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**Flexible Adjustment through Short-time work:
A Comparison of France, Germany, Italy and Spain***

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Abstract

Short-time work is a principal form of flexible workforce adjustment in which declines in labour demand are compensated by temporary reductions in working time as an alternative to dismissals. Although enterprises may elect such a strategy even in the absence of a programme, public short-time work schemes provide a strong additional incentive. Most European countries have explicit schemes to promote this form of work sharing.

This paper compares short-time work programs and patterns and trends in short time working in France, Germany and Italy. The goals of the short-time work schemes in the three countries examined are broadly similar: to stabilize employment and to avoid or minimize dismissals during temporary economic downturns through reductions in working time and to assist firms in economic difficulty. Although France, Germany and Italy all have short-time work schemes, both the level and pattern of use of short-time working differ, in some cases markedly.

This paper examines incentives for work sharing, patterns of uptake of short-time work, and the use of short-time work for structural intervention in France, Germany, Italy, and Spain. Chapter 1 discusses various factors influencing the use of short-time work in labour force adjustment. The following chapters compare the characteristics of short-time work schemes (2); analyze similarities and differences in the level and structure of short-time work (3); and examine recent experience with short-time work as an instrument of structural adjustment (4). The principal conclusions are summarized in Chapter 5. .

Analysis of estimated full-time equivalents shows the highest incidence of short-time work in Italy and Spain, followed by Germany and France. This pattern is the product not only of the relative generosity of short-time schemes but of a variety of other institutional factors such as employment protection, flexibility options, and labour representation. Short-time work is highly concentrated in industry and disproportionately in larger enterprises in all four countries. This pattern of uptake is not a consequence of restrictions on eligibility in short-time programme regulations but is rooted in differences between industry and the service sector and between large and small firms in markets and adjustment style .

Originally introduced with the goal of maintaining employment in enterprises experiencing temporary difficulties, short-time work is increasingly used as an accompanying measure in enterprises undergoing structural change. This use of the instrument is strongest in Italy and Spain but has also been widely practiced in Germany since the mid-1970s. While temporary or cyclical use represents an efficient co-ordination mechanism of labour market policy, prolonged use of short-time work in structural adjustment is problematical. The same goals could be better achieved through other labour market measures.

Zusammenfassung

Kurzarbeit als Form flexibler Arbeitskräfteanpassung zielt darauf, durch eine befristete Verkürzung der Arbeitszeit als Alternative zu Entlassungen einen Rückgang der Nachfrage nach Arbeitskräften zu kompensieren. Öffentliche (geförderte) Kurzarbeits-Programme stellen für Unternehmen bei der Wahl einer solchen Strategie einen hohen zusätzlichen Anreiz dar. Sie existieren in den meisten Mitgliedstaaten der Europäischen Union.

Diese Studie untersucht sowohl die Anreize für „worksharing“, der Umverteilung eines geschrumpften Arbeitsvolumens auf die gleiche Anzahl von Mitarbeitern/innen, als auch die Muster von Kurzarbeit und deren Einsatz für strukturelle Interventionen. Sie vergleicht den Einsatz dieser arbeitsmarktpolitischen Instrumente in Frankreich, Deutschland, Italien und Spanien.

In Kapitel eins werden die Determinanten und Anreize für den Einsatz von „worksharing“ als Arbeitskräfteanpassung diskutiert. Kapitel zwei charakterisiert und vergleicht die Ausprägungen von Kurzarbeitsprogrammen. Kapitel drei analysiert den Einsatz von Kurzarbeit auf der Basis nationaler Programm- daten im Hinblick auf Unterschiede und Gemeinsamkeiten. Kapitel vier untersucht jüngste Erfahrungen beim Einsatz von Kurzarbeit als arbeitsmarktpolitisches Instrument im Strukturwandel. Kapitel fünf faßt die grundlegenden Schlußfolgerungen zusammen.

