prefer to work longer hours or full time, but can only find part-time work and receive various forms of direct

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<sup>11</sup> Definition covering sub-category 8.2 of the Eurostat LMP database.

<sup>12</sup> This classification is partly taken from Schmid G., O'Reilly J., Klaus Schömann K., "International handbook of labour market policy and evaluation", 1996.

financial support for the incurred loss of earnings. In Denmark, STW is designated as 'work sharing'. The latter indicates a reduction of working time intended to spread a reduced volume of work over the same number of workers to avoid layoffs. As such, it is to be distinguished from 'job sharing', which refers to an individual arrangement whereby two persons take joint responsibility for one full-time job. In the Netherlands, short-time work support was temporarily offered in response to the economic crisis until the end of March 2009; since then, companies experiencing temporary financial difficulties may apply for partial unemployment for their workforce. Austria and Germany simply refer to 'short-time work', while Italy stresses the aspect of income support of its STW scheme, which is called indeed Wage Supplementation Fund (CIG). In this paper, we do not analyse bilateral agreements on STWA achieved by the social partners without public financial support, as recently in Sweden<sup>13</sup>.

The next sections will delve on these characteristics, while a country-specific description can be found in the annex. Yet, it is important to make a distinction between countries where short-time employment is rather a form of income support in the transition towards a new job and countries where it is a form of job protection. In the former, the reduced hours' scheme is in practice part of the unemployment benefit system aimed at replacement income when unemployed, while in the latter it's more complementary with job protection rules and, often, unconditional support.

## 5.1 Main characteristics of STW schemes

A number of European countries have explicit schemes to promote temporary reductions in working time as an alternative to dismissal. Normally, employees on short time receive a wage-replacement benefit for hours not worked, usually through the unemployment benefit system, financed by contributions to the general unemployment benefit insurance<sup>14</sup>.

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<sup>13</sup> Although temporary layoffs are normally prohibited in Sweden, according to a general agreement of March 2009, employees can be temporarily laid off from work while keeping their job. During this time, blue-collar workers are paid according to the time actually worked but receive at least 80% of their normal salary, and local parties can agree on training for workers instead of free time.

<sup>14</sup> Italy is a special case, since its short-time scheme is partially experience-rated. The Wage Supplementation Fund is in fact financed by: 1) the workers who pay 0.30% of pay only for the Special Wage Supplementation Fund (CIGS); 2) the employers, who pay both a basic contribution – 1.9% of wages for companies up to 50 employees; 2.2% for those with more than 50 employees for the CIGO and 0.90% of wages for companies with more than 15 employees for the CIGs – and an additional contribution, which is the contribution due by the companies using the CIG. This additional contribution amounts to 8 % of wage compensations paid to employees (4 % for companies up to 50 employees) for the CIGO, while it is not due if reductions or suspension of working hours are caused by objectively unavoidable events. For the CIGS, the payments correspond to 4.5 % of the wage compensations (3 % for companies up to 50 employees) for the first 24 months and 9 % (6 % for smaller companies) thereafter. In case of need, an intervention by the State is possible.

In a few countries, support is only available either for reductions of daily working time spread over the entire week (e.g. AT) or for temporary lay-offs at zero hours per week (e.g. DK), while most European countries offer financial support for both reduced weekly hours and temporary layoffs for a full reference week (e.g. BE, ES, FR and PT), with the same or varying conditions.<sup>15</sup>

In Belgium, Germany, Italy, Austria, Luxembourg, France, and Portugal, employees receive STW payments through the employer (partly or fully subsidised by the government). Typically, in these countries employees do not need to have matured any specific unemployment benefit rights to be eligible for STW benefits and can have access to the scheme simply because of the employment contract linking them to their employer. Moreover, they generally retain seniority and other employment-related benefits as well as their entitlement to regular unemployment insurance benefits after receipt of short-time compensation (the time under STW is treated like other working time for calculation of potential duration of future unemployment insurance benefit eligibility).

In other countries, notably in Denmark, Finland, Ireland, Spain and the United Kingdom, public compensation for non worked hours is paid directly to employees by the unemployment insurance scheme. In these countries, workers must have fulfilled the contributory requirements for eligibility to unemployment insurance benefits and in some cases (notably in DK, FI and the UK) have to comply with availability for work requirements despite the work contract continues with the same employer. These systems are more similar to part-time open unemployment for non worked hours and can be more easily compared to the systems of temporary lay-off existing in North America and Australia, where hours non worked are counted as periods of unemployment for the sake of total benefits duration<sup>16</sup>. This is indeed the case in Ireland, Spain and the United-Kingdom.

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<sup>15</sup> STWA are used, although less frequently, also in other countries. Canada adopted a work sharing programme as an alternative to layoffs in the late 1970s, as have a number of US states (e.g. California). In the United States, STW programmes were permanently authorised on a state-by-state basis under a federal law of 1992. Currently, a total of 17 states have STW programmes, but most of them are little used in practice, among others because of cumbersome procedures to put workers on short-time benefits. In a typical state programme, employers develop a plan for approval by the state UI agency. If the plan is approved, to help compensate for the lost hours of work workers receive a prorata share of the unemployment benefits to which they would otherwise have been entitled had they been laid off. Individuals usually work four days per week and receive pro-rata UI benefits for the fifth day of the week. The participation in the scheme involves for short-time working employees a corresponding reduction in the remaining unemployment insurance entitlement period as full unemployed. See: Vroman and Brusentsev, 2009 and Balducci and Wadner, 2008.

<sup>16</sup> Differently from Europe, where workers on layoff have a strong job attachment, even during lengthy layoffs, because they are employed under work contracts, in the USA, Canada and Australia persons on lay-off, who are awaiting recall to their jobs, count as unemployed.

Specific short-time support schemes have been temporarily implemented during the current economic crisis in eight Eastern European countries, where such schemes did not exist before the transition to a market economy (BG, CZ, HU, LT, LV, PL, SI, SK), as well as in the Netherlands. These new schemes are characterised by a wide coverage of companies and employees, strong conditionality on employers and a clear link with training provisions.

No such schemes exist, nor have been temporarily introduced in response to the crisis, in Cyprus, Estonia, Greece, Malta and Sweden. In these countries, work time reductions are usually decided either unilaterally by the employer or in agreement with trade unions at company or sector level, and generally provide for wage cuts in proportion with working time reductions. In Malta, there are no particular legal measures providing for subsidies to workers who have been put on short-time work by employers, or who have been given temporary leave with reduced rates of pay. However, some ad-hoc measures have been taken to support STW through training subsidies, mainly in manufacturing, during the crisis.

### **5.1.1 Coverage and eligibility conditions**

*What types of companies are eligible for short time working schemes?*

Most STW public programmes cover companies of any size and all sectors of economic activity, with the main exception of public institutions in Austria. Differences within the private sector exist in Italy, where the Wage Guarantee Fund (*Cassa Integrazione Guadagni*, CIG) is limited to specific areas of activity and company size classes, mainly to the industrial sector and companies with a minimum threshold of either 15 or 50 employees, depending on the economic sector.

*What types of workers are eligible for short-time working schemes?*

Apart from those countries (DK, FI, IE, ES, UK) where support for short-time work or temporary lay-off is offered to all employees irrespective of their employment status and based on fulfilling the contributory conditions for benefiting from unemployment insurance, atypical workers have little access to STW schemes.

The coverage of STW arrangements is indeed largely limited to workers with open-ended employment contracts in those countries where relatively stricter employment protection legislation for regular contracts can make work-sharing a more attractive option than dismissal. In Belgium, temporary agency workers and workers with a fixed-term employment

contract were not included in such a scheme until permanent changes intervened in 2009<sup>17</sup>. In France, part-time workers under 18 hours per week, temporary agency workers and project workers were not eligible for part-time unemployment support until 2009, and this is still the case in Luxembourg. Austria explicitly excludes apprentices and temporary workers, chief executive officers (CEOs) and board members from the list of beneficiaries. Germany excludes temporary and contract workers, while Italy explicitly excludes senior executives, apprentices and home workers.

#### *What conditions for support?*

The transitory and unavoidable nature of the economic difficulties encountered by a firm is an outstanding condition for access to STW support in the vast majority of countries (e.g. in AT, DE, FR and IT in the case of CIGO). Apart from those situations where short-time compensation schemes are specifically designed to accompany structural problems - this is notably the case of the *CIGS* in Italy, of the *transfer short-time work* in Germany and of the *chômage partiel de source structurelle* in Luxembourg - STW programmes are therefore generally targeted at those companies which are experiencing a temporary and cyclical decline in demand for their goods or services. In line with the required transitory nature of the economic difficulties justifying the recourse to STW, a few schemes explicitly require that the affected workforce is not dismissed during or after their short-time work period. In Austria, companies must not make employees redundant for the duration of short-time work, and most collective agreements stipulate that the workers affected will not be made redundant for a period of up to four months after the end of the short-time work period. In Luxembourg, the companies must not make any workers redundant for economic reasons during the period of application of short-time work arrangements.

While in countries such as Austria, Germany or Italy employees do not need to have matured any specific unemployment benefit rights to be eligible for STW benefits and can have access to the scheme simply because of the employment contract linking them to their employer, in Denmark, Finland, Ireland, Spain and the United Kingdom, where public support is available directly to employees in the form of compensation for non worked hours under the unemployment insurance scheme, to be eligible for STW monetary support workers must have fulfilled the general contributory requirements for eligibility to unemployment benefits. In some cases (notably in DK, FI, UK), to keep being eligible they also need to comply with

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<sup>17</sup> Beside this, in Belgium only blue-collar workers are eligible to temporary unemployment for economic reasons.



availability to work requirements during short-time, despite the work contract continues with the same employer.

### **5.1.2 Type and generosity of financial support**

There are major differences across Europe with regard to the level and duration of benefits provided and the share of costs borne by the employer.

*What type of subsidies and incentives are provided for companies and employees?*

State support may refer to financial support towards employee's income and/or to refunding other employer's costs (notably social security contributions). Few countries (notably DE and PT) provide financial incentives to the employer for training during short-time arrangements. The monetary assistance to employees can be either directly paid to the affected employees through a state agency (e.g. in BE<sup>18</sup>, DK, ES, FI, IE, UK) or transferred to them through the intermediation of the employer, along with the regular wages for worked hours (e.g. in AT, DE, FR and IT).

In the first case, the payment of partial unemployment benefits to workers on work-sharing falls directly under the responsibility of the unemployment benefit system and is generally made through the state employment agency (PES).

In countries where the monetary assistance is transferred to employees via the employer, often the state takes over the full payment of the compensation of workers on short-time arrangements. This is for instance the case of Germany, where the employer pays for the effective working time and receives a state allowance for up to 67% of the missing net wage (depending on the worker's family status), and Italy, where the state fully refunds the 80% of reference wages paid by the employer for non worked hours. Less generous is the French system, where employers are refunded only partially for the replacement income they pay to their employees per hour of shared work<sup>19</sup>. Similarly, in Portugal, the wage compensation paid to each worker is covered 30% by the employer and 70% by the state.

During STW periods employers and employees continue to pay social security contributions for unemployment, pensions and health insurance pro-rata for the hours worked. In some

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<sup>18</sup> In Belgium benefits are paid by trade union for trade union members and by the auxiliary administration of unemployment benefits for non-union members.

<sup>19</sup> Until January 2009, French employers were refunded 2.44 € per hour for companies up to 250 staff and 2.13 € per hour for companies with more than 250 staff on the 4.42 € minimum hourly compensation paid to their employees.

countries, companies also pay contributions on the foregone earnings of concerned workers. In Austria and Portugal, employer's and employees' social security contributions are the same as if employees were on full time. In Germany, the employer pays total pro-rata contributions related to 80% of the lost wage to cover pension and sickness insurance for hours not worked, while unemployment insurance contributions are only paid on wages for hours worked. Similarly, in Spain the employer and the state pay pensions and sickness insurance contributions also for inactive periods of work, while in France employers pay pension and unemployment insurance contributions only for hours worked, with consequent partial effects on future claims, while sickness contributions on the allowances paid by the employer are covered by the state. In Italy, Belgium and Finland, the state compensation for non-worked hours fully qualifies for pensions and sickness insurance. In the UK, weeks on short-time or temporary layoff count as contributory periods only if employees earn enough to overcome the lower earnings limit for the payment of national income contributions (NIC). Finally, Denmark foresees a partial continuation of contributions by employees during work sharing.

*What is the expected level and duration of short-time working benefits?*

Italy is the country with the most generous short-time work scheme. Workers on short-time receive 80% of their previous gross earnings, up to a certain threshold, for a period that can last up to three years in total over a reference period of five years (if counting also the structural STW intervention, *CIGS*). In this country, the compensation for short hours is much more generous than the unemployment benefits and, consequently, more attractive for both employers and employees. In Portugal, short-time workers get a compensation of 70% of normal wage (compared to 65% initial unemployment benefit over reference gross wage) up to three times the minimum wage, for maximum 6 months in case of STW and 12 months in case of temporary lay-off (renewable for further 6 months).

In many other countries (e.g. Austria, Germany, Belgium, Ireland, Spain) the STW compensation is set at the same level of unemployment benefits. In Luxembourg, the partial unemployment allowance is also set at the same level of unemployment benefits, at 80% of regular gross hourly wages and not exceeding 250% of the minimum wage, for up to 6 months within a 12 months reference period. In Denmark, workers on work-sharing are eligible for daily benefits under a special unemployment fund called 'supplementary unemployment benefits scheme', with basic compensation identical to full-time unemployment compensation (i.e. up to 90% of gross wage), while in Finland they receive an

adjustment unemployment benefit set at a lower level than general unemployment benefits<sup>20</sup> and paid for maximum 36 months. The French STW scheme is less generous than general unemployment insurance, with a level of STW compensation which was well below unemployment insurance benefits until 2009 (the latter ranging between 57% and 75% of gross reference wages in 2007 against 50% of STW), for a maximum duration of six consecutive weeks in case of total suspension of economic activity and a total of 600 hours per year for most enterprises (800 in 2009 and 1000 since 2010). In the majority of these countries (e.g. AT, BE, DE, FR, PT), collective agreements at company or sector level can fix more favourable conditions than those stipulated by law, so that companies can pay employees on short-time work up to 90% or 100% of the missing net income, but without extra financial support from the state.

Maximum duration of short-time work schemes varies greatly among European countries, going from the 12 months foreseen by the Italian CIGO (up to 36 months in case of structural problems with intervention of the *CIGS*), to the maximum 6 continuous weeks within a threshold of 600 hours per year in France. The maximum duration of STW is 3 months in Austria and 6 in Germany, Luxembourg and Portugal, country specificities apart. The Danish scheme foresees a maximum duration of 13 weeks (4 months) either as 1 week at work and 1 week receiving UB or minimum 2 days a week receiving benefits. Belgium foresees maximum 4 weeks in case of full suspension of work and between 3 and 12 months in case of partial suspension.

#### *What financing methods?*

The resources of STW public support schemes are generally pull-out from the main unemployment benefits funds, and are therefore financed through usual contributions to the unemployment insurance system by insured persons, employers and the state (general taxation). On top of this first layer, additional funds managed by the social partners at sector level may exist in a few countries (notably in Belgium) to which employers and/or employees further contribute.

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<sup>20</sup> In Finland, the adjustment compensation is calculated in such a way that during or 4 consecutive calendar weeks (the adjustment period), the level of the allowance paid plus 50% of the income received can be at most the same as the full allowance payable over the same period. In the case of earnings-related allowances the maximum amount payable, including any child increases and income from work during the adjustment period, shall not exceed 90% of the wages it is based on.

Italy is somehow an exception, since the STW fund is separate from general unemployment system and is designed in such a way to implement a partial experience-rating, with employers' contributions also depending on the extent to which they have had recourse to STW. Employers therefore pay basic contributions of 1.90% of wages in case of firms with up to 15 employees, and of 2.20% of wages in case of firms with more than 15 employees, plus an additional contribution due by companies having recourse to the STW scheme. The latter is fixed at 8% of the wage compensation paid to employees (4% for companies with up to 50 employees) in case of ordinary STW intervention (*CIGO*), and of 4.5% of the wage compensation (3% for companies with up to 50 employees) in case of extraordinary STW intervention (*CIGS*) for the first 24 months, then of 9% (6% for smaller companies). Employees also contribute 0.30% of pay in the case of the *CIGS*.

**Table 1 - Maximum duration and level of STW compensation and UB before and after crisis measures (December 2008 – December 2009)**

Country	UB duration (Dec. 2008)	UB duration (January 2010)	STW maximum duration (Dec. 2008)	STW maximum duration (January 2010)	UB level (Dec. 2008)	UB level (January 2010)	STW compensation (Dec. 2008)	STW compensation (January 2010)
AT	20 weeks after 52 weeks of work within 2 years, 30 weeks after 156 weeks of work within 5 years; 52 weeks for workers aged 39 and 50+ weeks for workers aged 40+ according to tenure; for workers participating in specific labour market policy activities: 156 weeks or up to 209 weeks	No change from 2008	3 months	6 months up to maximum 24 months (2010 to end 2012)	55% of average net reference income over a year. The total benefits may not exceed 60% of reference income (80% if dependants), with max ceiling	No change from 2008	Share of UB	from the 7 <sup>th</sup> month the employer's part of SSC (21.33%) refunded in total by PES; the allowance can be combined with specific training grants + 60% of training costs paid by PES
BE	Unlimited	No change from 2008	4 weeks renewable if full suspension of work; 3-12 months if partial suspension	4 weeks renewable if full suspension of work; 3-12 months if partial suspension	58%-60% of reference wage, with max ceiling	No change from 2008	Share of UB + supplements possible by employer or sectoral fund	70% of the reference wage for cohabiting employee (up to max. €2.206,46) and 75% of wage for persons living alone and for persons cohabiting with dependants (up to max. €1.655 per month); incentives to follow training courses
DE	6 months - extension by ordinance possible up to 24 months in case of exceptional situation on the labour market	No change from 2008	6 months. Extensions possible if exceptional LM circumstances	18 months (until December 210)	60-67% of reference net wage, with max ceiling	No change from 2008	Share of UB + supplements possible by employer	SSC reimbursed to employers by PES at 50% in the first 6 months of STW. As of 01.07.2009, beginning with the seventh month of STW, the employers receive SSC reimbursed at 100%
DK	4 years	No change from 2008	13 weeks (not continued). Prolongation possible at company level to 26 weeks		90% of previous earnings after deducting 8% social security contributions, with max and min ceiling	No change from 2008	Eligibility to UB	

<b>FI</b>	500 days (5 days /week; 100 weeks) after a 7-day waiting period	No change from 2008	36 months	Suspension of the 36 month duration limit for partial unemployment (the maximum payment period of 500 full working days remains)	Earnings related benefit: basic benefit plus 45% of daily reference earnings - DRE - in excess of basic benefit until € 102.60) plus 20% of DRE in excess of € 102.60	No change from 2008	Eligibility to Adjustment UB: income-related basic UB ( € 25.63 in 2009) plus 45% of the difference between the daily wages and that basic amount	Full unemployment benefits for the days on lay-off
<b>FR</b>	from 7 to 23 up to 36 for workers aged 50+	from 4 to 23 up to 36 for workers aged 50+	6 weeks, up to 600 hours per year in total	Rise of max. hours covered by the allowance from 600 to 800 hours/year, with higher limit of 1.000 hours for textile, clothing and leather, and automotive industry	from 75% of gross reference wage for low incomes and 57% for high incomes, with max ceiling	No change from 2008	50% of gross hourly wage (minimum 4.42 € per hour) by employer refunded € 2.13-2.44 per hour by state depending on company size	Permanent increase of partial unemployment allowance to 60%; Permanent rise of lower limit paid by companies to €6.84 per hour not worked; Permanent increase in government funding for companies that use partial unemployment, of €3.84 per hour not worked (increase of €1.40) for companies employing up to 250 staff, €3.33 per hour not worked (increase of €1.20) for companies employing over 250 staff.
<b>IE</b>	15 months (12 months if reduced contributions)	12 months (9 months if reduced contributions)	Same conditions as UI		Flat rate payments per week	No change from 2008	Eligibility to UB (Jobseeker's Benefit)	
<b>IT</b>	8 months (12 months for unemployed aged over-50)	No change from 2008	CIGO: 12 months (up to 24 months in specific areas of the Country)		60% for first 6 months, 50% for 7 <sup>th</sup> month, 40% for following months, with threshold, with max ceiling	No change from 2008	80% of last wage with upper threshold	
<b>LU</b>	365 calendar days in a 24-month period	No change from 2008	6 months over 12 months reference period	Maximum duration of about 130 days per year (in 2009-10)	80% of average wage; 85% with dependent children,+ max. ceiling (250% of minimum wage)		Eligibility to UB	90% of average wage if workers take part in training (max. 250% of minimum wage)

<b>PT</b>	270 if less than 27 years old, up to 900 days is 45+ (+ extended duration)	No change from 2008	Short-time: 6 months Full suspension of work: 18 months		65% of reference average salary, with max and min ceiling (maximum 3 times Social Support Index)	No change from 2008	2/3 of normal wage (maximum 3 times the minimum wage)	85% of previous average wage, during any training period in the framework of the Qualification Employment Programme. The QEP offers training opportunities, for up to 6 months, for workers of firms facing an exceptionally sharp fall in demand (in 2009 and 2010). Possible incentives for qualification, up to maximum 1/3 of normal gross compensation of the worker. The financial support applies to max. 20% of the workforce.
<b>ES</b>	from 120 to 720 days, depending on contribution record within last 6 years	No change from 2008	2 years		70% for max. 180 days, 60% of reference earnings for the remaining period, with max and min ceiling	No change from 2008	Eligibility to UB	
<b>UK</b>	182 days	No change from 2008	Statutory Guarantee Pay: 5 workless days every 3 months. Job Seeker Allowance 13 weeks		Flat rate payments per week (£ 60.50 for a single person aged 25 and over or £ 47.95 per week for those aged 16-24)	No change from 2008	Eligibility to UB (Jobseeker's Allowance) + Statutory Guarantee Pay	

## 6. Main changes in response to the crisis

In the current economic slowdown, STW schemes partly or fully subsidised by the public sector have been widely used in a majority of EU Member States. New measures to support the reduction in working hours were taken all together in twenty-one Member States. In nine countries this entailed the introduction of brand new schemes (i.e. in BG, CZ, HU, LT, LV, NL, PL, SI, SK). In twelve others, measures adopted in response to the crisis built on existing schemes and mainly include temporary increases in the level, duration and/or coverage of public financial support (notably in AT, BE, DE, DK, ES, FI, FR, IE, IT, LU, PT and RO). Apart from the UK, all countries where STW programmes already existed before the crisis have temporarily modified the characteristics of their schemes in 2009. Changes introduced in FR were of permanent nature.

As compared to already existing schemes, the temporary short-time compensation programmes introduced in response to the crisis in countries, where they did not exist before, are in general less generous (lower benefits for a shorter duration) and impose generally stricter conditionality on firms, especially concerning the causes and temporariness of the economic difficulties they are facing, but have a larger coverage since they do not distinguish eligible employees by type of employment contract<sup>21</sup>, and may include from the onset support for training during work sharing as a key element of the scheme.

Altogether, the main characteristics of measures introduced to support STW arrangements during the current economic slowdown can be summarised as follows:

- 1) Longer duration and higher incentives for short-time work: main temporary changes to existing schemes consist in longer durations for short-time work allowances, and are most often coupled with higher incentives for employers to start STW arrangement, either in the form of higher compensations/ subsidies or of lower social security contributions for non worked hours. This is notably the case in DE and AT, but also in BE, FI and to a lesser extent in FR (where changes were of a permanent nature). Under temporary provisions, in most countries companies implementing STW can apply for more generous financial support (higher allowances/financial incentives coupled with longer duration) until end-2010, so that, depending on the design of the scheme, public support to eligible companies/employees can be granted till end 2012

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<sup>21</sup> Bulgaria limits its temporary STW scheme to companies in the industry and services sectors.



at the latest. The countries where recent temporary measures have introduced especially long eligibility periods and benefit duration are AT (where temporary measure will practically apply until end 2012), DE (till mid 2012), CZ, BE and NL (till end 2011), HU (till mid 2011). The main risk associated with long benefit duration and late withdrawal of these schemes is to keep people employed for too long in activities that need to shrink as part of the post crisis structural adjustment process, with associated risk of subsidising unproductive jobs and delaying job reallocation at a time when this is most needed.

- 2) Extended coverage and less stringent conditions for companies: the coverage of STW schemes was (either temporarily or permanently) extended in those countries where existing schemes were previously mainly limited to workers with regular contracts (i.e. AT, DE, BE, FR, LU). These countries are typically characterised by higher job protection for regular than for atypical workers, so that STW arrangements provide companies with a good source of internal flexibility concerning the first category or workers. In IT, the scheme was temporarily extended to small companies with a number of employees under the threshold of application of the scheme. Extending the coverage of STW schemes should send a positive signal towards reducing labour market segmentation in these countries. In countries where STW schemes did not exist before the crisis, new temporary schemes have wide coverage and do not screen beneficiaries by employment contract or company size. The conditions that employers have to meet were also relaxed to ensure wider access to existing schemes in AT, where the necessary minimum drop in working hours to qualify for short-time working was reduced from 90 to 10% of original working time, but also in DE, FR and LU.
- 3) Training subsidies: incentives to training for workers on short-time were included in almost all new temporary measures, both in countries where STW schemes already existed before the crisis (AT, BE, DE, FR, IE, LU and PT) and in countries where new schemes were set up (BG, CZ, HU, LT, LV NL, PL and SI). Taking part in training was made compulsory in order to be eligible for subsidies/income support only in four countries where STW schemes were newly introduced (CZ, HU, NL and SI), while it remains optional in all other EU Member States. Incentives to training are the main element of the new measures adopted in LV, PL and PT. In general, despite financial

incentives for both employers and employees associated with undertaking training during STW, the actual take-up has been fairly low so far in those countries where training is not compulsory<sup>22</sup>. This could be partly explained by the perception of employers and employees that the reasons for the crisis are not linked to the respective firm or its staff, so that human capital investments may not be considered as the appropriate means to overcome ongoing economic difficulties.

- 4) Simplified procedures and more flexible working-time arrangements: in DK and DE (but also in AT and LU) more flexibility has been injected in existing work sharing procedures, with larger margins of manoeuvre for the firm both vis-à-vis ongoing notifications to the state agency and the organisation of short-time within the companies itself. This should facilitate and make more effective the management of the scheme by concerned companies.

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<sup>22</sup> See the results of the OECD/EU questionnaire of February 2010, concerning the proportion of workers having taken part in subsidised training as part of the STW scheme during the current downturn (notably less than 10% in BE and DE, 10-25% in AT).

**Table 2 - Recent changes and new STW schemes in the EU Member States**

Country	Already existing scheme		New STC scheme <sup>23</sup>	(Changes) Eligibility / Coverage	(Changes) Duration	(Changes) Benefits to Employees	(New) Link to Training	Cuts in employer's SSC	More flexible procedures/ WTO	Temporariness of Changes
	Wage supplement through employer	Support by UI plus activation								
AT	X			X	X		incentives	X		End 2010
BE	X			X	X	X	incentives	X		End 2010
BG			X			X				End 2009
CZ			X			X	compulsory			2010
DK		X							X	30/04/2011
DE	X			X	X		incentives	X	X	End 2010
ES		X						X	X	End 2009
FI		X			X	X				2011
FR	X			X	X	X		X		Permanent/ temporary (end 2010)
HU			X			X	incentives/ compulsory	X		Mid 2010
IE		X					incentives			2010
IT	X			X			incentives			End 2010
LT			X			X	incentives	X		No end date
LV			X				incentives			End 2010 (to be confirmed)
LU	X			X	X		incentives	X	X	End 2010
MT			X				incentives			
NL			X			X	compulsory			01/04/2010
PL			X			X	incentives			End 2011
PT	X						incentives			End 2010
RO	X							X		End 2010
SI			X			X	compulsory	X		31/03/2010
SK			X					X		End 2010
UK		X					No changes			

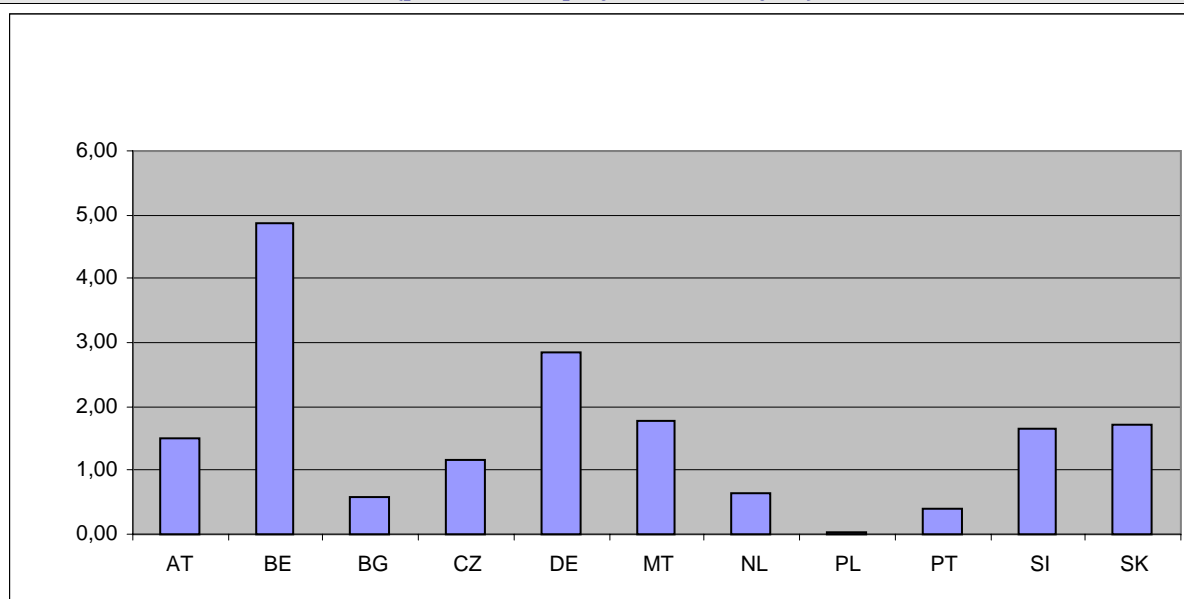
<sup>23</sup> STC: short-time compensation. For new STW schemes we look at: introduction of benefits for employees, training incentives and other extra incentives to employers.

## 7. The role of STW during the crisis: empirical evidence

Charts 1 to 13 show that as of the 3rd quarter of 2008 the number of recipients of STW allowances increased significantly.<sup>24</sup> In DE the number of participants increased from 37.000 persons in June 2008 to more than 1.400.000 persons in June 2009. A more modest increase is observed in the other Member States. For instance, in FR the number of participants in STWA increased from 44.000 in the third quarter of 2008 to 143.000 persons in the third quarter of 2009.

Chart 14 gives an indication of the number of employees taking part in STWA as a percentage of total employment in a selected group of countries in 2009. In all countries with the exception of Belgium the share is below 3 percent. Table 3 shows the number of firms involved in STW schemes. Germany shows the sharpest increase in the number of firms involved in 2009, i.e. more than 13 times the number attained before the crisis in 2007.

**Graph 14 - Share of employees taking part in short-time scheme: 2009  
(partial unemployment and layoff)**



**Source:** Commission services. AMECO, LFS, OECD/EU questionnaire on employment and social policy in the economic downturn – 2010 update

<sup>24</sup> The data underlying these charts are based on the Eurostat Labour Market Policy (LMP) database and short-time national data from various sources as described in the legends to the charts.

<b>Table 3 – Number of firms involved in STWA</b>			
	<b>2007</b>	<b>2008</b>	<b>2009</b>
BG			531
CZ			923
DE	3597	4360	47751
MT		10	36
NL			4700
AT		48	559
PL			111
PT	54	54	424
SI			438

*Source:* OECD/EU questionnaire on employment and social policy in the economic downturn – 2010 update

During the recession which began in 2008, the number of people on *Kurzarbeit* has literally exploded from some 50.000 (in some 5.000 companies) in May 2008 to more than 1.5m (in some 60.000 companies) one year later. Using the "Kurzarbeit" device, the Labour Agencies cover 60 to 67% of difference between regular and reduced salary as well as half or even total employer's social security contribution (depending on the period of support and on whether or not working short time is combined with training<sup>25</sup>). In the course of the recession, Kurzarbeit has been amended a number of times: in mid 2009, the maximum period one can draw on Kurzarbeit has been extended from 6 to 24 months (it is down to 18 months meanwhile). In 2009, more than 500m hours were subsidised and some 4.5 bn Euros spent for "Kurzarbeitergeld" (STW allowance), constituting some 1.5% of total budget expenditure.<sup>26</sup>

During the economic crisis the Kurzarbeit account for about 1/3 of the total reduction in average hours worked (Bundesagentur für Arbeit, 2009). However, they also warn that Kurzarbeit is not a long-term labour market instrument. Windfall profits could result in higher cost - alongside the risk that financially supported STWA will hinder structural change in the long run, i.e., the optimal allocation of resources. Eichhorst and Marx (2009) come to very similar conclusions. They outline the significance of Kurzarbeit as a means to stabilise the economic cycle but not to alleviate the implications of structural changes. They claim limits as concerns the length of the support period and criticize its extension. From this perspective it is interesting to note that Kurzarbeit very much concentrates on the manufacturing sector - where structural changes have been most severe: Meanwhile, manufacturing represents less than a quarter of employment but almost 80% of all employed subsidised over Kurzarbeit. Similarly, manufacturing represents less than every 10<sup>th</sup> company in Germany, but more than every fourth company actually use Kurzarbeit (Schwengler and Loibl, 2010). Short-time is

<sup>25</sup> Training is being taken up by less than 2 % of people on "Kurzarbeit", though.

<sup>26</sup> Reply DE to the joint EMCO-OECD questionnaire on crisis measures (February 2010).

not always the main source of reduction in working hours. For Germany the decomposition of the drop in average hours suggests that employer-initiated reductions in working time were more important (Table 4).

**Table 4 - Average hours reduction in Germany, 2008-2009**

Proportion of average hours reduction due to:	
Increased short-time work (Kurzarbeit)	25%
Employer-initiated reductions in working time	40%
Reduced over-time	20%
Debiting working-time account	20%

*Source:* IAB (2009); The numbers in do not add up to 100 as not all factors that affect working time are taken into account (e.g.; sick leave)

Following the analysis by Burdett and Wright (1989), the ability of the economy of relying on the adjustment of hours worked rather than on layoffs can be assessed using the variance decomposition of the total hours worked. The variance of total hours worked can be decomposed into a component due to the variance in the number of workers, and a component due to the number of hours per worker plus some covariance, which captures whether employment and hours move in the same or in opposite directions. If positive, the covariance captures the extent employment and hours per worker moved. In symbols,

$$\text{Var} [\Delta(h*L)] = \text{Var}(\Delta h) + \text{Var} (\Delta L)+2 \text{cov} (\Delta h*L)$$

Dividing by  $\text{Var} [\Delta(h*L)]$  expresses the variance of total labour input to the following components: a percentage due to the volatility of employment and the hours worked per worker.

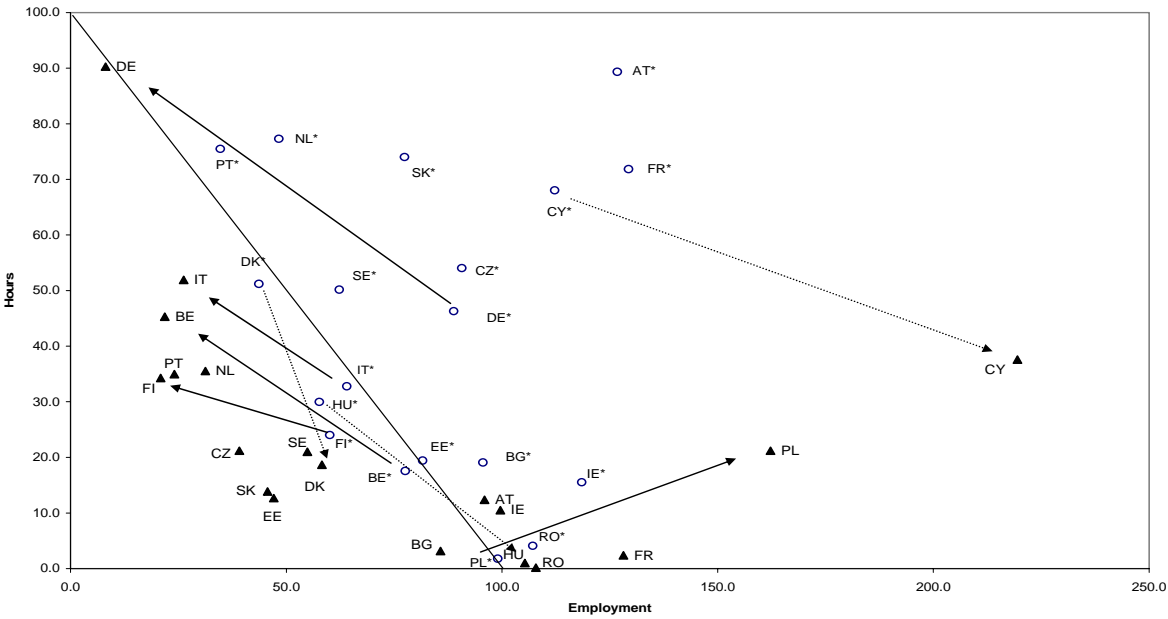
Using this decomposition, before the crisis about 83% of the variance of total hours worked appears to be due to variation in the number of workers and 40% to changes in the average hours worked. The fact that these percentages add up to more than 100% depends on a negative covariance, which implies that hours worked per worker and number of workers move in the opposite direction (i.e. are substitutes). After the crisis, about 70% of the variation in total hours worked was due to variation in the total number of workers while about ¼ was due to changes in the average hours worked. Quite interestingly, the shift in the sign of the covariance to positive suggests that both adjustment margins were involved in response to the decline in economic activity.

Graph 15 reports for industry, the percentage variation in the total hours worked accounted by employment growth and the growth of total average hours worked for all EU 27 Member

States. In plain the circles are shown the contributions to the variance of the total hours worked before the crisis, while the bold triangles show the contributions after the crisis. The 45 sloped solid lines identify the combinations of the contribution of the variance of total employment and average hours worked when the covariance is zero, (i.e. employment and hours are uncorrelated). Points above the solid line implies negative correlation i.e. substitution between employment and hour worked; points below the solid line are associated with a positive correlation (i.e. hours and employment move in the same direction).

Movements to the northwest as indicated by the arrow imply an increase in the contribution of hours to the total variation in the labour input. During the crisis, countries such as Germany, Belgium, Italy, and Finland relied much more on the adjustment at the intensive margin. The opposite change is observed for Denmark, Hungary and Cyprus. Only in Poland the contribution of both the average hours worked and the number of workers to the variation in total labour input increased after the crisis. Moreover, the covariance turned out to be negative during the recession, which suggests that hours worked per worker and total number of workers moved in the opposite direction in this country. For the remaining countries, the adjustment mainly involved a reduction in the degree of substitutions between average hours worked and number of workers; during the recession the two margins moved mainly in the same direction contributing to the an overall significant decline in the total labour input.

**Graph 15 - Percentage variation in the growth of labour input accounted for by the growth of employment and hours worked: Industry**



*Source:* Commission services.

As a general rule, one could expect that short-time working arrangements reduce changes in employment (extensive margin) and increase movements in hours per person (intensive margin) across business cycles.

A descriptive analysis of EU labour markets confirms such *a priori*. In order to understand the effect of the STW schemes on the labour market, we first identify countries that have a tradition of these schemes among their labour market institutions. To do that, we simply looked at the Eurostat Labour Market Policies database to see which countries in 2007 (then, before the crisis) spent money in partial unemployment benefits for economic reason, which are basically STW schemes. According to this database, only 9 countries out of 27 (Belgium, Germany, Spain, France, Italy, Luxembourg, Austria, Portugal and Finland) had such programs already operating in 2007. This group of countries forms our "treatment" group. We do not consider countries that have introduced STW schemes during the crisis for two main reasons. Firstly, for them it is impossible to control what happened before the crisis. Secondly, using of STW arrangements need some time of learning for economic operators and then we are short of data if introduction of the measure has been decided very recently. Notice, however, that our choice allows identifying the effect of the STW schemes in an already large set of countries.

<b>Table 5 - Average quarterly employment growth for different group of countries: Industry</b>		
%	Countries with STWA	Countries without STWA
Before the crisis	-0.9	-1.1
During the crisis	-2.5	-4.6
Treatment effect:	1.8	

*Source:* Commission services. t statistics in parenthesis

In the second column of Table 5 (Graph16), averages of annualized changes in industry's employment are reported for the 9 countries that have STW schemes, for the quarters before and during the crisis in the first and second row respectively. In the third column the same average is reported for countries that have no tradition of STW schemes. A rapid inspection of the figures reveals that in the second group of countries employment declined more rapidly than in the first, both before and during the crisis. In order to assess the effect of the STW schemes over employment growth during the crisis, one cannot just make the difference in the annualized changes of employment during the crisis in countries with or without STWA. Indeed, this difference should be cleaned up by the difference in the period before the crisis. Doing this, we identify the effect of the presence of STW schemes on the employment growth



during the recession. The last row of Table 5 suggests that STW schemes contributed to an annualized employment growth of 1.8 pps higher than what we would have otherwise had during the crisis.