Die Analyse der geschätzten Vollzeitäquivalente von Kurzarbeit zeigt den höchsten Einsatz von Kurzarbeit in Italien und Spanien, gefolgt von Deutschland und Frankreich. Diese unterschiedliche Inanspruchnahme der Programme hängt nicht nur von der jeweiligen Ausgestaltung ab, sondern wird zusätzlich in starkem Maße vom jeweiligen institutionellen Kontext beeinflusst: So spielen neben der Stärke des Kündigungsschutzes z.B. auch das Arbeitslosenversicherungssystem, das System der industriellen Beziehungen und Arbeitszeitvorschriften eine wesentliche Rolle.

Kurzarbeit konzentriert sich in allen vier Ländern auf den industriellen Sektor und auf große Unternehmen. Dies erklärt sich weniger durch die Programme selbst, sondern wurzelt in komplexen Unterschieden von Märkten und Anpassungsstilen. Ursprünglich als eine beschäftigungssichernde Maßnahme für Unternehmen mit zeitweiligen Personalüberhang aufgrund einer Rezession eingeführt, wird Kurzarbeit heute zunehmend auch als innerbetriebliche Flexibilisierungsmöglichkeit zur Bewältigung des strukturellen Wandels genutzt. In dieser Art wird Kurzarbeit vor allem in Italien und Spanien eingesetzt, in Deutschland geschieht dies seit Mitte der siebziger Jahre.

Der temporäre oder zyklische Einsatz von Kurzarbeit stellt einen effizienten Koordinationsmechanismus der Arbeitsmarktpolitik dar. Ihr längerfristiger Einsatz dagegen als Instrument zur strukturellen Anpassung ist als problematisch anzusehen. Diese Ziele können durch andere Maßnahmen besser erreicht werden.

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Flexible Adjustment through Short-time Work: A Comparison of France, Germany, Italy, and Spain¹

1. Short-time Work in Labour Force Adjustment

Short-time work enables management to quickly adjust labour inputs and costs to changed business conditions by reducing working time for the existing workforce rather than resorting to forced redundancies. This form of work sharing, i.e., a temporary reduction in working time to avoid dismissals, is, however, only one strategy among many that firms may pursue in adjusting their labour force; whether firms make use of it depends on regulatory and institutional factors that determine its relative attractiveness.