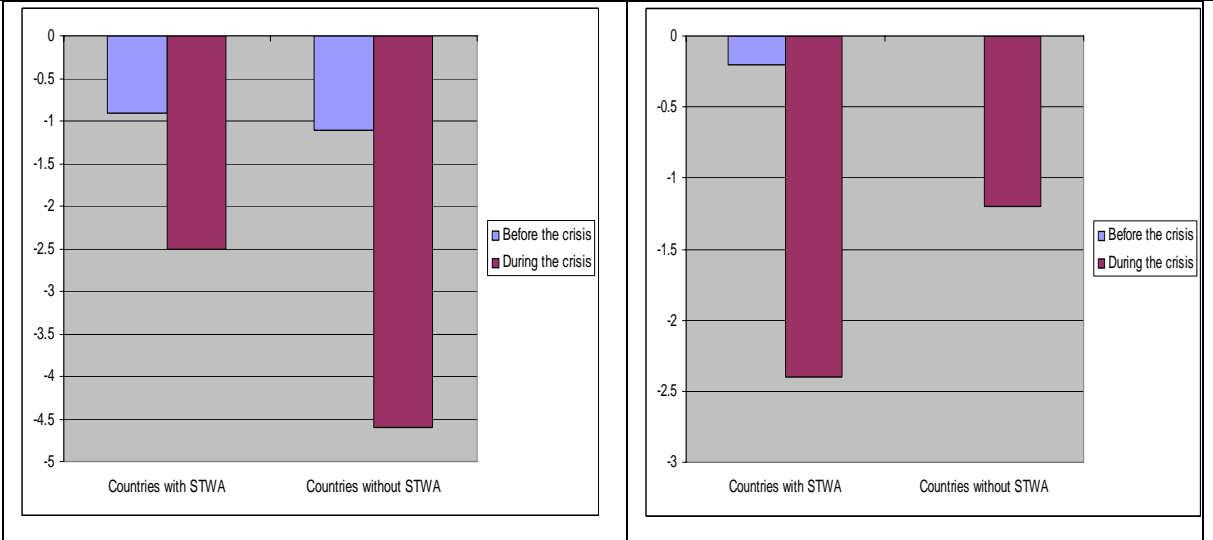
As a mirror evidence, in Table 6 (Graph16) the same calculation as above is reported for changes in hours per capita. As we expected, countries with STW schemes have higher (in absolute values) annualized changes than countries without STW schemes. The presence of STW schemes leads to a 1 pps higher change in hours per capita during the crisis.

**Table 6 - Average quarterly growth of hours per worker for different group of countries: Industry**

%	Countries with STWA	Countries without STWA
Before the crisis	-0.2	0.0
During the crisis	-2.4	-1.2
Treatment effect:	-1.0	

*Source:* Commission services.

**Graph 16 - Percentage variation in the growth of labour input accounted for by the growth of employment and hours worked: Industry**



*Source:* Commission services.

This descriptive evidence allows us to conclude that STW schemes reduce adjustments on the extensive margin (employment) and increase adjustments on the intensive margin (hours per capita), as one could expect. This finding then fosters further econometric analysis. Since our *a priori* about the effects of STW schemes over intensive and extensive margins has been confirmed by previous analysis, we concentrate on finding further evidence of the fact that STW schemes reduce the variability of employment. In order to do that, we estimate a panel of all the 27 European Countries for the period 1991Q2-2009Q3. The dependent variable is

the annualized change in employment in the industry sector. As explanatory variables, the following variables are chosen: one lag of the dependent variable, the change in industry's value added, a dummy signalling the 2008-2009 recession and a variable that combines this dummy with another dummy signalling countries with STW schemes, together with an intercept. Furthermore, country fixed effects control for country specific factors. Results are reported in Table 7. A time dummy is interacted with the coefficients to see if the adjustment patterns changed after the crisis in the group with STWA relative to the group without.

**Table 7 – Panel estimation: the effect of STW schemes on changes in employment: Industry**

Dependent variable: Employment growth in Industry	Coefficient	Std. Error	t-Statistic	Prob.
Value added growth	0.11	0.01	16.21	0.00
Dummy crisis	-0.47	0.21	-2.24	0.03
Dummy crisis x Dummy STWA	0.70	0.22	3.14	0.00
Constant	-0.49	0.04	-12.31	0.00
Lagged dependent variable	0.85	0.01	72.35	0.00
Observations 1472; Sample period: 1990Q1-2009Q4				
R <sup>2</sup>	0.84			
s.e.	2.05			

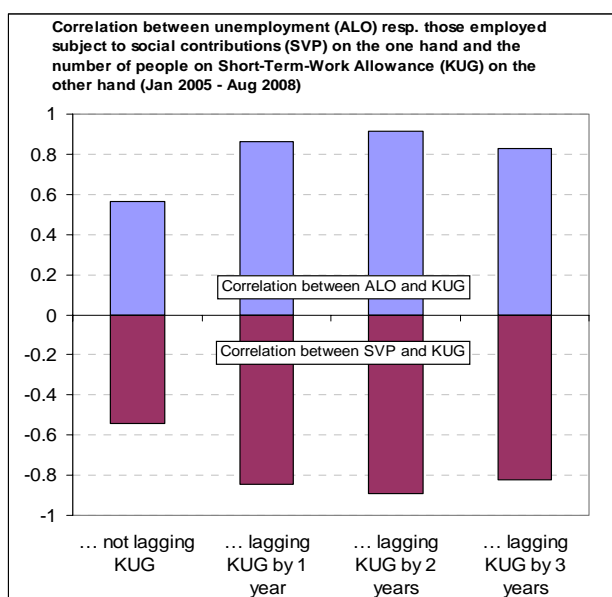
**Source:** Commission services. Fixed effect, Robust covariance matrix;

The results indicate that on average employment in the industrial sector decreased at an annual rate of 0.5% in the period considered for the average of European countries. The cyclical response of employment changes is captured by the coefficient of annualized changes in value added: the elasticity of employment to value added is equal to 0.11. The coefficient on the dummy crisis says that during the 2008-2009's recession a further fall (by 0.5 pps) in employment growth has been registered with respect to the average annual fall over the entire period. However this additional fall has been counterbalanced in countries having STW schemes. Indeed, the coefficient of the multiplicative dummy (Dummy crisis x Dummy STWA) is significant and positive. That confirms the descriptive analysis showed before: STW schemes have been effective in reducing the variability of employment during the global recession.

**Box: The impact of Kurzarbeitergeld (STW benefits) in Germany**

In order to properly assess the effectiveness of STWA one will need to elaborate on micro data. However, looking at aggregate data will already provide some interesting insight. For Germany, one may observe variables on the employment performance, namely the number of officially unemployed (ALO) and the number of those employed subject to social contribution (SVP). On the other hand, data on the number of people participating in "Kurzarbeit" schemes (KUG - the German state supported STWA device) could be taken into account. There is monthly data available issued by the Federal Labour Office.

Data from 2005 to August 2008 shows that in "normal" times<sup>1</sup> correlation between KUG and ALO is positive (0.57) - and the one between KUG and SVP negative (-0.54). These results don't come at a surprise. However, there appears to be a time lag between the take-up of KUG on the one hand and the corresponding changes in the general labour market situation on the other hand. This is because the correlations get much stronger if ALO resp. SVP are plotted against *earlier* KUG take-up instead of KUG of the same period (see chart).



Data Source: Bundesagentur für Arbeit, own calculations

These findings seem to confirm less optimistic views of a rather complementary relationship between unemployment (layoffs) and STWA scheme take-up, reviving Calavrezo's notion of high unemployment being announced by STWA (Calavrezo et al, 2009, for France): STWA is being taken up immediately during a downturn while the labour market still needs time to adjust. In Germany, the "period of full reaction" seems to be somewhat around two years as the correlation between ALO resp. SVP and KUG gets weaker again after lagging KUG by more than two years.

Moreover, the direction of correlation even reverses if (instead of lagging KUG) one takes the period of the current crisis into account, i.e., spreads the observation period up to September 2009. This is because the number of people on KUG jumped up in 2009 while employment / unemployment even slightly improved in the course of the year 2009 until September. There are seasonal reasons for the improvement. However, the impact of the crisis on the German labour market within the observation period is yet very limited.

These findings are suggestive of less optimistic labour market prospects in the short term. However, it is still much too early to assess the impact of the crisis on employment. Moreover, a more precise analysis would require the use of firm based micro data, so far not available at a comparable level for the EU27 Member States.

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## **ANNEX**

### **Description of short-time working schemes by country**

**Table 3 - Public support to short-time work and temporary lay-off schemes before the crisis - EU Member States**

Country	Name of the scheme	Eligibility conditions/ coverage	Type and level of support	Financing (firms/government contribution)	Duration	Procedural burden/ flexibility
AT	Short-time work allowance <i>Kurzarbeit, Kurzarbeitsbeihilfe</i>	All private employers and employees, except temporary agency workers, apprentices, CEOs and board members.  Major economic disruption of more than 3 months; all other possibilities have to be exhausted. Working time can be reduced by up to 80%.	STW allowances based on the equivalent share of UB for the reduced working hours. Benefits correspond to minimum 0.125% of the daily rate of unemployment benefit per working-hour lost (flat-rates fixed by the Federal Minister of Economy and Labour) paid to the employer.	STW allowances paid from the unemployment insurance system through the employer. Usual financing of unemployment insurance.  SSC continue to be paid by employer and employee.	Maximum 3 months, but can be extended if high proportion of employees more than 45 years old.	Working time can be reduced by up to 80%.  A collective agreement must exist. Companies must agree not to make employees redundant for the duration of STW, and according to most collective agreements up to 4 months after STW.
BE	Temporary unemployment <i>Chômage temporaire</i>	Only blue-collar workers.  Unemployment allowances for short-time working or temporary lay-off for economic reasons are payable for days or half days during which the execution of the work contract is suspended due to economic reasons and partially compensate for loss of wages.	Eligibility to UB, at 58-60% of reference wage with ceiling for persons living alone and for persons cohabiting with/without dependants, with same minimum and maximum amounts as complete unemployment.  Supplements can be paid by the employer or by a sectoral fund.	Benefits paid through the main unemployment benefit system. Usual financing of unemployment insurance. Additional collective agreement: employers pay 3.48% of gross salary to the Security of Existence Fund at industry level.  No SSC are due, but insurance is maintained.	Max 4 weeks if full suspension and between 3 and 12 months if partial suspension, depending on the number of days/ weeks worked; at least 1 week between 2 suspension periods.	Employers must inform the federal agency responsible for UB of any temporary redundancy and notify employees at least 7 days in advance. Employer must inform the work council/ trade union delegate of the economic reasons of STW.
DE	Short-time work allowance <i>Kurzarbeit, Kurzarbeitergeld</i>	Temporary agency workers and workers on fixed-term employment contracts excluded.  Unavoidable and temporary reduction in normal working hours affecting at least 1/3 of staff and resulting in a loss of income from work of more than 10% of monthly gross salary.	60% of foregone net wages for employees without children and 67% if at least one child, up to a monthly ceiling. Collective agreements (or employer compensation policy) can stipulate a top-up to STC.  The receipt of STC does not reduce the worker's entitlement for regular UI benefits: the time under STC is treated like other work-time in calculating the potential duration of future UI benefit eligibility.	Wage supplement from the first hour of work shortage through employer; reimbursement/provision of short time allowance by employment agency.  Financed through general contributions to UI.  Employers pay SSC for pensions and health insurance on 80% of foregone earnings of workers on STW. Unemployment contributions paid by employer and employee only on wage for hours worked. Worker's participation in	6 months at most in non-recession periods. Extensions by decree to 24 months possible in case of exceptional labour market circumstances.	Employer must request support from Employment Agency (BA) in agreement with its works council/workers.  Reductions in hours do not need to be uniform. The form of the reduction in hours is also flexible. The size of the reduction in hours can be changed without PSE approval. If an employer restores workers to full-time, STW plan remains valid for 3 months to allow for adjustments.

				training reduces the employer's financial responsibility, as does the receipt of STC for more than six months.		
<b>DK</b>	Work-sharing	The periodically unemployed are subjects to law on supplementary unemployment benefit, i.e. must be active jobseekers and cannot refuse if are offered another job.	Eligibility to unemployment benefits	Supplementary unemployment benefits paid by unemployment funds; financed under normal unemployment insurance conditions.  Partial continuation of SSC by the employee.	Maximum 13 weeks, as 1 week at work and 1 week receiving UB or minimum 2 days a week receiving benefits. Possible at company level to prolong it to 26 weeks.	
<b>FI</b>	Temporary layoff	The employer may temporarily lay off an employee, either entirely, or by reducing the regular weekly or daily working hours, only if the amount of work, or the employer's potential to offer work, has diminished because of a financial or production-related reason.  Persons who work more than 75% of normal full-time hours in the sector during a review period are not entitled to adjusted unemployment allowance. The PES has to provide confirmation every 3 weeks that the person fulfils criteria for payment.	Eligibility to UB. Depending on employment/ insurance history, employees may be paid through an earnings-related scheme or a basic unemployment benefit scheme. The level of the 'adjusted unemployment allowance' is such that, during 4 consecutive weeks the allowance paid plus 50% of the income are at most the same as the full allowance payable over the same period. In case of earnings-related allowance the maximum amount payable, including child increases and income from work, shall not exceed 90% of wages it is based on, but not be less than the basic daily allowance.	Earnings-related allowances paid by unemployment insurance fund; basic allowances paid by Social Insurance Institution.  Usual financing of unemployment insurance, by insured persons, employers and state.  No SSC are due, but insurance is maintained, with same effects as for full-time workers.	Maximum 36 months.	The layoff can be based on the employer's unilateral decision, or on a mutually agreed basis.
<b>FR</b>	Partial unemployment <i>Chômage partiel</i>	Part-time workers working less than 18 hours/week are excluded (until March 2009). Employees must receive a weekly wage equal or higher to 18 times the minimum wage per hour (SMIC); must not be in seasonal unemployment; must not be unemployed because of strike; be suspended from the activity for more than 4 weeks.	a) Public assistance benefits paid by the employer, partially reimbursed by the state. Since 1/2009, employer pays up to 60% of hourly gross wage for non-worked hours at a minimum of € 6.84 per hour (until 31/12/2008, 50% of gross wages per hour, and minimum € 4.42/ hour).  b) Complementary contractual benefit fixed by collective	As of 1/2009, the State reimburses € 3.84 per hour and worker to employers with maximum 250 employees and € 3.33 to employers with up to 250 employees (€2.44 and €2.13 respectively until 2008) ( <i>allocation spécifique de chômage partiel</i> ).  No specific financing.	Maximum 6 continuous weeks.  As of 1/2009, upper limit of hours per year raised from 600 to 800, with higher limit of 1.000 hours for the textile, clothing and leather industries and for automotive industry	The employer must consult the employees' representative and introduce a request for authorisation to the PES.



			agreement and financed by the employer, who can get partial reimbursement by the state.	Employers pay pension and unemployment contributions for hours worked; state pays full sickness contributions (employer's and employee's part).	and its subcontractors with at least 50% of their business related to the automobile trade.	
<b>IE</b>	Systematic short-time working	Employees working from full week to 3 days/ week or less are entitled to Jobseeker's Benefit for days not worked. Workers are required to be working for at least 1 day in each week that they would normally be working in order to claim benefits.	Eligibility to UB (Jobseeker's Benefit) for days not worked.	Usual financing of unemployment insurance	Same conditions as UI	
<b>IT</b>	Wage guarantee fund <i>Cassa integrazione guadagni Ordinaria</i> and <i>Cassa integrazione guadagni Straordinaria</i> (CIGO and CIGS)	<b>CIGO:</b> temporary reduction/ suspension of activity because of temporary market difficulties not attributable to employer or employee. Coverage: blue and white collar workers including managers in industrial sector, and in construction and building supply sectors (for meteorological reasons), but not senior executives, home workers or apprentices. <b>CIGS:</b> temporary reduction/ suspension of activity because of persistent and structural labour surpluses (restructuring, reorganisation or bankruptcy). Coverage: workers in industrial businesses with more than 15 employees, commercial enterprises with more than 50 employees (apprentices excluded), publishing companies, service/craft and co-operative enterprises with more than 15 employees.  Suspension of CIG in case of refusal of appropriate job or refusal to attend training.	80% of last wage, with threshold decided yearly by INPS (in 2010: € 840,81 net/ month for workers with monthly salary below € 1.931,86 and € 1.010,57 net/ month for workers with higher salary).	Financed by the employer, by the state in case of necessity, as well as by employees in the case of the CIGS (0.30% of pay). Employers pay basic contributions of 1.90% of wages (if firms with up to 15 employees) and 2.20% of wages if more than 15 employees, plus an additional contribution, due by companies using the CIG (8% of wage compensation paid to employees (4% for companies up to 50 employees) in case of CIG, and 4.5% of wage compensation (3% for companies up to 50 employees) in case of CIGS for the first 24 months, then 9%, and 6% for smaller companies).  The employer and employees do not pay SSC for non worked hours. Yet, periods under CIG count as employment and are taken into account for cumulating	CIGO: 3 consecutive months, renewable up to 12 months (24 months in specific areas of the country).  CIGS: up to 24 months.  CIGO + CIGS all together maximum 36 months in a period of 5 years.	Prior consultation with trade unions necessary. The request for CIGO must be made at the latest 25 days before the last pay to the National Institute for Social Protection (INPS), which delivers the authorisation. For CIGS a request must be made to Ministry of Labour at the latest 25 days before the last pay; a Decree follows. The CIGS cannot be used by a company that is simultaneously using the CIGO, and is contingent on a plan for resuming activity and protecting jobs to be approved by the Ministry of Labour.

				pension and sickness rights.		
	Solidarity Contract <i>Contratto di solidarietà</i>	Reduction in the working hours and pay of all the company's employees to avoid layoffs (defensive agreement).	60% of the last wage when working hours are reduced by 60%.	Payments granted by the Ministry of Labour.	Maximum 24 months (36 for Southern Italy)	The firm has to present the request for wage compensation to PES which gives an opinion on the reduction of working hours within 30 days. The Ministry of Labour has to authorise the solidarity contract within 150 days.
LU	Partial unemployment <i>Chômage partiel</i>	"Chômage partiel de source conjoncturelle" l'entreprise doit: 1. faire partie d'un secteur déclaré en crise; 2. avoir pas de difficultés de nature structurelle; et 3. ne pas licencier pour raisons économiques. "Chômage partiel de source structurelle": les sociétés peuvent licencier, pour autant que licenciements prévus dans plan de restructuration. "Chômage partiel pour lien de dépendance économique": ne pas licencier pour raisons économiques. Coverage: All employees, excluding temporary agency workers and apprentices All other possibilities must be exhausted first. The interruption of working time due to STW cannot exceed 50% of monthly normal working time.	Allowance fixed at the same level of UB, at 80% of regular gross hourly wage, and cannot exceed 250% of the minimum wage.	For each full-time employee, the allowance due in respect of the first 16 hours of lost working time per month has to be financed by the employer (first 8 hours if part-time worker). The State reimburses the employer the full cost of allowances paid to the employee for any hours lost in excess of this threshold.  The employer pays SSC for worked hours.	'Chômage partiel de source conjoncturelle' and 'chômage partiel pour lien de dépendance économique': allowance payable for up to 6 months within a 12 month reference period  No maximum duration in case of chômage partiel de source structurelle. The employer must introduce a request for renewal every month.	Demande à introduire avant le 12e jour du mois précédant celui visé par la demande d'indemnisation pour raison de chômage partiel, auprès du Comité de Conjoncture au Ministère de l'Economie et du Commerce extérieur. Le formulaire doit être accompagné des comptes annuels des 3 dernières années, d'une attestation de paiement des cotisations de sécurité sociale, et doit être signé par le chef d'entreprise et par un membre de la délégation du personnel.
PT	Short-time working and suspension of employment contract	Employers are allowed to temporarily reduce working time or suspend employment relationships due to business-cycle related economic and technological reasons or because of nature disaster which hit the enterprise.	Wage compensation of 2/3 of normal wage, within one and three times the national minimum wage (450 € in 2009). In addition, during temporary layoff employees are entitled to defined layoff pay.	Wage compensation covered 30% by the employer and 70% by the Social Security Budget. If during STW employees are included in a vocational training programme approved by PES, the amount of compensation supported by employers is 15%.  All social benefits and social security contributions	STW: maximum 6 months in case of market, structural or conjectural motives or technological reasons; 1 year in case of catastrophes.  Suspension of work: up to 12 months but can be extended for further 6 months.	The employer provides employee representatives with detailed proposals and reasons. If agreement cannot be reached, the employer may lay employees off unilaterally.

				calculated as in case of normal pay, except for sickness insurance.		
<b>RO</b>	Temporary suspension of employment contract	The employment contract may be suspended in case of temporary break in activity for economic, technological, structural reasons.	No less than 75% of basic wage in the workplace, paid by the wage fund.			
<b>ES</b>	Temporary suspension or short-time working <i>Jornada reducida</i>	The temporary reduction of ordinary working time because of economic difficulties, <i>force majeure</i> or decreased output is authorised for the duration of a redundancy plan. Worker's ordinary working day must be temporarily reduced by at least 1/3, with proportional reduction in wages. Workers are required to be affiliated with the social security system or equivalent scheme which insures against unemployment and to have paid contributions for at least 360 days during the 6 years preceding unemployment or on the date on which the obligation to pay contributions expired.	Eligibility to UB in proportion to reduction in working time. The benefit may not be less than 75% or more than 220% of the national inter-professional minimum wage applicable when eligibility to compensation begins.	Partial UB financed by UI funds. Employer partly pays SSC also for inactive periods of work, as follows: the National Employment Institute (NEI) pays contributions to the pension scheme for hours non-worked; NEI and employer pay sickness insurance, in proportion with their part of benefit/salary; employer and workers continue to pay contributions to unemployment insurance only upon wage for hours worked. Reimbursement of SSC possible for employers (100%) and employees (35%) in accordance with regulations on total unemployment.	Maximum 2 years	The procedure is the same as for mass dismissals, thus subject to formal procedure requiring the consent of workers' representative. Entitlement to partial unemployment is dependent upon decision by labour administration within redundancy plan.
<b>UK</b>	Short-time working	Layoff must be for complete days, as any work, even outside normal working hours, would mean that the employee was not actually laid off on that day. No categories of employees are excluded from STW.  Any person who is laid off or kept on STW and actively seeking work is eligible to contributions-based Jobseeker's Allowance	Contributions-based Jobseeker's Allowance + Statutory Guarantee Payment by employers for any "workless day", calculated by taking the employee's guaranteed hourly rate and multiplying it by the normal hours of work.	Statutory Guarantee Payments paid by the employer.  Jobseeker's Allowance funded by NIC and general taxation.	Max. duration of statutory guarantee pay: 5 workless days in 3 months. Any day where employee receives wage counts against the statutory maximum.  Contributions-based Jobseeker's Allowance payable for 13 weeks.	Where no written contractual provisions exist, the prior agreement of individual employees to the reduction of pay should be made in writing. No legal requirement on notification before STW is introduced.