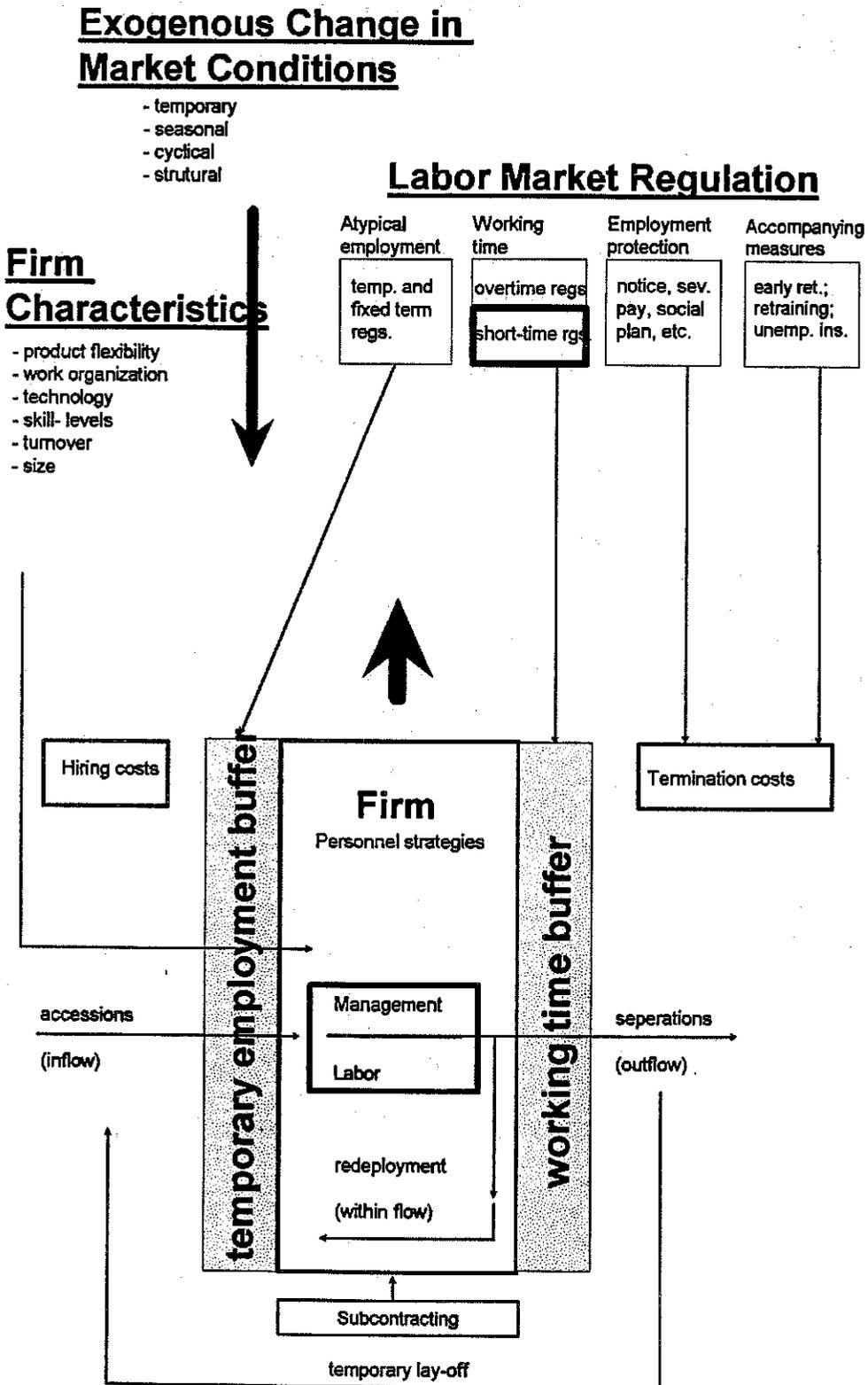
The principal determinants of utilization of short-time work in a given national setting can be summarized in a simple model (Figure 1). They are: I) The type and magnitude of changes in the economic environment that give rise to the adjustment situation; II) The characteristics of short-time work programmes themselves; III) The labour market regulatory framework; IV) The industrial relations environment; V) Firm characteristics. As the model suggests, the incentives for employers and employees to utilize short-time work are strongly dependent not only on economic conditions but on the characteristics of national short-time work schemes, the institutional context, and the availability of functional equivalents.

I. Economic circumstances. The most important determinant of short-time work is fluctuation in economic output: short-time work is an adjustment strategy for periods of economic downturn. The incentives for the utilization of Short-time work for employers differ depending on whether a temporary or permanent decline in labour demand is anticipated. In the former case it allows employers to retain qualified and experienced workers and avoid firing and subsequent hiring costs, especially during cyclical downturns.²

¹ Roberto Goldin conducted field interviews in Italy and drafted an Italian case study (Goldin 1995), on which this report is based. The authors would like to thank Silke Bothfeld and Robyn Wiesener for their assistance throughout the project.

² Recruitment costs are higher for more skilled personnel and training costs higher for workers with firm-specific qualifications, which are not readily available on the external labour market. In tight labour markets the incentives for labour hoarding are correspondingly greater.

Fig. 1. Short-Time Work in Labor Force Adjustment



In the case of a permanent decline in labour requirements the incentives for employers to resort to work sharing are less evident. Rehiring costs will no longer play any role and termination costs must be incurred in any case for firms experiencing structural decline. Moreover, the extended use of short-time work may entail opportunity costs for firms by prolonging the restructuring process.

One possible incentive for firms is that short-time work may reduce termination costs by stretching the workforce reductions over a longer period, thus, allowing more time for natural fluctuation (retirements, quits etc.).³ Employment protection regulations in many countries may even require that firms make use of short-time work as well as other soft modes of adjustment before resorting to redundancies.