## **Main characteristics of the system**

### *Definition and eligibility conditions*

Short-time working allowance has been in place since 1968, as **an incentive for employers for temporary labour hoarding in times of slacking demand**. Employers who suffer from major economic disruption lasting more than 3 months may apply at their local public employment service (PES) for short-time working (STW) allowances that partially compensate the employees' loss of income **caused by the reduction of working hours** in response to short-time problems faced by enterprises. Working time can be reduced by up to 80%.

All employers are eligible to apply for STW subsidies, except a) public institutions (at national, regional and local level), b) other corporate bodies under public law and c) political parties. All employees except apprentices and members of management bodies are eligible to receive STW benefits. Temporary workers are also eligible if they are affected by STW in the firm they are seconded to.

Allowances will only be granted if it makes financial sense and is demonstrably in the public interest. Companies must agree not to make employees redundant for the duration of short-time work, and most collective agreements also stipulate that the workers affected will not be made redundant for a period of up to four months after the end of the short-time work period.

### *Duration*

Benefits are normally payable for maximum 3 months, but can be extended if a high proportion of employees are more than 45 years old.

### *Level of benefits*

The Austrian public employment service (AMS) pays STW allowances based on the equivalent share of unemployment benefits for the reduced working hours. Benefits correspond to a minimum of 0.125% of the daily rate of unemployment benefit (*Arbeitslosengeld*) per working-hour lost (flat-rates fixed by the Federal Minister of Economy and Labour). Workers have no direct legal entitlement to STW allowance, since support is paid to the employer, who pays compensation to the employees. Very often the unions demand an additional extra-pay, strictly by plant-agreement; this extra-money does not tackle the public remuneration and cannot be reimbursed.

Contributions to social security remain on normal level for employer and employee on full time, while the sickness payments fall-out-of-rule. The other chapters of the Branch-CA stay effective. STW-benefits are liable for taxation

## *Procedure*

Firms must be in transitory (not seasonal) economic difficulties (e.g. drop of orders) and have to inform the regional PES office about the situation in due time (six weeks before implementation / four weeks before extension of STW).

Following consultations with representatives of the bargaining partners where possible alternative solutions have been explored, a social partner agreement has to be concluded (irrespective of the existence of a workers' council). This agreement has to define at least the coverage, time limit, extent of hours not worked, employment guarantee and retention period, amount of STW benefits, training measures and qualification benefits (in case of combination with qualification). Social partner agreements may be concluded on sector/industry level and substantiated on firm level. Firms have to fill in an application form three weeks in advance, providing comprehensive information to the respective PES there including concerning the reasons for introducing STW and a justification of estimation that/why economic and employment difficulties are only temporary and an end is foreseeable.

## **Recent changes**

Following temporary changes in the short-time working allowance passed Parliament in March 2009, backdated to 1 February, the allowance is granted for 6 instead of 3 months in general, and for 18 months if prolonged. The level of employment has to be maintained during STW, i.e. the number of employees should remain the same as at the start of STW; as well as after the running out of STW employment, for between 1 month and 4 months, depending on the length of STW arrangements.

**The necessary reduction in working hours has been extended to between 10% and 90% of normal working hours. Since March 2009 this allowance can be combined with specific training grants to support** improvement of qualifications for affected workers and 60% of training costs are paid by the PES. **The scheme has been further extended with the labour market package II of June 2009, with effect from September 2009: (i) maximum duration is further extended to 24 months (effective for the period 2010 to end 2012); (ii) for employees under a short-time working scheme, from the 7<sup>th</sup> month onwards the employer's part of social contributions (21.33%) is refunded in total by the PES (*Arbeitsmarktservice*, AMS).** Temporary workers can also benefit from the measure. The budgetary impact in 2009 is estimated to be €220 million (less than 0.1% of GDP).

## **Main characteristics of the system**

### *Definition and eligibility conditions*

Within the Belgian unemployment benefit system, temporary unemployment benefits in case of STW or temporary lay-off for economic reasons are payable for days or half days during which the execution of the work contract is suspended due to economic reasons and partially compensate for loss of wages. The employment contract is not terminated and remains binding, but for the worker the obligation to work is partly or wholly suspended and for the employer the obligation to pay is also suspended.

Traditionally, temporary unemployment is applied primarily in the construction sector, mainly to take into account bad weather, and largely explains why union density is particularly high in this sector. But in all economic sectors the most important cause of temporary unemployment is that in the short term there is insufficient work for economic reasons. Besides weather conditions and economic reasons, circumstances beyond one's control, technical difficulties in the enterprise, collective closure of the firm due to annual vacations or a strike or lockout are also reasons for temporary unemployment.

The insurance against loss of income during short-time work is included in the legal unemployment scheme. The benefits are the same for both types. Their administration is ensured by a public institution, the National employment office.

### *Coverage*

Temporary unemployment for economic reasons is only available to blue collar workers, as Belgium considers that white collar workers are protected by the extended periods of notice that are in place for them (Belgian employment law draws a distinction between blue-collar and white-collar workers).

To be granted unemployment benefits, temporarily unemployed persons have to qualify for the legal unemployment scheme (justification of a certain number of working days during a fixed period, ranging from 312 working days within the last 18 months for workers below 36 years of age, up to 624 working days within uninterrupted period of 36 months for those over 50 years).

### *Duration*

Payments are limited to 4 continuous weeks in case of full suspension of work and between 3 and 12 months in case of partial suspension, depending on the number of days/ weeks worked. There should be at least one week between 2 suspension periods. This alternation of cycles with 4 weeks unemployment and 1 week of work can continue for as long as the economic reasons persist.

### *Level*

The level of benefits is 60% of reference wage with a ceiling for persons living alone and for persons cohabiting with dependants; 58% for persons cohabiting, with the same minimum and maximum amounts as for complete unemployment (source: MISSOC, July 2008). Supplements can be paid by the employer or by a sectoral fund.

No contributions are due, but insurance is maintained and future pension claims develop further.

### *Funding*

Benefits are paid through the main unemployment benefit system and financed by unemployment insurance contributions (insured person: 0.87% on total income; employer: 1.46 % of wages; State: subsidies).

### *Procedure*

The introduction of short-time must be notified to the works' council, the trade union delegation, the workers concerned and the national or regional employment office. The works' council and/or trade union delegation must be informed of the causes justifying the introduction of the short-time at least 7 days in advance. The workers must be informed either by a notice displayed on the notice board in the workplace or by individual letter. The information must be given at least 7 days in advance. Simultaneously a registered copy of the notice (or individual letter) and information on the economic reasons justifying the introduction of short time work must be sent to the regional employment office.

Short-time work for technical disturbance or economic reasons can only be introduced for manual workers. There are no specific rules as to the selection of the workers concerned.

The payment of benefits from the legal scheme is done for union members by their trade unions and for non-union members by the auxiliary administration of unemployment benefits. Benefits ensuing from additional collective agreement at branch level are paid for union member: by their trade union (out of fund) and for non-union members directly by the joint fund.

### *Cumulability with other benefits*

Partial unemployment benefits can be cumulated with a partial early pension (daily benefit is reduced by the daily pension's amount exceeding 30% of the maximum unemployment benefit per day for worker with dependent family members).

### **Recent changes**

In October 2008 the social partners agreed on a temporary increase of compensation for income lost by blue collar workers when they are subject to temporary unemployment and the permanent extension of this scheme to temporary agency workers and workers with fixed-term employment contracts who worked more than 3 months in the enterprise, while the Flemish government introduced a 'bridging premium' for employees working shorter hours on a temporary basis, to stimulate enterprises in difficulties to retain employment through

collective working time reductions (measure applicable until the end of 2010). In addition to their part-time wages, they receive supplementary income of between €95 and €345 a month. Recently the definition of 'enterprises in difficulties', has been broadened to enlarge the group of enterprises who can benefit from the arrangement.

In December 2008, the government integrated the social partners' agreement (and the policies taken by the regional governments) in its stimulus package to counter the economic crisis, with effect from January 2009. Moreover, various incentives to follow training courses have been introduced at federal and regional level, and the level of benefits for short-time blue-collar workers temporarily increased, up to 70% of the reference wage for a cohabiting employee (up to a ceiling of € 2.206,46) and 75% of the wage for persons living alone and for persons cohabiting with dependants (up to a maximum of €1.655 per month) (source: MISSOC July 2009 + EMCO March 2009). These measures are temporary and expire at the end of 2010.

From the start of the economic crisis, employer organisations - especially from industry - launched a proposal to extend the system of temporary unemployment to specific types of white-collar workers at least in 2009. Negotiation between the social partners on temporary unemployment for white-collar workers failed, however. This failure is being circumvented at workplace level by using all forms of existing measures to reduce working time in order to save the jobs of white-collar workers too, especially in industry ('career break' by means of the 'time credit system' and collective working time reductions). In the meantime, in April 2009, the government introduced additional measures for reducing working time and minimising lay-offs, whereby the employment contract of white-collar workers can be partially or fully suspended, for a maximum duration of 26 or 16 weeks, respectively. These measures are temporary (until 31 December 2009) but could be extended once, until 30 June 2010, depending on the economic situation. The arrangement should be included in a collective agreement concluded at the sector or firm level or in a company plan. White-collar workers are granted unemployment benefit equal to 70% or 75% of their salary, up to a given ceiling, and a possible additional payment from the employer.

A partir du 1<sup>er</sup> juillet 2009 le Gouvernement fédéral a mis en place des nouveaux dispositifs temporaires, pour une durée initiale de 6 mois et prolongés de 6 mois jusqu'au 30 juin 2010:

- L'adaptation temporaire du temps de travail de crise (jusque fin juin 2010): réduction du temps de travail de 1/5 ou 1/4 qui s'applique à l'ensemble des ouvriers et des employés de l'entreprise et qui donne droit à une diminution des cotisations patronales (ONSS) dont une fraction est rétrocédée sous forme d'une compensation salariale à l'employé. L'employeur n'a pas besoin de l'accord individuel de l'employé mais une Convention Collective de Travail (CCT) entre l'employeur et les représentants des travailleurs doit être conclue dans les meilleurs délais au niveau de l'entreprise (CCT d'entreprise).
- La réduction individuelle et temporaire des prestations de 1/5 ou 1/2 (jusque fin juin 2010): crédit-temps de crise qui s'applique aux ouvriers et employés à temps plein de manière individuelle et temporaire et sur base volontaire. Le paiement des compensations financières aux travailleurs sont effectués par l'ONEM. L'employeur doit avoir l'accord individuel préalable du travailleur; de plus une Convention Collective de Travail (CCT) entre l'employeur et les représentants des travailleurs doit être conclue dans les meilleurs délais soit au niveau du secteur (CCT sectorielle) soit au niveau de l'entreprise (CCT d'entreprise).



- Le régime temporaire et collectif de suspension totale ou partielle de l'exécution du contrat de travail pour raison économique (jusque fin juin 2010), qui permet une suspension temporaire totale ou partielle de l'exécution du contrat de travail pour les seuls employés et donne lieu à l'octroi d'une allocation de crise (allocation de chômage) payée par l'Etat fédéral (ONEM) et d'un supplément payé par l'employeur. L'employeur n'a pas besoin de l'accord individuel de l'employé mais une Convention Collective de Travail (CCT) entre l'employeur et les représentants des employés doit être conclue dans les meilleurs délais soit au niveau du secteur (CCT sectorielle) soit au niveau de l'entreprise (CCT d'entreprise).

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## **BULGARIA**

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### **Main characteristics of the system**

No such scheme existed before the crisis.

### **Recent changes**

A temporary measure, "Payment of compensations to workers and employees in the Industry and Services sectors who have passed to incomplete working time", was introduced in February 2009 (with effect from January 2009) to provide financial support for workers affected by involuntary short-time working<sup>27</sup>. In case of business reasons, employers are now given the right to introduce reduced working time for a period of 6 months in one calendar year (from previously three months). If the reduced working day is introduced in an enterprise from the Industry or Services sector, employees have now the right to apply for salary compensation equal to half the minimum wage (up to 60 euro or 120 BGN per month), for a period which may not exceed 3 consecutive months. For 2010 the compensation period has been extended to 4 months. Employees are eligible for compensation if they continue to work at least 50% of the legally defined regular working time when the reduction in working time is the result of a decrease in work volume as stipulated in the provisions of the Bulgarian Labour Code. The payment of this compensation is administered by the Employment Agency and its territorial departments. The measure applies for the period 1 January - 31 December 2009, but could be continued during 2010. Until the end of 2012, employees have the opportunity to participate in training for which individual training vouchers are issued.

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<sup>27</sup> More specifically, the Bulgarian measure covers the extraction industry; processing industry; production and distribution of electric and heating energy and gaseous fuels; water supply; sewage, waste management and recovery; construction; trade and repair of cars and motorcycles; transport, storage and communications; hotels and restaurants; creation and distribution of information and creative products; and telecommunications.

### **Main characteristics of the system**

No such scheme existed before the crisis.

### **Recent changes**

In the Czech Republic a **temporary measure** has been introduced in February 2009, with effect from March 2009, providing for partial unemployment benefit **to employees whose working hours and wage have been shortened by their employer due to the crisis**. The provision aims to support employers who become unable to assign full-time work to employees due to temporarily reduced sales of their products or reduced demand for services. In companies with an operating trade union, partial unemployment has to be regulated by an agreement between the trade union and the employer. However, if there is no trade union, the employer is obliged to apply to the Labour Office, which can approve partial unemployment for up to one year. In both situations, the temporary wage compensation must be at least 60% of his/her average wage, up to 100% wage subsidy for hours not worked.

**The provision of this wage supplement is conditional upon the participation of the employee in training (increasing employability on the labour market) during the period without work assignments from the employer.** The size of subsidy for short-time work also depends on participation in training during hours not worked, on the type of training and the size of the firm. Larger subsidies are given to firms providing general rather than specific training programmes. **The measure will be co-financed from the European Social Fund under the existing Operational Programme. Another scheme covers indeed training costs during short-time work.** Both schemes have been very successful and their implementation has been extended to 2010. They are co-financed by the European Social Fund and the total financial allocation amounts to almost CZK 5 billion (around 0.15% of GDP). Withdrawal of the schemes will depend on a discretionary decision of the government.

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**DENMARK: DAILY BENEFITS FOR WORK-SHARING**

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### **Main characteristics of the system**

#### *Definition and eligibility conditions*

In Denmark, there is no support available for companies which introduce short-time working arrangements, but the workers on work-sharing are eligible for daily benefits, corresponding to the ordinary unemployment benefits, paid by the unemployment insurance scheme. The first three days of work-sharing (G-days) are paid by the employer, and not by the unemployment fund. Employees not entitled to benefits from trade union funds can claim public aid from the Community.

The possibility of work-sharing is laid down in the Danish collective agreements, e.g. in the trend-setting Industry Agreement, as an option in hard times, but the rules concerning the payment of the periods without work falls under the law on supplementary unemployment benefit financed by the State.

To qualify for work-sharing are eligible for daily benefits, workers must have been member of an unemployment fund for at least 1 year or become a member after having finished apprenticeship.

During the days or weeks of unemployment the periodically unemployed are subjects to the provisions of the law on supplementary unemployment benefit, i.e. they must be active jobseekers and cannot refuse if they are offered another job<sup>28</sup>. This means that the period agreed concerning work-sharing falls under the competencies of the parties to the collective agreement, while the payment of the weeks without work falls under the area of responsibility of the Minister of Employment.

Employees partially continue to pay contributions to pension, sickness and unemployment insurance funds.

#### *Duration and procedure*

According to the agreements, work-sharing can take place in maximum 13 weeks and can be arranged either as one week at work and one week receiving unemployment benefit or minimum two days a week receiving benefits. That is for instance six weeks at work and seven weeks receiving benefits or vice-versa.

Work-sharing arrangements have to be notified to the organizations (DI and the Central Organization of Industrial Workers in Denmark) at least one week before they become effective. The necessary arrangements are established by local negotiations. The Public Employment Service offices have to be informed at the same time of intended work-sharing arrangements.

A paragraph in sector agreements opens for the parties at company level to prolong this period to 26 weeks. If agreed, the company has to apply to the Regional Employment Council for financing the prolonged period.

#### **Recent changes**

The government has so far not introduced any direct support to companies in economic difficulties, though it has made initiatives to make the rules for work-sharing more flexible and to improve some features of the existing support to the workers.

The government introduced in March 2009 four new measures called 'Four initiatives to support employees threatened by unemployment'. One of the initiatives concerns a more flexible access to work-sharing, according to which work-sharing can also be arranged as two weeks of work followed by one or two weeks of unemployment. Companies working a three-shift pattern can now cancel the night-shift. The three shifts then replace each other whereby employees will be unemployed every three weeks.

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<sup>28</sup> Part-time insurance is an option for persons working less than 30 hours per week. Membership contribution and the level of unemployment benefits are lower for part-time unemployed. Thus, benefits cannot be higher than two-thirds of the benefits for a full-time insured person. In addition, part-time insured unemployed who gain a new job with less than 30 hours a week are eligible to supplementary unemployment insurance benefits (for a period of 52 weeks within the last 70 weeks). In order to increase effective labour supply among part-time workers, the government has recently set the maximum period for supplementary benefits at 30 weeks. Besides from topping up the wages of some part-time workers, supplementary benefits are also used to retain workers in branches with seasonal fluctuations.

## **Main characteristics of the system**

### *Definition and eligibility conditions*

In Finland, temporary layoff of employees refers to the temporary interruption of work and pay on the employer's initiative, whilst the employment relationship continues in all other respects. The employer may lay off an employee only if the amount of work, or the employer's potential to offer work, has diminished because of a financial or production-related reason. The layoff can be based on the employer's unilateral decision, or on a mutually agreed basis. Depending on the need for layoffs, the employer may lay off the employee either entirely, or by reducing the regular weekly or daily working hours, in accordance with the Working Hours Act or the employment contract. If it is estimated that the work has diminished temporarily, the employer is entitled to lay off the employee only for the estimated period of diminished work. The employer is also entitled to change the employment relationship unilaterally into a part-time relationship on economic or production-related grounds.

To qualify for the benefits, employees must have been member of an unemployment fund during the 10 preceding months and have worked 10 months with a working time of minimum 18 hours a week during the 28 preceding months. Employees not entitled to benefit from trade union funds can receive only the basic security. The payment of benefits starts after 7 working days of unemployment.

### *Level of benefits and funding method*

Compensation for STW or temporary layoff is paid through the unemployment benefit system.<sup>29</sup> Therefore, depending on their employment/ insurance history, employees may be paid through an earnings-related scheme or a basic unemployment benefit scheme. Earnings-related allowances are paid by the unemployment insurance fund to which the beneficiary belongs, whilst basic allowances/ labour market support are paid by the Social Insurance Institution. In all cases the local employment office has to provide confirmation every 3 weeks that the person fulfils the criteria for payment.

'Adjusted unemployment allowances' are paid to persons working part-time but seeking full-time employment, whose daily or weekly hours have been reduced on account of a lay-off or an industrial action not related to their terms of employment, who have received a full-time fixed-term job lasting not longer than one month or who have income from part-time entrepreneurship.<sup>30</sup> Persons who work more than 75% of normal full-time hours in the sector during a review period are not entitled to receive adjusted unemployment allowance. The amount is fixed in such a way that, during a month or 4 consecutive calendar weeks (the adjustment period), the level of the allowance paid plus 50% of the income received can be at

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<sup>29</sup> The cost of unemployment benefits are financed by: insured persons: 15% (membership fee and unemployment contribution); employers: 49%; State: 36%.

<sup>30</sup> In Finland, also unemployed workers who are looking for a full-time job but take up a part-time or very short full-time job may qualify for partial unemployment benefits. In exchange for partial benefits, these applicants must continue their search of regular full-time work.

most the same as the full allowance payable over the same period<sup>31</sup>. In the case of earnings-related allowances the maximum amount payable, including any child increases and income from work during the adjustment period, shall not exceed 90% of the wages it is based on, but shall not be less than what the person concerned would be entitled to receive as basic daily allowance.

The effects on pensions, sickness and unemployment insurance are the same as for full-time workers.

### *Duration*

The maximum duration for the adjusted unemployment allowance was 36 months until 2009, while no time limitations apply for persons aged 57 or more. The maximum period of payment (36 months) has been permanently abolished in 2009 with effect from January 2010. A re-qualification for the adjusted unemployment allowance is possible, but people must have worked full-time at least 6 months or fulfil again the time-at-work condition (34 weeks during the last 24 months).

### **Recent changes**

Temporary legislation concerning unemployment benefits for workers who have been partly laid off came to effect in the beginning of 2010. Workers whose hours have been reduced by one or more full days/week are entitled to full unemployment benefits for the days they have been laid off. Before all partly laid off workers were entitled to receive only an adjusted unemployment benefit. This temporary statute will be in effect until the 2<sup>nd</sup> of January 2011. When a worker's salary is reduced based on reasons related to employer's economic situation, the amount of the unemployment benefit is defined based on the amount of the salary as it was before the reduction. This temporary statute will concern salaries earned in 2010 and 2011.

The 36 month duration limit for partial unemployment was also suspended, but the maximum payment period of 500 full working days remains.

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<sup>31</sup> In 2009, the income-related benefit is € 25,63 plus 45% of the difference between the daily wages and the basic amount (€ 25,63).

## **Main characteristics of the system**

### *Definition and eligibility conditions*

According to French labour law, employers are able to temporarily reduce the legal or contractually agreed level of activity, or to suspend all or parts of its activities.

Partial unemployment involves those situations of temporary reduction of hours usually worked below the legal limit of 35 hours/week, because of economic, accidental, cyclical or technical reasons, weather hazards of an exceptional nature, or the situations of temporary suspension of work in the event of temporary closure of an enterprise (or establishment) because of conversion, restructuration or modernisation of the enterprise or any other exceptional circumstances. In these cases employees are in receipt of partial maintenance of their pay via a compensatory mechanism set up by general multi-industry agreement, with assistance from the State. The scheme compensates employees for the loss of salary through an indemnification scheme, which provides them with a specific level of unemployment support.

The partial unemployment scheme dates back to a tripartite national agreement from 1968, which is amended every year to adjust basic benefits. This agreement was renegotiated at the end of 2008 and the beginning of 2009.

La mise en chômage partiel des salariés indemnisés au titre de l'allocation spécifique de chômage partiel à la charge de l'État entraîne la suspension de l'exécution de leur contrat de travail. Durant cette période, les salariés peuvent suivre des actions de formation en dehors du temps de travail.

The allowance paid for every hour of work on short-time includes:

- A "Conventional Allocation" which is paid to the employee by the employer and which is 60% of the normal hourly rate (with a minimum of € 6.84 per hour); State reimburses the employer a Specific Allocation at a rate of € 3,84 per hour to businesses with 250 employees or less and € 3,33 per hour for businesses with more than 250 employees; une "allocation spécifique de chômage partiel"; the level of allocation is fixed by State decree;
- A "Complementary Allocation" which is paid by the employer and of which the level is decided by collective agreement and financed by the employer, who can, in some cases, get partial reimbursement by the State.

Le nombre d'heures perdues pouvant justifier l'attribution de l'allocation spécifique de chômage partiel correspond à la différence entre la durée légale du travail applicable dans l'entreprise ou, lorsqu'elle est inférieure, la durée collective du travail ou la durée stipulée au contrat et le nombre d'heures réellement travaillées sur la période considérée, jusqu'à un maximum de 800 heures par an depuis le 1<sup>er</sup> janvier 2009 (600 heures auparavant), corresponding to about half of the agreed yearly working hours in France.

### *Coverage*

To be eligible to partial unemployment allowance, employees (blue-collar and white-collar) must receive a weekly wage equal or higher to 18 times the minimum wage per hour (SMIC); must not be in seasonal unemployment; must not be unemployed because of strike; be suspended from the activity for more than 4 weeks. Part-time workers working fewer than 18 hours a week were thus not eligible to receive the allowance until March 2009. Are also excluded: workers on fixed-term contracts and agency workers; the management (very high staff); higher staff for whom working time is counted in days (those employees can benefit from short time work only if the company closes for a number of days and not if their working time is reduced on a daily basis); sales staff for whom the wage contains a part of variable remuneration based for example on the number of products they sell.

L'allocation spécifique de chômage partiel est également attribuée aux salariés exerçant la même activité qui subissent la réduction collective de l'horaire de travail pratiqué dans l'établissement ou partie d'établissement en deçà de la durée légale de travail, appliquée, dans les mêmes conditions, individuellement et alternativement. Dans ce cas, les entreprises de plus de 250 salariés doivent conclure une convention d'activité partielle de longue durée prévue par le code du travail.

To have access to the public scheme benefits, employees must have recorded 600 hours of insurance (in 2009). To have access to the complementary benefits, workers must also not have refused a replacement job offered by the company with equivalent remuneration; and must not have refused, within one year following the last short-time period, to work compensation hours decided by the company.

### *Level of benefits*

Les allocations de chômage partiel sont versées par l'employeur à l'échéance normale de la paie. Pour les entreprises (commerce, industrie, etc.) relevant de l'accord national interprofessionnel (ANI) du 21 février 1968 sur l'indemnisation du chômage partiel, jusqu'en 2008 le montant de l'indemnité horaire était égal à 50 % de la rémunération horaire brute. Ce montant a été porté à 60%, sans pouvoir être inférieure à 6,84 € par heure depuis le 1<sup>er</sup> janvier 2009 (contre 4.42 € auparavant) suite à l'ANI du 2 octobre 2009. L'État rembourse à l'entreprise le montant de l'allocation spécifique de chômage partiel (3,84 € dans les entreprises de 250 salariés ou moins et de 3,33 € dans les entreprises de plus de 250 salariés à compter du 1er janvier 2009). Le complément est pris en charge par l'employeur. Depuis le 1er mai 2009, dans le cas où la réduction d'activité dure au moins 3 mois, l'indemnisation peut être portée à 75 % de la rémunération horaire brute durant au maximum un an.

Contributions are paid to the pension scheme for hours worked, with partial effect on future pension claims. For complementary pension schemes, an agreement foresees that employees may profit by free retirement credits as from the 61st hour of unemployment per civil year. The allowances which are paid by the employer are free of sickness contribution (employer' and employee' parts). But employee pays a 1.2% general social contribution (CSG) plus a 0.5% contribution for the repayment of the social debt (CRDS). Contributions to unemployment Insurance are paid from the wage for hours worked.

### *Duration*

En cas de suspension totale d'activité, lorsque le chômage partiel se prolonge au-delà de 6 semaines, les salariés sont considérés comme étant à la recherche d'un emploi et peuvent être admis, si les conditions sont réunies, au bénéfice de l'allocation d'aide de retour à l'emploi versée par le Pôle emploi, pour une durée de 182 jours au maximum.

### *Cumulability with other benefits*

No accumulation possible with daily social security allowances. No accumulation possible with a professional income perceived as an unemployment benefit.

Lorsque le salarié suit une formation durant la période de chômage partiel et bénéficie à ce titre de l'allocation de formation, le cumul de cette allocation et de l'indemnité de chômage partiel ne peut pas avoir pour effet de porter sa rémunération nette à un niveau supérieur à celle dont il bénéficierait s'il n'était pas au chômage partiel.

### *Procedure*

The employer must notify and consult with the works council about the planned introduction of STW. No fixed period exists between the notification to and consultation with the works council on the one hand, and the implementation of short-time work on the other hand. Also the Inspector of Labour must be notified about the introduction of the STW schedule. The employer must also apply for an authorisation by District Labour Director to have his staff entitled to the specific short-time benefit.

### **Recent changes**

In response to the current crisis, the minimum hourly rate to be paid by employers was increased in January 2009 from 50% to 60% of the normal gross hourly wage. To compensate, the flat rate reimbursement paid by the state to the employer was increased by around 57%. In addition, the annual limit of at most 600 hours per employee was first increased to 800 hours and to 1.000 hours for some sectors of economic activity, such as the automotive and textiles industries in particular, and subsequently extended to 1000 hours per year for all sectors up to end 2010.

An agreement was indeed reached on 15 December 2008, revising the partial unemployment contractual allowance - thus, amending the national multi-industry agreement of 21 February 1968, which had been already modified on several occasions. The changes have been ratified by ministerial decree.

The new amendments resulted in the following outcomes from 1 January 2009:

- Permanent increase in the partial unemployment allowance from 50% to 60%.
- Permanent rise in the lower limit paid by companies to €6.84 per hour not worked, compared with €4.42 since 1993;
- Permanent increase in government funding for companies that use partial unemployment – offering a special partial unemployment allowance – amounting to:
  - €3.84 per hour not worked (increase of €1.40) for companies employing up to 250 staff,



- €3.33 per hour not worked (increase of €1.20) for companies employing over 250 staff;
- Rise in the upper limit of hours covered by the allowance from 600 to 800 hours a year, with a higher limit of 1.000 hours for the textile, clothing and leather industries and for automotive industry and its subcontractors with at least 50% of their business related to the automobile trade.

A decree issued on 30 March 2009 extended the partial unemployment allowance scheme to all employees, there including temporary agency workers part-time workers with less than 18 hourly minimum wages per week and project workers. The definition of closure was extended to include an establishment or production unit of a company.

A further inter-sectoral agreement, reached on 15 April 2009, improved the allowance given to employees as of May 2009, as follows:

- A partial unemployment agreement for employees who are working fewer than the legal number of hours over a long period should be reached between an industry organisation, a multi-industry organisation or a company and the Minister for Employment, the prefect or the departmental offices of the Ministry of Employment (DDTEFP). The agreement will last for a minimum period of three months and a maximum period of 12 months;
- The employees will receive at least 75% of their gross wages (about 90% of net wages);
- The company will receive an additional allowance from the state for the first 50 hours (€1.90 an hour) and then from Unédic up to the limit for partial unemployment hours (€3.90). The costs will be thus borne mostly by the state and in the small part by the employment agency. This allowance supplements the special partial unemployment allowance;
- In return, companies must maintain the posts of the affected employees for twice the length of time mentioned in the partial unemployment agreement and offer workers an individual meeting to discuss training options or employment reviews during the period of partial unemployment;
- The state cannot contribute more than €150 million in 2009 to accommodate these provisions. No partial unemployment agreements can be signed once this amount has been reached. The signatories can meet to discuss a possible extension of the agreement once 70% of the allocated amount has been used.

Moreover, up to 1 January 2011 the time spent in temporary unemployment is to be accounted for paid holidays and for the base for the calculation of the allowances including the bonuses of the paid holiday base. Finally, the bill on lifelong learning of November 2009 introduced the possibility to use parts of individual training leave outside working time.

## **Main characteristics of the system**

### *Definition and eligibility conditions*

The short-time compensation (STC) programme was established in the 1950s and has operated continuously for more than 50 years.

The programme consists of seasonal, transfer and cyclical short-time work all being regulated in German Social Law Book III (*Sozialgesetzbuch III*). Seasonal short-time work is targeted to construction and the agriculture in order to compensate reduced working times due to adverse weather (§175 SGB III). Transfer short-time work is used in sectors/companies with a foreseeable permanent decline in the volume of work and usually combined with re-training of the affected workers, support for self-employment or other programmes (§ 216b SGB III). Cyclical short-time work compensates for the temporary reduction of working-time due to a significant reduction in “business activity” (§ 169 ff. SGB III). Cyclical short-time work allows firms to retain staff in an economic downturn that would have otherwise been made redundant, keeping specific human capital and processes knowledge, which otherwise would not be economically viable.

During 1990 and 1991 a special form of STC was used in areas of the former German Democratic Republic, but since 1992 the West German programme has been used in all areas of the unified Germany.

Cyclical short-time work unemployment benefits (*Kurzarbeitergeld*) are granted in case of unavoidable and temporary reduction in normal working hours affecting at least one third of staff employed in the plant and resulting in a loss of income from work of more than 10% of monthly gross salary, with continuation of open-ended employment contracts under compulsory insurance coverage. Any reduction must be due to economic reasons (sudden fall in demand for its goods or services) or unavoidable events (e.g. extraordinary weather conditions); it must be temporary; and all other avenues must have been exhausted (i.e. time banks have been used up and overtime has been halted)<sup>32</sup>.

In principle, all personnel categories can be affected from STW. People in early retirement contracts should - where possible - be exempted from STW as long as possible; but this is not obligatory for the employer. Apprentices should also be exempted from STW as long as possible; in any case they are entitled to full wages for 6 weeks.

### *Procedure*

The employer must request support from the Federal Employment Agency (BA) in agreement with its works council or its workers, and the Federal Agency will then ascertain whether all preconditions have been met.

The Works Council has a codetermination right in the temporary shortening of the working time. That means that the planned measure needs its consent. The employer and the works

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<sup>32</sup> Conditions laid out in social legislation (*Sozialgesetzbuch III*, §§ 169) and in employment protection legislation (*Kündigungsschutzgesetz*, §§17)

council have to conclude a plant agreement on this. This gives workers' representatives the possibility to negotiate improvements in the compensation of short-time for workers and to have a say in the distribution of STW over the work-force. According to collective agreements, a minimum period of time must be placed between the conclusion of the plant agreement and the beginning of STW. In companies not having a works council or collectively agreed provisions governing short-time work, short-time work may be applied if all the affected employees state their consent and all the corresponding requirements are met.

A decision on the suitability of the STW plan must be made by the BA within eight days of receipt of the employer application. Once the plan is active, employers add to the pay bill the STC payment for reduced hours, which is later reimbursed by the BA. In effect, the employers act as the administrative agent for the BA.

Reductions in the hours of affected workers do not need to be uniform. If a firm fears that certain workers are more mobile than others, it may decide to give them below-average reductions. The form of the reduction in hours is also flexible. Workers may work fewer days per week, fewer hours per day and/or be subject to rotating weeks on layoff.

The size of the reduction in hours can be changed without the need for BA approval. If actual sales and production turn out to be weaker than initially anticipated, the requirement remains for the employer to negotiate with the works council in establishing the added reduction, but the further reduction can then proceed. If sales and production are stronger than anticipated, the employer can reduce STC unilaterally. If an employer restores workers to full-time schedules (making no STC 12 payments) a plan will remain in effect for up to three months. Thus short-run adjustments to both positive and negative surprises can be made without the need to terminate an existing plan and initiate a new one.

#### *Duration*

After approval, the Federal Employment Agency pays a short-time allowance for a specified period, which can last 6 months at most in non-recession periods, to every affected employee. Extensions are possible in the case of exceptional circumstances within the labour market.

Extensions to 12-24 months are possible if measures to improve the qualifications or integration prospects of employees are implemented. In the case of particularly difficult economic circumstances in particular branches of industry or areas of the labour market, the duration may be extended by legal regulation, as it happened in late 2008 to early 2009. Similar progressions of the maximum duration occurred in earlier recessions.

#### *Level of public support*

Short-time work unemployment benefits are determined on the basis of the difference between the short-time wage in the case of work shortage and the wage for full employment, evaluated according to the official scale percent rates as for unemployment benefit (*Arbeitslosengeld*).

The allowance amounts, for employees (single or married) without children, to 60% of their foregone net wages, i.e. of the difference between the net remuneration that an employer pays during a period of short-time working and the net wages that are earned under normal circumstances. If the worker's household includes at least one child, 67% is paid, up to a

monthly maximum. The amount from a secondary activity is entirely taken into account if the job started during the payment of the short-time work unemployment benefit.

Employers calculate the short-time allowance and pay it to employees. They are then reimbursed by the respective local employment agency. Collective bargaining agreements (or employer compensation policy) can stipulate supplements to “top up” STC.

Contributions for pension and sickness scheme are continued by employer and worker on the wage for hours worked. On the difference to full wage, total pro rata contribution (related to 80% of the lost wage) are taken over by the employer. Concerning the unemployment insurance, contributions by employers and workers are continued only on wage for hours worked.

Although payroll tax is not imposed, STW allowance is subject to applicable progressive tax thresholds.

### *Financing*

The scheme is financed from the first hour of work shortage by the unemployment insurance scheme (general contributions to unemployment insurance). Employers are required to make added payroll tax contributions (for pensions and health insurance) on the forgone earnings of workers on short-time work, but payments depend upon several factors. Worker participation in training lessens the employer’s financial responsibility, as does the receipt of STC for more than six months. Employer payments can amount to more than 20% of the forgone earnings.

### *Cumulability with other benefits*

STW benefits can be cumulated with pensions depending on individual circumstances. No accumulation is possible with sickness benefits (*Krankengeld*).

The receipt of STC does not reduce the worker’s entitlement for regular UI benefits: the time in which STC is received is treated like other work-time in calculating the potential duration of future UI benefit eligibility.

### **Recent changes**

Extended period of eligibility: The eligibility period for companies that started short-time work in 2009 has been extended first in Autumn 2008 from 12 to 18 months and later in May 2009 to 24 months (as of 01.07.2009). In November 2009, the short-time work support has been introduced also for the companies that will start short-time work up to 31 December 2010 but the eligibility period for short-time work allowance was reduced to 18 months.

Simplified application procedure and less stringent conditions: The existing requirement that employers may only apply for the allowance when the work-cut would affect at least 1/3 of the employees (in an enterprise or in its division) and would incur a gross salary loss of at least 10% has been suspended and all workers affected by non-productive times of more than 10% will be eligible for short-time allowance. Until the end of 2010, short-time allowance can also be requested for temporary or contract workers without restriction.

While normally, during the period of short-time working the employer was formerly liable to pay full social security contributions for the working hours cancelled, including the proportion

normally paid by the employees, following DE's Stimulus Package II social security contributions are now reimbursed to employers by the local employment agencies at the rate of 50% in the first six months of short-time work. As of 01.07.2009, beginning with the seventh month of short-time work, the employers receive social insurance contributions reimbursed at the rate of 100%. This arrangement applies to all the employer's operating sites, provided at least one site has been using short-time work for 6 months as of 1 January 2009. For employees participating in training and skill development measures during the short-time work phase, social security contributions may be paid in full by the respective local employment agency from the very outset of short-time work (applicable until end 2010).

Employers may request that, upon an interruption of short-time work amounting to three or more months within the already approved period of eligibility, the resumption of short-time work need not be notified to the local employment agency. In such cases, the eligibility period continues without interruption for the entire period as originally approved. Balances on working time accounts need not enter the minus zone prior to the receipt of short-time allowance. Temporary changes in working time that are brought about by job security agreements and have been in effect since 1 January 2008 have no negative impact on the level of short time allowance. These provisions are scheduled to expire at the end of 2010.

Any training/qualifications undertaken are decided by the individual employer according to need, and the employer can claim back a percentage of the training costs. Where training takes place, the BA will support schemes that lead to a vocational qualification or the acquisition of certified qualification modules and will provide a subsidy towards travel and childcare expenses.

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## HUNGARY

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### **Main characteristics of the system**

No such scheme existed before the crisis.