II. Short-time work programmes. Since short-time work is only one option for employers in adjustment situations, its attractiveness depends on the existence of a public scheme and the actual reduction in labour costs realized by employers through use of the scheme. Although enterprises may elect such a strategy even in the absence of a public programme, public short-time work schemes provide a strong incentive for work sharing in adjustment situations. The short-time scheme subsidy depends *inter alia* on the duration of short-time benefits, the extent to which employers are required to share in the financing of short-time benefits and their liability for social security contributions for employees on short time.⁴

Most European countries have explicit schemes to promote temporary reductions in working time as an alternative to lay-offs. Normally employees on short-time receive a wage-replacement benefit for hours not worked, usually paid through the unemployment insurance system. Within the European Union Austria, Belgium, France, Germany, Italy, Portugal, Spain have special labour market programmes to promote temporary reductions in working time as an alternative to dismissals. In other countries more limited assistance is available in the form of temporary lay-offs or partial benefits under unemployment insurance (Denmark, Ireland, Luxembourg, Netherlands, Sweden, UK). 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).

III. Regulatory framework. The labour market regulatory framework is of particular importance in explaining the incentives for enterprises to utilize short-

³ For example, short-time benefits may be used to reduce labour costs during mandatory notice periods.

⁴ Features such as flexibility in application procedures or in the selection of personnel are also of importance (Vroman 1992).

time work. Among the principal institutional and regulatory factors are 1) **employment protection** regulations; (2) **other flexibility options**, especially the amount of flexibility permitted in varying working time in response to the firm's labour needs; and regulations pertaining to temporary or other forms of atypical employment, and temporary lay-offs.

Employment protection limits external adjustment in the form of "hiring and firing" by imposing constraints and costs on terminations. Firing costs typically include the costs of notice periods, severance payments, early retirement provisions and other elements of the "social plans" which are customary or required in all EU-states. Statutory requirements are as a rule also augmented by collective agreements and the personnel policies of enterprises. The greater the constraints and costs imposed by employment protection on dismissals, the more attractive (or indispensable) is a short-time work for firms, which in effect relieves firms of part of their contractual liability for wages. The level of these costs are highly specific to the national institutional setting (Mosley 1994).

Flexibility options. Although employment protection regulations impose constraints (and costs) on external adjustment (and hence an incentive for avoiding involuntary terminations), other aspects of the regulatory framework may provide alternatives to or functional equivalents for short-time work, enabling firms to combine flexibility in response to market contingencies with avoidance of excessive turnover costs:⁵

- **Temporary layoffs.** In some countries 'short-time' as a response to declines in labour demand may take the form of temporary layoffs financed through unemployment insurance with subsequent recall of the affected employees. This is particularly likely in countries with a low level of regulation of employment contracts (e.g. the US, UK and Ireland), in which the costs of redundancies to employers may be relatively low.
- **Flexible working time** regimes enable enterprises to allocate contractual working time in response to temporary, seasonal, and - to a more limited extent - cyclical fluctuation in labour demand over a longer balancing period (typically up to a year) while minimizing resort to short-time work.
- **Overtime** is relevant to patterns of downward adjustment since it may also be part of a lean personnel strategy over the business cycle in which overtime is preferred to new hires during periods of expansion as a buffer to minimize involuntary separations among the core workforce during downturns.
- **Temporary employment**, where permitted, may be - from the perspective of the firm - a functional equivalent. In a temporary employment strategy

⁵ There are other important flexibility options that transcend the domain of personnel policy that is our focus here. For example, outsourcing and other forms of subcontracting and, in the goods producing sector, order backlogs and stockpiling.

firms achieve flexibility through segmentation in the internal labour market. Although a core labour force may enjoy a high degree of security in employment, the burden of economic contingencies is borne by fixed-term and other temporary employees.

IV. Industrial relations. The functioning short-time work programmes is embedded in national systems of industrial relations, and the strength of trade unions and works councils at the enterprise level appears to be a strong factor promoting short-time work and other "soft" adjustment strategies. In addition to the out-of-pocket costs of termination, the less tangible human resources costs of a policy of "hiring and firing" (e.g. demotivation, alienation, even industrial conflict) are a major consideration in firms' personnel policies. These costs are presumably higher in firms with strong employee representation.

V. Firm characteristics. Although we are primarily focusing here on macro-level economic and institutional variables, it is obvious that diverse characteristics of enterprises play an important role in use of short-time work (Lefèvre, Béraud, Sidhoum 1994). For example, employers have a greater interest in using short-time in the case of more skilled workers; smaller firms appear to rely more heavily on external mobility and have as a rule higher levels of turnover, itself an alternative form of adjustment.

Incentives for short-time work

Employers

The impact of the above elements of the national institutional framework can be interpreted as an incentive structure for employers to utilize (or not to utilize) short-time work. This incentive structure for employers can be summarized under five headings:

- termination costs;
- (re)hiring costs;
- employee relations costs;
- short-time subsidy;
- availability of other flexibility options.

The importance of these depends on the nature of the adjustment situation and in particular whether a temporary or structural decline in the workforce is anticipated (Figure 2).

Employees

Whereas for employers short-time work is primarily important as a form of labour force flexibility, especially in the face of temporary declines in labour demand, for employees it is primarily an instrument for enhancing job security, albeit with loss of income. The most important incentives for employees would appear to be the short-time benefit level, which determines the costs of short-time for them, and the likelihood of resuming normal working time. Thus, short-time work is most attractive to employees during temporary adjustment situations, because the costs to them are low, but may not be worth the "price" for many employees if future employment prospects are uncertain or if short-time work is merely a prelude to unemployment.⁶

The most fundamental effect of short-time work for employees as a group is that - for a given reduction in the volume of labour inputs - it shifts the burden of adjustment from a narrower to a wider group, e.g. instead of making 10% of the workers in a firm's workforce redundant, the working time of all is reduced by 10%. Since it is usually younger and less senior employees who have the highest risk of being selected for redundancy (due to seniority, social criteria), a strategy of work sharing affects the interests of individual workers differently and presupposes a significant degree of solidarity among the workforce.

Figure 2. Factors affecting firms' incentives for short-time work in different adjustment situations

Type of costs	Adjustment Situation		
	temporary	structural	
		restructuring	closure
Termination costs	+++	+..	...
Hiring costs	+++
Short-time subsidy	+++	+++ (if available)	+++ (if available)
Flexibility options (temp. employment, flex. working time)	---
Employee relations costs	+++	+++	+..

Notes: Temporary decline = firm facing temporary or cyclical adjustment situation; Structural = either "restructuring" in which the firm survives but with a major reduction in its workforce or "closure" in which the firm ceases to exist or substantially all jobs are lost. Symbols: "+" = positive; "." = indifferent; "-" = negative.

⁶ A related consideration is whether short-time benefits reduce an individual's subsequent entitlement to unemployment benefits.

In situations of structural adjustment in which all or part of the workforce will eventually be made redundant short-time work may be criticized for failure to clearly signal employees concerning their employment prospects. For employees who will eventually lose their jobs, the alarm signal is diffuse and may encourage false expectations; moreover, the firm runs the risk of losing employees it would prefer to retain and hence of losing control of the labour shedding process with possible negative effects for its survival chances.

2. Programme Characteristics

There is considerable institutional variety in short-time work programmes in the four countries examined. How do these programmes differ with respect to the incentives they provide for short-time work?

The goals of the short-time work schemes in the four countries examined are broadly similar: to stabilize employment and to avoid or minimize dismissals during temporary economic downturns through reductions in working time and to assist firms in economic difficulty (Figure 3). Moreover, short-time work is also used in all four countries as an instrument for coping with structural change in firms and industries experiencing large scale redundancies, although this development is very recent in France.⁷ There are, however, major differences with regard to the level and duration of benefits and the share of costs borne by employers.

Level and duration of benefits

Both the level and duration of short-time benefits are greatest in Italy where workers on short-time receive 80% of their previous gross earnings and, in the case of the CIG-S, short-time compensation may last up to four years.⁸ Employees on short-time in Spain receive a degressive benefit for a maximum period of two years. Employees receive 70% of previous earnings for the first 180 days and 60% thereafter.⁹ In Germany benefits are only slightly lower at 67% (60% without children) of previous net earnings and may normally last up to a maximum of two years. In France benefit payments are normally only 50% of previous earnings, and the maximum duration is 700 hours (about nine months at 50% of normal working time). Even under the new TRILD programme

⁷ While the French and German programs exclude seasonal adjustment, this situation is also covered by the CIG-O in Italy.

⁸ Subject to a monthly ceiling that is currently equivalent to ca. 2/3 of average earnings in industry. Thus, even workers with average earnings may not receive an 80% wage-replacement rate if they are working zero hours.