### **Recent changes**

With a view to maintaining employment, the Hungarian government has launched three STW schemes for employees of firms hit by the downturn working reduced hours. Two of them are financed from national sources and entail the possibility to combine STW with training support, while one of them is cofinanced by ESF and in this case the training component is obligatory. A basic precondition for participation in STW schemes is that the applicant has to retain its employees (or at least the number of its employees) for at least twice of the period of the support. Applications have been suspended at the end of 2009 in the 2 national programmes. Support is ongoing according to individual contracts. In the case of the ESF programme, applications will close in the first half of 2010.

Employers are reimbursed social security contributions and up to two times the minimum wage for hours not worked for a specified period up to 12 months in all schemes. Training costs (if applicable) are also supported. Firms decide what type of training they need based on the skill demands of the firm and the sector.

The original concept of the programmes was to allow employees to partake in training on the fifth day of the week – hence the name of the first programme ‘4 1’ – with the government paying the total amount, or part, of employees’ salaries for that day, together with the social

contributions and the costs of training. Afterwards, a 3-2 structure became possible as well. The minimum time for employees to be spent at work is 50% of the working hours in quarterly average. Wages are reduced accordingly, with the same hourly wage maintained for hours worked, and 80% of the hourly wage given for hours that have been lost. The scheme applies to all enterprises that have at least 3 employees, while companies under bankruptcy or liquidation process are excluded. The loss of income due to shortened working week is compensated by the government on tendering basis. Besides an increased risk of employee lay-offs due to the current crisis and a temporary loss of demand, the selection criteria for support include the agreement between the employees and the employer about shortened hours and reduced compensation, as well as the company's obligation to sustain employment after the completion of the programme. The support may amount to 80% of training expenses (if the company provides it for the employees) and 80% of the lost wages and their levies; however for the latter a cap is applied in the value 150% of the national minimum wage.

Since the Hungarian Labour Code defines working 40 hours weekly as full time employment, while fewer hours qualify as part-time employment, working short-time has direct negative repercussions with respect to employees' future retirement pensions, as the service period is calculated proportionally with the actual working time of part-time jobs.

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**IRELAND:      SYSTEMATIC SHORT-TIME WORKING**

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**Main characteristics of the system*****Definition and eligibility conditions***

Within the Irish labour framework, short-time working occurs when an employee normally works full-time in a firm, but because of a temporary reduction of work in the business his or her hours per week are reduced for a temporary period. Systematic short-time work is therefore defined as a temporary situation in which the number of days systematically worked in a working week is less than the number of days typically completed in a working week in the employment concerned. Where the working week is reduced on a systematic basis from a full week to 3 days a week or less, the employee is entitled to claim Jobseeker's Benefit for the days not worked, depending on his/her level of social insurance contributions. The workers are required to be working for at least one day in each week that they would normally be working in order to claim benefits. In such cases, even if the reckonable earnings in any week fall below the Class A threshold, Class A will continue to be paid for these employees.

A person must have suffered a substantial loss of employment in any period of six consecutive days in order to be eligible for Jobseeker's Benefit. A person may be disqualified from getting Jobseeker's Benefit for 9 weeks if he/she refuses an offer of suitable alternative employment or suitable training.

***Level and duration of benefits***

Workers on systematic short-time working are entitled to Jobseekers Benefit (JB) for a period of up to 12 months, and may receive Jobseeker's Allowance (JA) after this period has expired.

The amount of jobseekers benefit payable is one-fifth of the appropriate weekly jobseekers benefit rate for each day of unemployment. The sum of the number of days worked and the number of days benefit may not exceed 5 in the week. Income from work will affect the

amount of Jobseeker's Allowance. The maximum rate of Jobseekers Allowance/Benefit in Ireland was € 204.30 per week in 2009.

Both payments are made by the Department of Social and Family Affairs (DSFA).

#### *Cumulability with other benefits*

Accumulation with other benefits or assistance payments is not possible. However, full rate Jobseeker's Benefit is payable to jobseekers in receipt of Blind Person's Pension and half rate is payable to unemployed persons in receipt of Widow's/Widower's Contributory and Non-Contributory pensions as well as One Parent Family Payment.

Earnings from employment do not affect the rate of payment in case of insurance-based benefits. In case of assistance-related benefits, where a recipient engages in part-time or casual work, the Jobseeker's Allowance will be paid for the full week less 60% of the average weekly earnings. The first € 20 per day of earnings is disregarded subject to a maximum disregard of € 60 per week.

#### **Recent changes**

A recently introduced pilot 'Short Time Working Training Programme' provides two days of training a week for up to one year for employees who work for three days and are on systematic short-time work for two days a week, and receiving unemployment benefits/ social welfare payment for the two days that they are not working. Only 277 places are available and each placement will be for 52 weeks. The training offered is flexible in order to allow people to complete courses if they return to full-time work.

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**ITALY: ORDINARY WAGE GUARANTEE FUND (CIGO) AND EXTRAORDINARY WAGE GUARANTEE FUND (CIGS)**

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**Main characteristics of the system***Definition and eligibility conditions*

In Italy, the Wage Guarantee Fund (*Cassa Integrazione Guadagni*) is the primary intervention designed to support workers affected by reduced working-time and temporary suspension of work. Established in 1954 with a view to protecting the workers' earnings in the event of enterprises facing difficulties, the *Cassa Integrazione Guadagni* is a state fund which is managed by the National Social Security Institute (INPS) and mainly used by medium and large businesses in the manufacturing and construction sectors.

There are two types of Wage Guarantee Funds, which both pay workers for hours that have not been worked: the Ordinary Wage Guarantee Fund (CIGO) and the Extraordinary Wage Guarantee Fund (CIGS). The Ordinary Wage Guarantee Fund is used when a business reduces or temporarily suspends the activity of workers because of transitory events or temporary market difficulties that are not attributable to the employer or the employee. The Extraordinary Wage Guarantee Fund provides earnings supplement when a business reduces or suspends economic activity in the case of persistent and structural labour surpluses for reasons of restructuring, reorganisation, crisis or bankruptcy procedures.

The use of the CIGS often precedes collective dismissals and recourse to mobility procedures. Industrial firms with more than 15 employees and large-scale retail companies with more than 200 employees, which are unable to re-employ suspended workers on conclusion of the CIGS scheme, may indeed begin collective dismissal procedures and register workers on availability lists (*liste di mobilità*).<sup>33</sup>

Devised originally as a means of temporary income protection for employees, in the expectation that the company and its employees would soon resume normal activity, the Wage Guarantee Fund has gradually been extended even to cases in which there is no prospect of a return to the normal production and work pattern, so that it has in fact become a welfare instrument for the management of labour surpluses. Law n. 223/1991 did seek to restore the Fund to its original function of providing assistance during purely temporary labour surpluses. It imposed a rigid time-limit on eligibility for making up lost pay, and recourse to special availability-for-employment and workforce-reduction procedures in cases where the surplus is structural or there is no prospect of re-employing the surplus employees. This objective has only partially been achieved because, as a result of crises suffered by Italy from 1992 onwards, the legislators have successively intervened to modify the legal rules governing the Fund's operation, both to extend the time-limit on eligibility for special intervention to make up pay and to extend such eligibility to areas where it was formerly excluded.

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<sup>33</sup> I lavoratori inseriti nelle liste di mobilità acquisiscono il diritto a un'indennità, nel caso in cui abbiano un'anzianità aziendale di almeno 12 mesi e abbiano un contratto continuativo a tempo indeterminato. Il lavoratore viene cancellato dalle liste di mobilità, qualora rifiuti l'iscrizione a un corso di formazione professionale o un lavoro equivalente al precedente con una retribuzione non inferiore del 10%, un impiego di pubblica utilità, o qualora non comunichi all'Inps un impiego a tempo parziale o a tempo determinato. La competenza in materia di mobilità è dell'INPS.



Interruption of CIG benefits is foreseen in case of voluntary unemployment (refusal of an appropriate job) or in case of refusal to attend training.

### *Coverage*

The CIGO can be used for blue and white collar workers, there including managers, who have been laid off (and to blue-collar workers put on short-time working) in the industrial sector independently from the number of employees (artisanal sector excluded), as well as in the construction and building supply sectors (for meteorological reasons), but not for senior executives, temporary workers, home workers or apprentices.

The CIGS is reserved for all workers with a record of at least 90 days in industrial businesses with more than 15 employees, commercial enterprises with more than 50 employees (with the exclusion of apprentices), publishing companies (with any number of employees) and service/artisanal and co-operative enterprises with more than 15 employees.

### *Duration and level of benefits*

The CIGO pays a wage to workers for hours that have not been worked and is based on an insurance mechanism, in that businesses pay a contribution on all wages of employees using the fund when they plan a temporary reduction or suspension of production, for part or the entire workforce.

The allowance available under the CIGO is 80% of previous earnings for non worked hours between 24 and 40 hours a week, for a maximum period of 13 consecutive weeks, with possible renewal for up to 12 months (in some territorial areas it can be paid for up to 24 months), with a fixed maximum decided each year by INPS. CIGO and CIGS financial support altogether cannot last more than 36 months in total over a reference period of 5 years.

From 2008, every 1st of January both the reference pay and maximum amounts are increased by 100% of actual inflation rate. In 2009, the maximum net amount was €840,81 per month for workers with a monthly salary below €1.931,86 per month, and €1.010,57 per month for workers with a higher salary. For the subsequent periods of 6 months, the benefit is capped in the same way as the ordinary unemployment benefit. The extraordinary earnings supplement (CIGS) amounts to 80% of total pay for hours not worked, from 0 to 40 hours per week, for a maximum period of 12 months in case of company crisis, 24 months for reorganisation, restructuring and industrial reconversion, 18 months in case of bankruptcy. The benefit is capped in the same way as the CIGO.

The mobility allowance varies from 80% to 64% of the wage, capped in the same way as the CIG (see above) for a period of between 12 and 48 months, according to the age of the worker and the geographical area.<sup>34</sup>

The employer contributes to the pension and sickness schemes only for the hours worked; compensation for non-worked hours gives normal qualification for pensions and sickness rights.

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<sup>34</sup> La durata del trattamento è di 12 mesi prolungabili a 24 o 36 nel caso di lavoratori che abbiano raggiunti rispettivamente 40 o 50 anni di età. Per questi lavoratori, nel Mezzogiorno e nelle aree svantaggiate la durata massima viene elevata a 24, 36 e 48 mesi.

### *Procedure*

Launching a trade union information and consultation procedure, usually leading to a phase of bargaining, is a prior condition for the admissibility of an employer's request for the Fund's intervention. The law provides for prior consultation with the trade unions (at company or territorial level) in order to examine the programme that the company intends to adopt, the number of workers involved in the measure, the criteria used to select the workers, and the possible rotation of workers in the event of temporary lay-offs. Yet, the social partners have a minimal role to play, the range and parameters of social shock absorbers being largely established by law. Despite during joint examination at company level, the company union representatives or the trade union organisations may show their disagreement both about the existence of the preconditions and about the form and duration of the suspension or reduction, the disagreement of the unions in no way acts as a bar to proceedings since it is not binding upon the employer. In so far as the granting of pay compensation is concerned, the intervention of the appropriate Wages Guarantee Fund depends upon the ascertaining by public bodies (in which both representatives of the employers and of the unions are members) of the existence of the legally established preconditions.

The request for CIGO to the National Institute for Social Protection (INPS), which delivers an authorisation, must be made by the employer at the latest 25 days before the last pay. For the extraordinary supplement (CIGS) a request must be made by the employer to Ministry of Labour at the latest 25 days before the last pay and a Decree follows. The CIGS cannot be used by a company that is simultaneously using the CIGO, and is contingent on a plan for resuming activity and protecting jobs, to be approved by the Ministry of Labour.

### *Funding*

The CIG is financed by the state as well as by contributions paid by employers (and in the case of the CIGS, also by workers) and administered by the National Institute of Social Insurance (INPS).

For the CIG, workers contribute 0.30 % of pay, while employers pay a basic contribution of 1.90% of wages for companies up to 50 employees and of 2.20% for those with more than 50 employees, while for the CIGS employers with more than 15 employees pay 0.90% of wages. Firms using the intervention of the Wages Guarantee Fund pay an additional contribution of 8% of wage compensations paid to employees (4 % for companies up to 50 employees) in case of CIGO. The additional contribution is not due if the reduction or suspension of working hours are caused by objectively unavoidable events. Companies using the CIGS pay 4.5 % of the wage compensations (3 % for companies up to 50 employees) for the first 24 months, then 9 % (6 % for smaller companies). The State can also intervene.

Payments under ordinary intervention are granted by the National Institute of Social Insurance to workers who have been laid off or put on short-time working because of immediate circumstances which cannot be blamed either on the employer or on the employees, or because of temporary market situations; payments under special intervention are granted by the Ministry of Labour, on the advice of the Inter-ministerial Industrial Policy Committee (CIPI).

### *Cumulability with other benefits or earnings from work*

No accumulation with pensions possible. No accumulation with earnings from work possible.

The periods under CIG count as employment periods and are taken into account for cumulating pension and UB rights.

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Apart from the general system of wage supplements, a **system of sectoral funds** to help retain jobs and prevent dismissals exists in small business and craft firms (the majority of which are of small or very small size) that do not have access to the CIG. The system operates at regional level through bilateral bodies, consisting of representatives of the social partners, which manage funds specifically created for the purpose, which pay specific subsidies to workers in the case of a reduction or suspension of working hours, with the contribution of the Employment Fund managed by the Ministry of Labour. These regional funds are financed by firms and provide income support for workers involved in working-time reductions and/or temporary lay-offs.

Italian law<sup>35</sup> also permits the stipulation of "**solidarity contracts**" (*contratti di solidarietà*) as alternatives to the extraordinary wages guarantee fund. These company-level agreements, known as a 'defensive' agreement, are based on solidarity among employees who reduce their working hours and pay in order to avoid lay-offs. The agreement consists of a reduction of working hours and a corresponding reduction in pay. In this case the income support disbursed by the State (via the INPS) is equal to 60% (up to 75%) of the pay lost because of the reduction in working hours, and it lasts for a period of 24 (36 months for southern Italy).

The company concerned has to present the request of intervention for wage compensation to the regional employment office which has to give an opinion on the reduction of working hours within 30 days. The Ministry of Labour has to authorise the solidarity contract within 150 days. Payments are granted by the Ministry of Labour and Social Insurance.

### **Recent changes**

The government temporarily extended the coverage of the wage supplementation scheme (*Cassa Integrazione Guadagni – CIG*) from specific sectors and company size classes, to enterprises usually not covered and to all categories of employees in those enterprises, suspended from work in time of crisis. This measure will be partly funded by the regional administrations, which will use ESF resources for this purpose.

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<sup>35</sup> Law No. 863 of 19 December 1984 and No. 236 of 18 July 1993.

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**LATVIA**

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**Main characteristics of the system**

No such scheme existed before the crisis.

**Recent changes**

In September 2009, Latvia introduced the programme “Professional training for part-time working persons”, which offers professional development to employees (excluding those of publicly owned companies) whose working hours have been reduced to at least 20 hours per week due to an economic crisis or factors related to globalization. Training must be related to the sector in which their company operates and costs are limited to 500 LVL per person for further professional development programmes and 300 LVL per person for entry level programmes, though employers may supplement this for more expensive training schemes. For employees to be eligible they must have been employed with the same employer for at least 6 months and have been placed in part-time work for no less than 1 month. During the training period the employee receives a scholarship of 70 LVL per month. Training courses last a maximum of 6 months after which employees are not eligible to re-enter the programme for at least a year.

The measure is co-financed by the European Social Fund and the total financing amount for 2009 is 1,8 Mio LVL (EUR 2,6 Mio). The total amount allocated to the programme is 9,9 Mio LVL (EUR 14,0 Mio) for the whole period 2009-2013. The possibility of stopping the measure by the end of year 2010 and moving the resources left to a new Lifelong Learning initiative for all the employed is being considered.

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**LITHUANIA**

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**Main characteristics of the system**

No such scheme existed before the crisis.

**Recent changes**

Amendments to the Law on Employment Promotion (April 2009) provide for the possibility to combine STW and public works during idle time, within enterprises suffering from crisis and for the possibility to participate in vocational training and get a training grant for those warned about dismissal and who work on STW scheme. Under these measures, those companies which announce reductions in working time are able to organize public work for their employees and receive wage subsidies from the PES. Local PES can pay up to 100% of remuneration for public works (based on the minimum hourly wage) and reimburse the associated social security contributions. Part-time employees of companies facing temporary economic difficulties can also participate in public works organised outside their company. Thus, companies may retain their employees during the period of temporary disruption in their operation whilst employees earn additional income.

Workers placed in part-time work during reorganisation of their company as a result of economic difficulties can also receive vocational training with the aim of boosting employee retention in the company during difficult times or allow employees to acquire qualifications

required by another employer. A training grant amounting to up to 70% of the minimum monthly wage is available for the time spent by an employee in vocational training. Although not directly related to support for those affected by STW and temporary lay-offs, workers who have been dismissed in these circumstances may also benefit from vocational training.

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**LUXEMBOURG: PARTIAL UNEMPLOYMENT (CHOMAGE PARTIEL)**

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### **Main characteristics of the system**

#### *Definition and eligibility conditions*

In Luxembourg, partial unemployment benefits have been provided to workers who are involuntarily subjected to short-time working arrangements since 1975. A compensatory allowance is paid to workers for each working hour lost. The working week to be taken into account when fixing the normal hours of work for the month concerned is the regular working week of the company and this may not exceed 40 hours. The interruption of working time due to short-time working cannot exceed 50% of the monthly normal working time.

There are four types of partial unemployment:

- **Chômage partiel de source conjoncturelle:** Le régime du chômage partiel en cas de problèmes économiques conjoncturels vise à soutenir les entreprises qui font partie d'un secteur en crise et rencontrent des difficultés d'ordre conjoncturel. L'entreprise qui recourt au chômage partiel de source conjoncturelle s'engage à ne pas licencier de salariés pour raisons économiques. Pour pouvoir solliciter le chômage partiel de source conjoncturelle, l'entreprise doit: 1. faire partie d'un secteur déclaré en crise par le Gouvernement; 2. ne pas connaître des difficultés de nature structurelle; et 3. s'engager à ne licencier aucun salarié pour raisons économiques.
- **Chômage partiel de source structurelle:** Le régime du chômage partiel en cas de problèmes économiques structurels vise à soutenir les entreprises qui rencontrent des difficultés de nature structurelle. Durant les périodes de chômage structurel, les sociétés peuvent, le cas échéant, également licencier du personnel, pour autant que ces licenciements soient prévus dans leur plan de restructuration. Le chômage partiel de source structurelle permet en effet de compléter les mesures définies dans le plan de restructuration tout au long de sa durée.
- **Chômage partiel en cas de force majeure.**
- **Chômage partiel pour lien de dépendance économique:** Le régime du chômage partiel pour lien de dépendance économique vise les entreprises faisant face à des difficultés économiques suite à la perte d'un ou plusieurs de leurs principaux clients ou en raison des difficultés rencontrées par ces derniers. L'entreprise qui recourt au chômage partiel pour lien de dépendance économique s'engage à ne pas licencier de salariés pour raisons économiques. Le chômage partiel pour lien de dépendance économique ne peut pas compenser le manque de travail ou de commandes dû à des facteurs saisonniers.

Dans le cadre de ces 4 régimes, les entreprises peuvent profiter des périodes de chômage partiel pour former leur personnel.

### *Coverage*

Le chômage partiel n'est pas applicable aux apprentis, ni aux travailleurs intérimaires.

Le Comité de conjoncture évalue si un secteur donné est en crise lors de chaque demande de chômage partiel de source conjoncturelle. Après analyse du secteur d'activité, le Comité de conjoncture propose, le cas échéant, au Gouvernement de déclarer l'ensemble du secteur dont ressort l'entreprise comme secteur en crise. Ce n'est que suite à cette décision que l'entreprise pourra bénéficier du chômage partiel de source conjoncturelle. Toute entreprise du secteur qui remplit les pré-requis ci-dessous devient alors éligible.

Le régime de chômage partiel de source structurelle est destiné à toute entreprise qui se trouve face à des difficultés structurelles. Chaque entreprise devra établir, à la demande du Secrétariat du Comité de conjoncture, un plan de restructuration. Ce plan de restructuration doit comporter les engagements précis que l'entreprise prévoit de mettre en œuvre et ceci suivant un calendrier convenu.

### *Level of benefits*

This allowance is fixed at 80% of the regular gross hourly wage, but cannot exceed 250% of the minimum wage. L'entreprise reste redevable des charges sociales et des salaires se rapportant aux heures travaillées.

### *Duration*

En cas de chômage partiel de source conjoncturelle et de chômage partiel pour lien de dépendance économique, the allowance is payable for up to 6 months within a 12 month reference period.