⁹ Subject to a monthly ceiling equal to 220% of the national minimum wage.

(Long-term short-time compensation: see Figure 3), the maximum duration is relatively short.

From the perspective of employers and labour costs the Italian programme is the most generous. Employers are as a rule only required to bear 8% of the costs of short-time work in the CIG-O and 4.5% in the CIG-S (the latter rate doubles after 2 years) and pay no social security contributions for short time. By contrast the German scheme is surprisingly expensive for employers. Recent changes require German employers to bear not only the employer's share of social contributions for short time but also those of the employee.¹⁰ Moreover, collective agreements in some sectors frequently require that the public benefit level be topped up to 70-90% of normal wages by the employer.¹¹

Thus, while an Italian employer bears only ca. 3-5% of normal labour costs for employees on short-time, it is 26% to 40% in Germany. Employers' costs are lowest in Spain because all costs for short time are assumed by the unemployment insurance system and there is no experience rating.¹²

¹⁰ In Germany employers are required to bear the full costs of social security contributions for pension insurance (19.2% in 1994) and health insurance (ca. 12 -15%, depending on the insurance fund) or a total of ca. 26% of normal labour costs (wages plus statutory charges). This cost shift took place in two steps. Until 1990 the German labour market authority reimbursed employers for the full costs of social security contributions for employees on short-time. Initially, the reimbursement of the employer's share of contributions to social security was abolished in 1990, and then, as of 1994, the reimbursement for the employees' share of contributions too.

¹¹ For example, in the Hamburg area agreement (7/23/91) for the metal working and electronics industry (IG Metal) required employers to top up short-time compensation by paying an additional 50% of the foregone earnings. In the Stuttgart region (5.5.90) employers are required to top up short-time compensation to 80% of gross earnings if the reduction in working time exceeds 10%. The VW collective agreement requires that short-time pay be topped up to 90% of wages for periods on short-time. We have the impression that many such provisions were dropped or made a local option (Kann-Bestimmung) in the most recent round of agreements negotiated during the recession. No systematic data are available on how widespread such provisions are in German collective agreements. The high estimate of 40% of normal labour costs assumes that the employer must top up short-time benefits to 90% of net wages for a worker with an average wage in the metal working industry and without children.

¹² Supplements based on collective agreements appear to be rare or non-existent.

Figure 3: Short-time Schemes in France, Germany, Italy, and Spain

Country	FRANCE	GERMANY
Program name	Regular Program (Chômage partiel (Partial unemployment))	Regular Program (Kurzarbeitsgeleid (Short-time compensation))
Policy Goals	To diminish the repercussions of temporary reductions in a company's activity on wage and salaries and to prevent redundancies	Maintaining employment in cases of temporary reductions in working time, avoiding dismissals Special regulations allow use of short time to avoid mass redundancies in industries undergoing structural change
Special Conditions	None	The reduction of working time must be at least 10% of the normal working time and affect at least one third of all employees with a duration of at least 4 weeks
Employees	All employees ¹	All employees subject to unemployment insurance contributions ²
Benefit	50% of previous gross hourly wages. Moreover, there is a flat-rate minimum hourly benefit	Same as unemployment benefit: 67% (without child 60%)
Duration of benefits	700 hours a year	6 (24) months ³ 24 months
Financing	State and employers using program. Employer receives uniform payment from state for each hour and employee on short time (1994=22FF). Employer pays difference between this amount and short-time benefit. Special state subsidies for up to 100% of employers' costs to avoid dismissals for economic reasons (CP-F.N.E.).	Same as unemployment insurance. Higher wage replacement rates based on collective agreement are financed by the employer.
Social security	Employer pays no social security contribution for short time	Employer pays employer's and employee's normal contribution for short time (ca. 31% of gross earnings)

¹ Some part-time employees are excluded by law if their weekly earnings are less than 18 times the minimum hourly wage (SMIC). However, this provision appears to be unimportant in practice.

² Only employees below threshold for unemployment insurance (<15 hours per week or > 580 DM per month earnings) and students are not covered.

³ Temporary extension to 24 months during the current recession. Benefit renewable after 3 months of normal working time for another period of 6 months.