Aucune période d'éligibilité n'est prévue en cas de chômage partiel de source structurelle étant entendu qu'il n'est pas possible de fixer arbitrairement des limites à la durée requise pour la résorption de problèmes structurels. L'entreprise doit, néanmoins, introduire une demande de renouvellement mensuellement.

### *Financing*

For each full-time employee, the allowance due in respect of the first 16 hours of lost working time per month has to be financed by the employer (first 8 hours in case of part-time worker). The state reimburses the employer the full cost of compensatory allowances paid to the employee for any hours lost in excess of this threshold.

### *Procedure*

La demande de chômage partiel est à introduire avant le 12<sup>e</sup> jour du mois précédant celui visé par la demande d'indemnisation pour raison de chômage partiel, auprès du secrétariat du Comité de Conjoncture au Ministère de l'Economie et du Commerce extérieur. La demande doit préciser les causes, les modalités et la durée prévisible de la réduction projetée de la durée de travail ainsi que le nombre de travailleurs touchés. La subvention est liquidée au vu d'une déclaration de créance mensuelle établie par l'employeur. Cette déclaration de créance est accompagnée des décomptes mensuels individuels signés par les travailleurs concernés par

le chômage partiel. La déclaration de créance est à introduire auprès de l'ADEM, sous peine de forclusion, dans les 2 mois suivant le mois de survenance du chômage partiel.

Le formulaire doit être accompagné des comptes annuels des trois dernières années, d'une attestation de paiement des cotisations de sécurité sociale, et doit être dûment signé par le chef d'entreprise et par un membre de la délégation du personnel. Si la société compte moins de 15 salariés ou si elle ne dispose pas d'une délégation du personnel, chaque salarié devra signer individuellement.

#### *Cumulability with other income*

No accumulation possible with other benefits or income from work. Si un salarié ayant droit à une aide au réemploi est mis au chômage partiel, les aides au réemploi sont suspendues jusqu'à la fin de la période de chômage.

#### **Recent changes**

Vu la situation économique, le Gouvernement a décidé de flexibiliser l'application du chômage partiel pour lien de dépendance économique pour les années 2009 et 2010. L'entreprise peut donc, au besoin, demander aux salariés de chômer plus de 50% des heures normales de travail par mois. Néanmoins, la moyenne des heures chômées sur un an par chaque salarié ne doit pas excéder 50 % par mois, sans pour autant qu'une compensation entre l'année 2009 et l'année 2010 ne soit possible. Grâce à ces dispositions, la permission de recourir aux dispositions de chômage partiel pour lien de dépendance économique peut être accordée pendant tous les mois des années 2009 et 2010.

L'entreprise qui a eu recours au chômage partiel pour lien de dépendance économique et dont un salarié aurait été placé en chômage partiel à 100 % pendant les 6 premiers mois sera considérée comme étant en chômage partiel de source conjoncturelle pour les 6 mois qui suivent. L'interdiction de licencier pour raison économique s'appliquera donc sur toute cette période, sous peine de devoir rembourser les indemnités touchées.

Exceptionnellement, en 2009 et 2010, l'Etat prend également en charge les 16 premières heures chômées dans le cadre du chômage partiel de source structurelle, à condition que l'entreprise ait conclu un plan de maintien dans l'emploi avec la délégation du personnel, homologué par le ministre du Travail et de l'Emploi. La durée maximale du chômage partiel de source conjoncturelle pour les années 2009 et 2010 est portée à 1038 heures par année (équivalent à environ 130 jours par année).

Afin de promouvoir la formation professionnelle continue dans les entreprises ayant recours aux différents régimes de chômage partiel, l'Etat a augmenté de 80 % à 90 % le remboursement des salaires normalement perçus par les salariés pendant les heures chômées si les salariés participent à des formations pendant ces heures, jusqu'à un plafond de 250 % de salaire social minimum.

### **Main characteristics of the system**

No such scheme existed in the Netherlands before the crisis. Short-time only applied in situations of temporary crisis caused by "force majeure", such as fire, flood, etc.

### **Recent changes**

As a reaction to the financial crisis, NL introduced a temporary reduced working time arrangement, which has been time-bound between 30 November 2008 and 21 March 2009. To be eligible for this scheme, companies had to be able to demonstrate, through the provision of an audit certificate, a fall in sales of 30% in 2 consecutive months and to meet a number of other obligations in respect of training, the continued payment of wages, and an obligation to retain the contract of employment with the employee until at least 4 weeks after the completion of the reduced working time arrangement. The scheme could be taken up initially for a 6 week period, which could then be extended 3 times for up to a total maximum of 24 weeks. For any hours lost, employees received 75% of their last earned wage during the first 2 months of the scheme and 70% of their last wage for any hours lost thereafter.

Starting from 1 April 2009, this scheme was replaced by a subsequent measure - the Partial Unemployment Benefits - to assist companies during the financial crisis and to prevent layoffs by providing employers with the option to reduce the working hours of their employees. This measure is in force until April 2010 (which means that any reduction of working hours must have been initiated before April 2010) and enables employers to reduce, once only, the working hours of employees by a maximum of 50%. The initial request for partial unemployment benefits can cover a period of 13 consecutive weeks (or 3 months). An extension of this period can be applied for twice and two extra periods of 26 weeks (6 months) of partial unemployment benefits can be granted. As a result, partial unemployment benefits can be used for a maximum of 65 weeks.

Unemployment benefits are granted to the employees by the Social Security Agency (*UWV Werkbedrijf*), to compensate for the loss of income for any hours not worked, as long as they qualify for such benefits under normal circumstances. During the period in which employees receive partial unemployment benefits, their accrued rights in relation to unemployment benefit are forfeited and they will not build up any new rights for the hours not worked. Since the employment relationship continues to exist during the period of partial unemployment benefits, the employees are not obliged to apply for other jobs or follow any reintegration path (which is usually required when receiving unemployment benefits). When an employee does not qualify for unemployment benefits, the employer is obliged to continue to pay the usual salary for these hours and must agree to this obligation in order to qualify for the measure.

Each company can participate in the scheme. Conditions attached to the use of partial unemployment include:

- The relevant employee representative body must have given its consent and the employer must have agreed with the trade unions or staff representatives, in writing, to continue payment of salaries if the employees do not have a right to employment benefit for hours not worked; this consent includes arrangements regarding temporary



training and secondment of employees during the time they receive partial unemployment benefit.

- Employers are obliged to offer employees taking part in the STW scheme training for time of the reduced hours. For each employee separately the employer has to present a training programme. If the employer is not able to prove it, the STW will end, just as the unemployment benefit for the employee. The employer has to pay the full wage.
- If the employer can not prove that the employee followed a training program or if the employer participates in fraud with respect to the number of working hours applied, the employer has to repay the PES for the unemployment benefits received by the employee for the period the employee took part in the STW scheme.
- The employer has to repay to costs of the STW scheme for the period of 13 weeks, if the employee is not placed min. 20% and max 50% of the working time under the STW scheme.
- If the employee has a claim to social security benefits after taking part in the STW scheme, the employer has to repay the benefits employees received while they are taking part in the STW scheme.
- The employer has to repay to the PES if the reduction in hours worked is larger than agreed at beforehand.
- In order to prevent employers from applying for the partial unemployment benefits if they do not intend to maintain their personnel in the long term, it is foreseen that if the employer dismisses the employee during the period of partial unemployment benefit, the employer forfeits a penalty to the Social Security Agency of half of the amount of the partial benefit paid by the Social Security Agency to the employee. This penalty also applies if the employer dismisses the employee within 3 months from receiving the partial unemployment benefit. Upon expiry of the period of receipt of partial benefit, the employee must in fact remain in the employer's full service for a period of at least one third of the length of the benefit period, to a minimum of 13 weeks. This obligation does not exist in cases of summary dismissal of the employee or if the termination of employment is initiated by the employee.

Since the 20th of July 2009 a new, more restricted version of "deeltijd WW" was established with a budget of 950 million Euros. In the new arrangement, employers can apply for a benefit amounting to a maximum of 50% of the working time of an employee but are only eligible if their working time is reduced by a minimum of 20% and planned to be so for at least 6 months, though this limit depends on the proportion of the workforce affected. The more employees are taking part in the STW scheme, the shorter the time period the employee is able to take part in the scheme. Applications covering more than 60% of the employees can request up to 9 months support and this increases to 12 months for 30% to 60% and 15 months when less than 30% are affected. Furthermore, the trainings obligation is adjusted. Employees that are taking part in the STW scheme are allowed to train trainees and employees who are employed shorter than one year, in their reduced working time, instead of taking part in training programme.

The Social Security Agency is responsible for determining whether an employer qualifies for the regulation. When applications for renewal come in, the Social Security Agency will

review how the requirements of training and seconding are being met. The government has budgeted EUR 375 million for the regulation. Should it turn out that employers largely misuse the regulation, it will be immediately ended.

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## **POLAND**

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### **Main characteristics of the system**

No such scheme existed before the crisis.

### **Recent changes**

The "Act on the alleviation of the impact of the economic crisis on employers" of 1<sup>st</sup> July 2009 introduced new labour market measures as of August 2009 to provide support for short-time working and temporary layoffs. In the event of an employer suffering temporary financial problems, working time of employees may be reduced by up to 50% of normal working time for a period of up to 6 months. Employers can then apply for temporary state assistance covering part of the employees' remuneration.

Employers can also implement a temporary shut-down for a maximum of 6 months. Employees who agree to this move can then receive a benefit equivalent to the minimum wage, partly financed by the employer and partly from public resources. Additionally, if the employer has an established training fund, workers affected by reduced working time or temporary shut-down may participate in training during this period. In this case, the employer can receive a reimbursement of part of the training costs and a part of employees' remuneration in a form of a scholarship.

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## **PORTUGAL: SHORT-TIME WORKING AND SUSPENSION OF EMPLOYMENT CONTRACT**

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### **Main characteristics of the system**

#### *Definition and eligibility conditions*

In Portugal workers and employers are allowed to temporarily reduce working time or suspend the employment relationship, due to business-cycle related economic and technological reasons or because of nature disaster which hit the enterprise.

When an enterprise is undergoing economic problems the employer may, as an exceptional measure, reduce employees' normal working hours temporarily, to give the enterprise an opportunity to recover. Short-time working may be introduced under circumstances which make it essential in order to ensure the survival of the enterprise and to preserve jobs<sup>36</sup>. It may take the form of working either fewer days per week or a shorter working day. Employees who have been put on short-time have the same rights as those who are temporarily laid off.

Employers may also suspend the contracts of some of their employees when "cyclical market circumstances, economic or technological reasons, or disasters or other occurrences which have seriously affected the enterprise's normal activity" make such a measure essential in

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<sup>36</sup> Article 5(1) of the 1983 Suspension of the Employment Contract Act and Law n. 7/2009 of 12 February 2009, amending the Labour Code

order to ensure the viability of the enterprise and to preserve jobs. It is not necessarily an actual instance of the material impossibility of fulfilling the work performance, since the enterprise may continue to operate. If this is the case, only some employees will be laid off. Layoff may be resorted to as an alternative to short-time working only when the adoption of short-time working is inappropriate or insufficient to ensure the viability of the enterprise.

#### *Duration*

The duration of short-time working must not exceed 6 months in case of market, structural or conjectural motives or technological reasons. In case of catastrophes this scheme can be adopted for 1 year.

The suspension of work may last up to 12 months but can be extended for a further 6 months.

#### *Level of benefits*

Workers maintain a link with the company and receive a wage compensation equivalent to 2/3 of their normal wage, within the limit of between one and three times the national minimum wage (450 € in 2009). In addition, during temporary layoff employees are entitled to defined layoff pay and retain all non-pay benefits and social security allowances.

All social benefits and social contributions are calculated as in case of normal pay, except for sickness. In this case the compensation is paid, but not the normal sickness benefit.

#### *Financing*

The wage compensation paid to each worker is covered 30% by the employer and 70% by the Social Security Budget. If during short-time work the employees are included in a vocational training programme approved by employment authorities, the amount of compensation supported by employers during the programme is 15%.

#### *Cumulability*

No accumulation is possible with sickness, maternity or paternity and adoption benefits, and with invalidity and old-age pensions.

#### *Procedure*<sup>37</sup>

The employer provides the appropriate employee representative body with detailed proposals and reasons. If agreement cannot be reached, the employer may lay employees off unilaterally. The employees, employee representatives and the Ministry of Employment are notified. After the initial communication from the company, the employer has got 5 days for information and negotiation with workers' representatives and 10 days to notify the workers about the scheme to be adopted (reduction/suspension), reasons and term. It has got further 10 days after the notification above to initiate the period of reduction /suspension.

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<sup>37</sup> Temporary layoff was originally made subject to a complicated procedure which discouraged its use. In 1989 this procedure was greatly simplified, the most notable change being the removal of the need to obtain official authorization.

While employees are laid off, those rights and obligations of the parties which do not presuppose the actual performance of work continue unchanged. During temporary layoff employees may engage in gainful employment elsewhere (the value of any such earnings in another enterprise is added to their layoff pay for the purposes of determining its minimum and maximum values). The obligations on the employer are to ensure prompt payment of layoff pay and social security contributions in respect of the pay actually received by employees on layoff, and not to distribute profits, increase the pay of the enterprise's management bodies, or hire any new employees or renew any fixed-term contracts in cases where the jobs concerned can be filled by the employees on layoff.

These special provisions for temporary layoff do not apply to those instances of the closure of an enterprise or establishment where the suspension of employees' contracts cannot be conceived as a measure which is "essential in order to ensure the viability of the enterprise and to preserve jobs". In all such instances, their suspension is the direct result of the closure itself, insofar as it gives rise to the supervening and temporary impossibility of their performing work. A further distinction must be made between instances of this latter type where the closure is due to a circumstance imputable to the employer or reasons connected with his or her interests, and those where it is due to a chance event or *force majeure*.

### **Recent changes**

The Qualification-Employment Programme offers training opportunities, for up to six months, for workers of firms facing an exceptionally sharp fall in demand, limited to 2009 and 2010. More tailor-made measures apply for some specific sectors (e.g., car industry, and, for 2010, also for clothing and textile, furniture, retail and tourism).

The Programme includes the placing of workers into qualified training during periods of temporary reduction in normal work or a suspension of employment contracts. Vocational training should be undertaken during working hours and in correspondence with the normal working period, or the remainder of the normal period of work in the case of a reduction in activity. The measure is designed for businesses who can demonstrate adequate solvency ratios, financial autonomy, and a strong competitive position in the markets where they are operating, and that, for reasons of cyclically reduced demand, need to temporarily introduce a reduction in normal working periods or the suspension of employment contracts to ensure its viability and the maintenance of jobs.

The financial support corresponds to:

- 85% of the wage compensation payment as set out in the Labour Code, during the training period;
- Possible payment of incentives for a qualification, up to maximum 1/3 of the normal gross compensation of the worker.

The financial support applies to maximum 20% of the workers of the enterprise, calculated as the level of production or the equivalent in number of production hours. To access this support, the enterprise must:

- Demonstrate adequate solvency ratios and financial autonomy in the two years before application;
- Demonstrate economic viability;

- Demonstrate a regular situation to the tax and social security administration;
- Not have initiated proceedings of collective dismissals since the approval of the Initiative for Investment and Employment or previous date;
- Demonstrate and quantify the potential excess of working capacity and demonstrate that it is based on cyclical effects of reduced demand;
- Submit a training plan, designed to improve the qualifications of workers;
- Not have initiated proceedings of temporary reduction of the normal working period or suspension of employment contracts, except when expressly set out in the Specific Regulation of the applicable programme.

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## **ROMANIA: TECHNICAL UNEMPLOYMENT**

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### **Main characteristics of the system**

According to the Labour Code (Art. 52, para. 1, let. d), the employment contract may be suspended on the employer's initiative in case of temporary break in activity, without termination of the work relation, especially for economic, technological, structural or similar reasons. During the temporary break in activity, the employees benefit from an indemnity, paid from the wage fund that shall not be less than 75% of the basic wage corresponding to the workplace. During the temporary break in activity, the employees shall be at the disposal of the employer, who can order the activity to be resumed at any time.

### **Recent changes**

In order to counter the effects of the economic downturn on the labour market the Romanian Government introduced in the second quarter of 2009 an exemption for a period of up to three months of the payment of social security contributions payable by both employers and employees during temporary interruption of the activity (so-called "technical unemployment"). This recovery measure appears to have helped companies avoid massive lay-offs (between April-September 2009 over 2000 companies benefited from this facility for over 117.000 workers). In light of this, the exemption of social security contributions in cases of technical unemployment has been prolonged until end 2010.

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## SLOVAKIA

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### **Main characteristics of the system**

No such scheme existed before the crisis.

### **Recent changes**

In Slovakia, the temporary measure “Contribution to support maintenance of employment” provides support to employers facing a temporary reduction in workload and with a justifiable reason to retain employees. Following approval of the Labour Office, employers that reduce normal weekly working hours of their employees and continue to pay compensations at above 60% of the original wage, receive financial support corresponding to the social security contributions paid by the employer and the employee for hours not worked up to 339 €/month for maximum 60 days in the calendar year. This temporary measure is effective from March 2009 to December 2010, with a budgetary impact of 0.04% of GDP.

For a transition period going from 1 March 2009 to 31 December 2012, a so-called institute of “flexi-account” has been also put in place, where if for serious operational reasons the employee cannot carry out work, the employer, upon agreement with the trade union organisation, may give the employee time off for which the employee is entitled to a wage at an amount of at least the basic wage, as agreed either in the collective agreement or in the contract of employment. Once the obstructions to work cease on the part of the employer, the employee is obliged to work extra hours for the time off that was provided without claiming the wage as that had been provided when he was off work. When the employee works extra for the leave hence provided, it shall not involve overtime work. The law does not specify any maximum period for the time off that an employer may provide to an employee. The employer is imposed the duty to keep records of the time off for which the wage has been paid and also of the hours of work during which the employee works extra for the time off work.

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## SLOVENIA

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### **Main characteristics of the system**

No such scheme existed before the crisis.

### **Recent changes**

In Slovenia, two new temporary measures have been introduced in order to support workers affected by short-time working arrangements and temporary lay-offs: the “Law on partial subsidising of full-time jobs” and the “Law on partial refunding of wage compensation for temporarily laid-off workers”.

Subsidy scheme for reduced working hours: The purpose of the scheme is to keep employees in employment in conditions of constrained demand. The scheme is available to employers who reduce working time of their employees from 40 hours per week to 32-36 hours, provided that during the period of receiving the subsidy they do not make employees redundant due to business reasons, continue to pay salaries and social security contributions, do not request overtime work and do not pay out management bonuses. The subsidy is paid

for a maximum of 6 months, with the possibility of prolonging it, upon formal request, for up to further 6 months. Employers can submit a maximum of two applications: one for assistance in subsidising the salaries of employees whose full-time work has been set at 36 hours per week, i.e. the minimum amount of hours regarded as full-time employment (this is a subsidy of 60 € per employee per month); and a request for an additional subsidy of 60 € per month per employee, following agreement with trade unions, if a period of shortened working time of no less than 32 hours per week has been instituted. Should an employer breach the terms or fail to pay the social security benefits which are being subsidised, it will have to return the funds provided in full or in the appropriate amount. The entire process is managed by the Employment Service. As the deadline for application is set at 31 March 2010, the measure should expire on 31 March 2011. Its total cost over 2009 and 2010 is budgeted at € 85 million (0.2% of GDP).

Subsidy scheme for employees on temporarily forced leave: The scheme can complement the subsidy scheme for reduced working hours, as the same employer can participate in both. This scheme is intended to maintain the employment relationship between employers and employees in the event of temporary redundancy, by subsidising part of the income loss suffered by the employees on forced leave and by financing their vocational training. Employers in economic hardship during the crisis and who are temporarily not able to provide work to up to 50% of their employees are entitled to the scheme, again provided that they do not lay-off employees, do not pay out bonuses and do not request overtime work and upon submission of an appropriate training programme. At least 20% of lost working time should be devoted to training. Affected employees may receive wage compensation amounting to 85% of their base wage (last three months-average gross wage) from their employer. The company is refunded 50% of the affected employee's base wage up to a maximum of 805 €. The subsidy can be paid for a maximum of 6 months, which can be prolonged by up to further 6 months upon request. The law sets both the deadline for submitting applications, at 31 March 2010, and the law's expiry date, at 31 March 2011. The total cost of this measure over 2009-2010 is budgeted at € 67 million (0.2% of GDP).

In addition, reimbursements of training costs up to a maximum of 500 € per worker may also be paid to employers in the case of temporary lay-offs. For 2009/10, the Ministry of Labour has dedicated 4 million € for the training and education of employees within micro and small businesses, as well as within businesses with subsidised employment. In addition, 8 million € have been set aside to provide training and education for low-skilled employees within businesses with subsidised employment.

## **Main characteristics of the system**

### *Definition and eligibility conditions*

In Spain, partial unemployment benefits, financed by social security funds, have been provided since 1980 with the aim of compensating for partial losses of earnings and to maintain employment for workers who might otherwise be dismissed. Enterprises experiencing grave economic difficulties of an exceptional nature as a result of economic, technological, organisational or production-related circumstances, or due to a temporary force majeure, may temporarily suspend the employment contracts of the entire workforce or a part of it, or temporarily reduce the normal working hours by one third after having submitted a petition for employment regulation.

The reduction on a temporary basis of ordinary working time because of economic difficulties, *force majeure* or decreased output, known as *jornada reducida*, is authorised during the duration of a redundancy plan. The worker's ordinary working day must be temporarily reduced by at least 1/3, provided there is a proportional reduction in wages. The scheme does not entail a definitive reduction in working time and does not extend to the remaining period of the full duration of the labour contract. In order to be eligible for benefits, workers are required to be affiliated with the social security system or an equivalent scheme which insures against unemployment and to have paid contributions for a period of at least 360 days during the six years preceding unemployment upon the commencement of unemployment or on the date on which the obligation to pay contributions expired.

### *Level and duration of benefits*

During the period of temporary suspension or short-time working, the worker receives unemployment benefits, normally calculated as for total unemployment but in proportion to the reduction in working time. The benefit may under no circumstances be less than 75% or more than 220% of the national inter-professional minimum wage applicable when eligibility to compensation begins and may be paid out for a maximum period of 2 years.

### *Financing*

Partial unemployment benefit is financed by social security funds. The employer is obliged to pay contributions to social security also for inactive periods of work. The National Employment Institute pays contributions to the pension scheme for hours non-worked. The National Employment Institute and employer pay the sickness insurance, in proportion with their part of the benefit/salary. Employer and workers continue to pay contributions to unemployment insurance only upon wage for hours worked. Reimbursement of social security contributions is foreseen for employers (100%) and employees (35%) in accordance with regulations governing total unemployment.

### *Cumulability with other benefits*

The same rules apply as per total unemployment benefits.



## *Procedure*

Under Spanish law the procedure for temporary suspension of work contracts or work time reduction due to economic reasons is, except for little variations, the same as for mass dismissals, thus subject to a formal procedure requiring the consent of workers' representative.

The employer must open a 15 days discussion and consultation with the workers' representatives. Notification to workers' representatives is only necessary when STW concerns more than 10% of the workforce. After the consultation period the employer should notify his decision to workers within 30 days. If workers do not agree with such decision, they could appeal to labour court. The order and priority for short-time working must be established in agreement with the workers.

Entitlement to benefit for partial unemployment is dependent upon decision by the labour administration within the framework of a redundancy plan.

## **Recent changes**

Changes have been introduced in the regulation of the Collective Dismissal Procedure in order to facilitate temporary suspensions instead of definitive lay offs. A worker affected by a temporary suspension will not suffer from any loss in unemployment benefits rights. Also, 50% bonus has been decided in the social security payments in case of temporary suspension (under some conditions). These measures are part of the 6 March 2009 package on labour market measures for sustaining employment and protecting the unemployed and apply only until 31 December 2009.

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## **UNITED KINGDOM**

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### **Main characteristics of the system**

#### *Definition and eligibility conditions*

In UK, "short time working" is any period in which, for a temporary duration, an employee's hours of work have been reduced to a level where they are taking home less than half their normal wage. "Layoff" means that for a temporary period the employer does not have sufficient work to justify requiring employees to come in to work. In order to count for entitlement to a guarantee payment, layoff must be for complete days, as any work, even work done outside normal working hours, would mean that the employee was not actually laid off on that day.<sup>38</sup> In principle, no categories of employees are specifically excluded from being put onto short-time working.

A person who is laid off or kept on short-time is treated as available for work and actively seeking work and thus eligible to receive contributions-based Jobseeker's Allowance (JSA) for up to 13 weeks, provided that: (i) he is willing and able to take up his old employment immediately and (ii) he is available to take up casual employment and (iii) does what is reasonable to give him the best prospects of gaining such employment. To be entitled to

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<sup>38</sup> Statutory provisions relating to short-time work are to be found in Part II, Part III and Part XI, Chapter III of the Employment Rights Act 1996.

income-based hardship JSA a claimant must be in a vulnerable group, e.g. couples looking after children, pregnant women, people with disabilities or there must be doubt as to whether the qualifying conditions for JSA are met and, in either case, there is evidence of hardship.

In principle, no categories of employees are specifically excluded from being put onto short-time working. A person who has at least one month's continuous service (or, where his/her current contract is for three months or less, three months' service), who is normally required to work at least part of the day in question and is not be provided with work by employer throughout the day in question, is entitled to statutory guarantee pay. The right to a guarantee payment is lost where the failure to provide work is because of a strike, lockout or other industrial action involving his employer or an associated employer; where the employee has unreasonably refused an offer of suitable alternative work; where the employee has failed to comply with reasonable requirements imposed by the employer with a view to ensuring his services are available.

#### *Level of benefits*

Under the Employment Rights Act 1996 (Part III) there is an obligation on employers to pay a statutory guarantee payment in respect of a "workless day". Under the Jobseeker's Act 1995, there is provision for reduced rate Jobseeker's Allowance in cases of hardship.

The statutory guarantee payment is calculated by taking the employee's guaranteed hourly rate (a week's pay divided by normal weekly hours) and multiplying by the normal hours on the day in question. Where normal weekly hours differ a twelve-week average is taken.

The maximum amount of statutory guarantee payment is £21.50 per day. Any contractual remuneration paid is set off against this sum. Apart from the single claimant's Jobseeker's Allowance and the hardship JSA under the income-based scheme, no additional allowances according to family status can be granted in the case of statutory guarantee payment. Income-based Jobseeker's Allowance varies according to family status and assessed need.

An employee who is laid off or kept on short-time may not earn enough in a week to come above the lower earnings limit for the payment of NIC. The week will therefore not count as a week of contribution unless the employee is eligible for a social security benefit and is therefore credited with a contribution in respect of that week.

#### *Duration*

There is no legal maximum duration of short-time working, though the employee can resign and claim a redundancy payment after four continuous weeks or six in thirteen.

The maximum duration of payment of statutory guarantee pay is five workless days in any three month period. Any day in respect of which the employee receives contractual remuneration counts against the statutory maximum. Contributions-based Jobseeker's Allowance is payable for 13 weeks to those laid-off or kept on short-time. Hardship-based JSA is paid until an Adjudication Officer determines entitlement to full JSA.

### *Financing*

Statutory guarantee payments are paid by the employer. Jobseeker's Allowance is funded by NIC and general taxation.

### *Procedure*

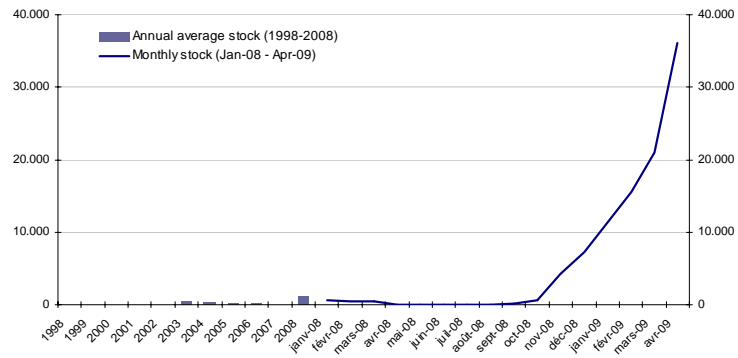
It is for an employer to decide whether or not there should be short-time working. There must, however, be agreement before an employer can reduce normal pay. Where no written contractual provision exists, the prior agreement of individual employees to the reduction of their pay should be obtained in writing. Where the employer adheres to the Guarantee of Employment for Hourly-rated Manual Workers Agreement between the EEF and the Confederation of Shipbuilding and Engineering Unions - which provides that hourly-paid manual workers are guaranteed earnings equal to the agreed national minimum time rate for 39 hours - the employer may reduce the guarantee where short-time working is introduced as an alternative to redundancy, but only if that is agreed by the trade union or by the individual employee.

There are no legal requirements concerning notification before short-time working is introduced. Where short-time working is introduced under the provisions of the EEF Guarantee of Employment for Hourly-rated Manual Workers Agreement, the consent of the union is required if the guarantee is to be reduced. There are no legal requirements for notice or waiting days. For contributions-based JSA, three waiting days apply. If a person is in a vulnerable group, there are no waiting days for hardship JSA; otherwise there is a waiting period of two weeks for hardship JSA.

### **Recent changes**

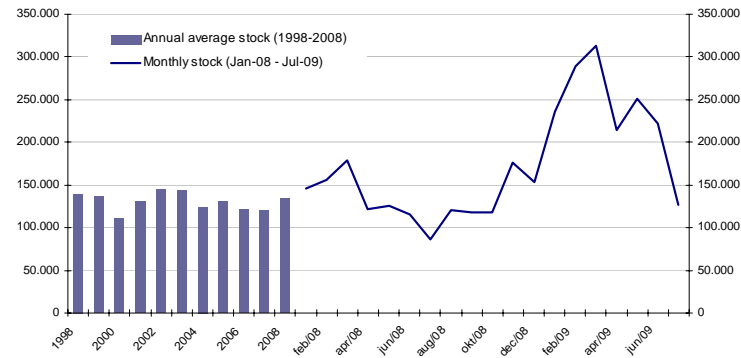
No recent changes.

Graph 1 - Austria: Recipients of short-time working allowance



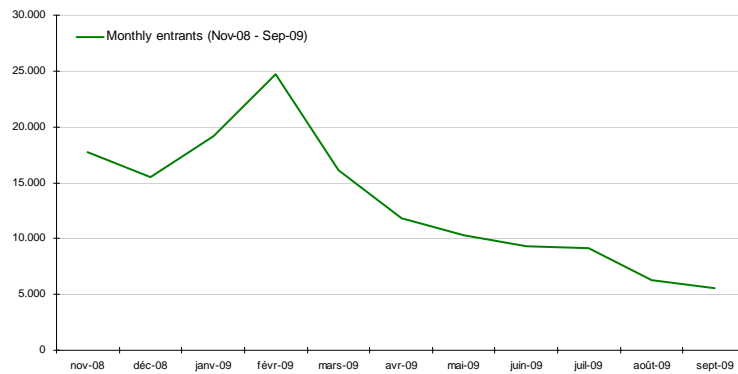
Source: Eurostat, LMP database; BMWA

Graph 2 - Belgium : Recipients of partial unemployment benefits



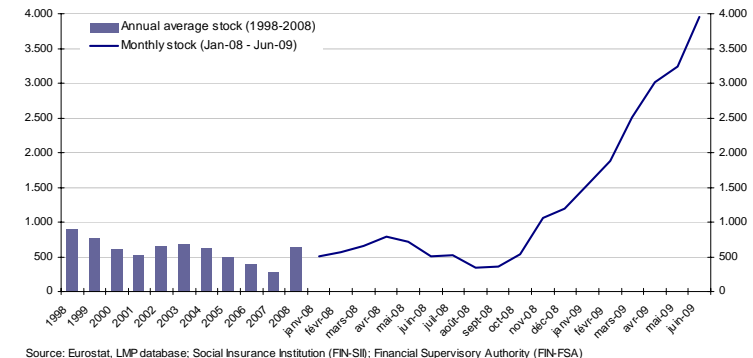
Source: Eurostat, LMP database; Federal Public Service: Employment, Labour and Social Dialogue

Graph 3 - The Czech Republic: Number of entrants for the temporary provision of a wage supplement in the case of reduced working hours



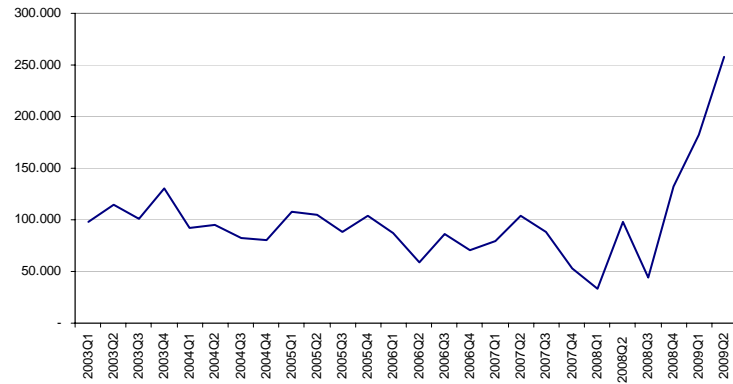
Source: MPSV, Ministry of labour and social affairs, The Czech Republic

Graph 4 - Finland: Recipients of adjusted unemployment allowances as partial unemployment benefit



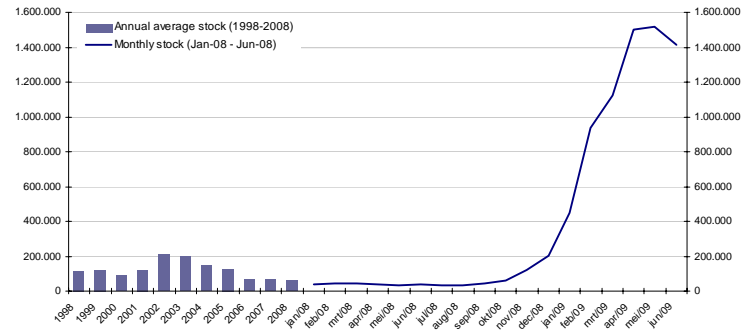
Source: Eurostat, LMP database; Social Insurance Institution (FIN-SII); Financial Supervisory Authority (FIN-FSA)

Graph 5 - France: Persons in short-time working arrangements: temporary lay-off or partial unemployment



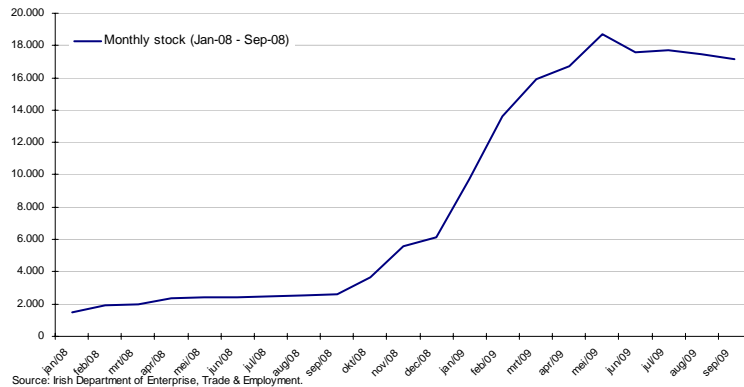
Source : Insee, enquête Emploi

Graph 6 - Germany: Recipients of short-time working allowance



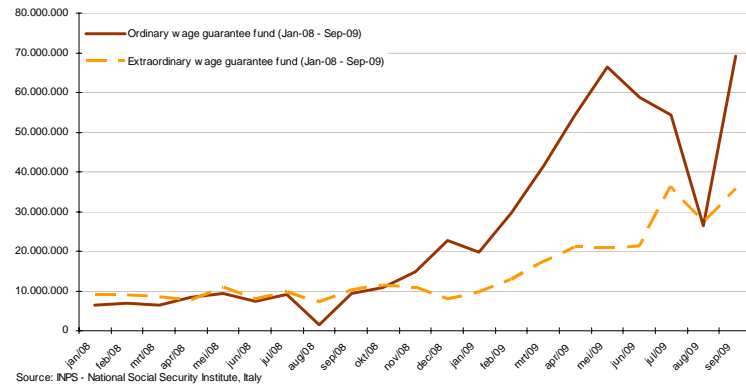
Source: Eurostat, LMP database; BA

Graph 7 - Ireland : Recipients of unemployment allowance under systematic short time working



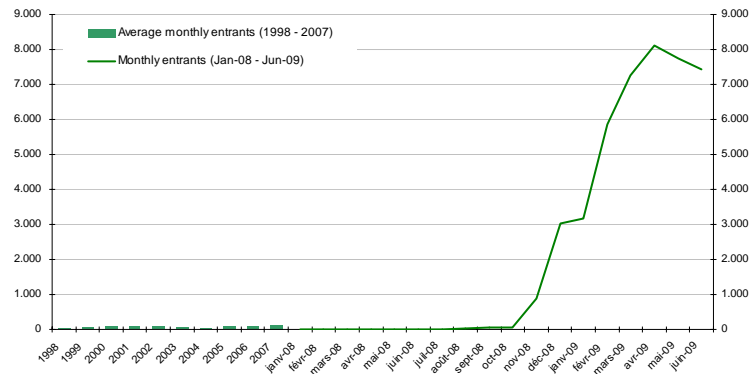
Source: Irish Department of Enterprise, Trade & Employment

Graph 8 - Italy: Reduced working hours authorized and covered by partial unemployment schemes

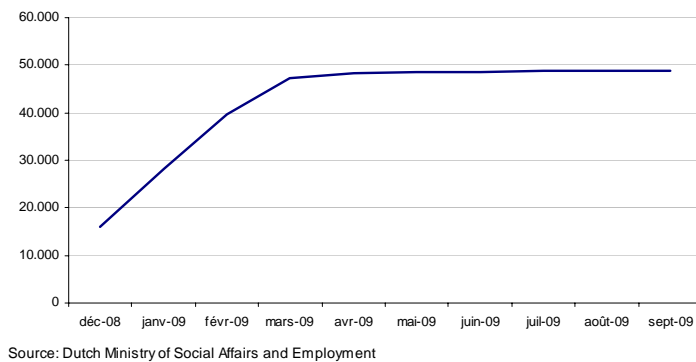


Source: ISTAT - National Social Security Institute, Italy

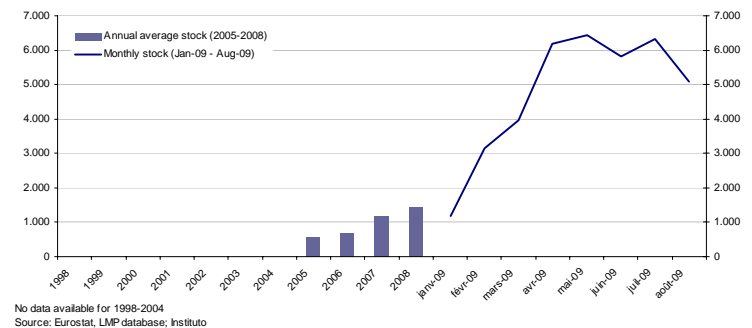
Graph 9 - Luxembourg: Entrants of partial unemployment benefits scheme



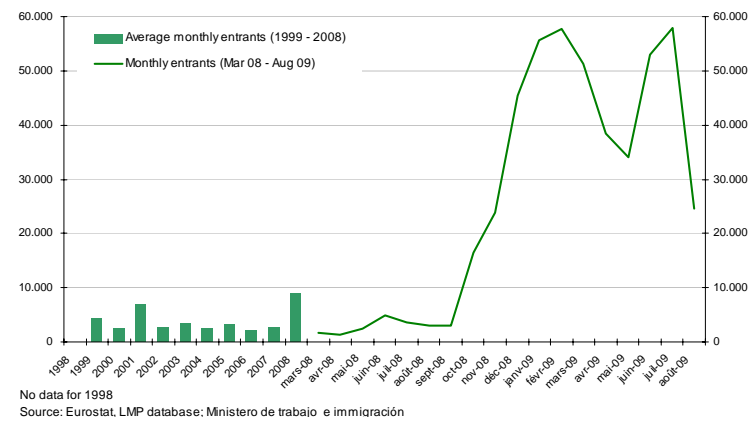
Graph 10 - The Netherlands: Cumulative number of recipients of temporarily reduced working time benefits,



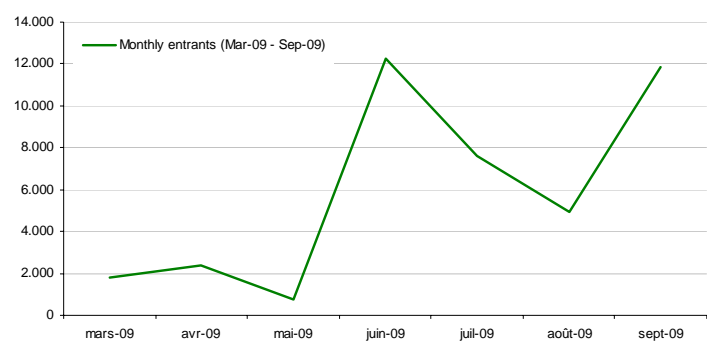
Graph 11 - Portugal: Recipients of short-time working allowances,



Graph 12 - Spain: New recipients of partial unemployment benefits



Graph 13- Slovakia: Number of entrants of "Contribution for support maintenance of employment"



Preliminary data

Source: The Centre of Labour, Social Affairs and Family, Slovakia