Figure 3 (cont.)

Country	ITALY		SPAIN	
Program name	Regular Program	Structural Intervention	Regular Program	Structural Intervention
Policy Goals	Interventi ordinari (Wage Compensation Fund; CIG-O) Compensation of earnings in cases of temporary interruption of a company's activity	Interventi straordinari (Extra-ordinary intervention; CIG-S) Compensation of wages during prolonged economic difficulties in firms or sectors undergoing restructuring	El expediente de regulación de empleo: Suspensión temporal y desempleo parcial) Application for employment regulation: Temporary suspension and short-time work; ERE)	Avoiding unemployment in cases of decrease in employment because of economic or technological reasons
Special Conditions	Firms with more than fifteen employees (since 1991) ¹	Industrial companies with at least 15 employees and trade firms with at least 200 employees (since 1991) ²	Working time reduction by at least 1/3rd of the normal working time. Minimum of workers affected: 10% (in enterprises with less than 100 employees at least 10 workers)	All employees eligible for unemployment insurance benefits ⁴
Employees	All employees with at least 90 days tenure ³			Same as unemployment benefit: 70% of previous earnings for the first 180 days and 60% thereafter ⁵
Benefit	80% of gross earning with a monthly maximum of 1,248,021 L ⁵			Maximum duration of two years
Duration of benefits	Maximum of three consecutive months. ⁷	a) In cases of restructuring a maximum of 2 years which can be extended twice for a maximum of four years. b) In case of crisis intervention maximum of 12 months. ⁸		
Financing	General contributions and user firms. All employers contribute to wage compensation fund (CIG) administered by INPS. ⁶ Firms with less than 50 employees contribute 1,90% of wages and larger firms pay 2,20%. Users of CIG-O pay additionally 8% of the amount of compensation paid to their employees (4% in companies with less than 50 employees).	State, general contributions and user payments. Companies pay 0.6% and employees 0.3% contributions; enterprises using CIG-S pay 4,50% of wage replacement benefits received by their employees (in firms with less than 50 employees 3,0%). This user contribution doubles after 24 months of benefits. State finances any deficit.		Financed through unemployment insurance (contributions of employers (5,2%) and the employees (1,1%))
Social security	Employer pays no social security contribution for short time	Employer pays no social security contribution for short time		Employer pays no social security contribution for short time

¹ Temporary extension to firms with 5 to 15 employees until end of 1995.

² Temporary extension to firms with 50 to 200 employees until end of 1995.

³ Until 1991 white collar workers were excluded from the CIG-O.

⁴ Until 1993 the qualifying period was 6 months within the last 4 years; currently one year in the last six.

⁵ In 1993. This ceiling is equivalent to ca. 65% of average earnings in Italy.

⁶ Unemployment insurance benefits subject to a maximum of 220% of the national minimum wage. Prior to 1993 benefits were 80% in first six months, 70% in second half year and 60% in second year.

⁷ In exceptional cases benefit period can be extended up to one year. Firms which received benefits out of the CIG-fund for 12 months have a new claim after at least 52 days of normal activity.

⁸ New intervention only possible after a period lasting two-thirds of the first intervention period and duration limited to 36 months within five years.

⁹ Istituto Nazionale della Previdenza Sociale.

The French case is more complicated because of two interesting features: the requirement of a minimum hourly payment for short-time compensation and a public subsidy for employees on short-time that is a fixed hourly sum rather than proportional to wages.¹³ We estimate that a French employer must ordinarily bear about 9% of the usual labour costs for an unskilled worker and 14% for a skilled worker on short-time (more for higher paid employees; see Figure 4).¹⁴ Although unattractive to employees, chômage partiel in France is a financially more attractive option for employers than in Germany and comparable to the costs of the CIG in Italy, even though short-time work is only possible for a more limited period in France.

From the point of view of employees, the Italian programme is the most generous (80%), followed closely by that in Spain (70 - 60 %) and Germany (min. 67 to 60%). Short-time work in France is decidedly less attractive for employees, who as a rule receive only 50% of their normal wages. This pattern is reinforced by the relative levels of unemployment benefit for redundant workers: In France unemployment benefit is considerably more generous (70%) than short-time compensation, whereas in Italy regular unemployment benefits are extremely low (30%) and until 1991 special benefits for those who become unemployed as a result of collective redundancies were only 66% of previous earnings for a maximum of six months.¹⁵ Since 1991 these benefits have been significantly increased for employees who lose their jobs in the course of mass dismissals. German and Spanish workers receive the same benefit for short time as for unemployment.

-
- ¹³ Chômage partiel in France is financed jointly by the state and the affected enterprises. In addition to the 50% compensation rate for short-time noted above, there is also a flat rate minimum hourly benefit (29F as of July 1994), which is fixed as a percentage of the social minimum wage (SMIC). This means that low paid workers may actually receive more than a 50% of previous wages. Moreover, the state subsidy (allocation spécifique; AS) is itself a flat rate that is set periodically as a percentage of this minimum hourly payment. The employer is obligated to pay at least the minimum hourly compensation of currently 29F for short time and subsequently receives a partial reimbursement of 22F from the state. Since all employees are entitled to at least 50% of their previous earnings, the employer must pay the difference between the flat rate of 29F and 50% of previous earnings for higher paid workers (allocation conventionel; AC).
- ¹⁴ Assuming that direct wages are 70% of total compensation. Under certain circumstances additional state subsidies may be available to reimburse employers 50% to 100 of their share of the costs of chômage partiel. This requires the conclusion of a special agreement between the employer and the Fond National de l'Emploi (F.N.E.).
- ¹⁵ The CIG is in part a substitute for the lack of an adequate general system of unemployment insurance.

Figure 4. Short-time benefit, state subsidy, and employers' costs per hour by wage level (FF) in France, 1993

	Hourly wage	Benefit Level	State flat-rate payment	Employers' costs
Minimum Wage Worker ¹⁶	34,83	29 ¹⁷	22	7
Skilled Worker	60,00	30	22	8
Technician 1	76,00	38	22	16
Technician 2	100,00	50	22	28
Manager 2	120,00	60	22	38
Social Security Ceiling	150,00	75	22	53
Manager ¹⁸	170,00	85	22	63

Source: Liasons Sociales, v. 82/93, August 13, 1993.

Thus, the French worker is likely to prefer unemployment to extended short-time work, whereas Italian workers (or their representatives) have a strong incentive to prefer short-time work. For German and Spanish workers short-time and unemployment benefits are the same. Only in Spain do periods on short-time reduce the duration of unemployment benefit entitlements; in all other countries short-time work, in effect, prolongs entitlement to benefits, even if it culminates in unemployment.

3. Trends in Short-time work

Trends

National differences in the type of programme data collected make it difficult to compare levels of short-time work. In France official data are published on the annual total number of authorized days on short time.¹⁹ In Italy data are available only for the total annual number of authorized hours, and in Germany only on the average annual number of participants. In Spain, the data are even more complicated: Temporary lay-offs are documented in authorized days and reductions in working time in authorized hours.

¹⁶ SMIC as of 1.7.93

¹⁷ Minimum hourly benefit.

¹⁸ Special subsidies may be granted to firms in economic difficulty to avoid dismissals for economic reasons.

¹⁹ Data are apparently collected on in terms of authorized hours of short-time work and converted into days by dividing total hours by the number of hours in the statutory working day (i.e. statutory weekly working time divided by 5).

Although unsuitable for comparing levels of short-time work, national data are useful for describing trends. Figure 5 reports national programme data on annual total hours or participants standardized to control for changes in dependent employment (per employee or per one hundred employees). While there has been a strong upward trend in short-time work since 1970 in both Italy and France, no trend is evident for West Germany, where short time peaked in 1975. It was the heavy reliance on short-time work as a social shock absorber in East Germany that pushed short-time work to unprecedented levels in Germany (see Figure 6, below). The Spanish data show what appears to be an underlying downward trend, although the time series is too short to draw any firm conclusions. This trend is consistent with the liberalization of temporary employment since 1984.

The rising trends in short-time work in France, Germany, and Italy as well as the apparent declining trend in Spain are overlaid by more or less strong cyclical patterns. Although differences in the available national programme data on short-time work make precise comparison difficult, changes in short-time work in France, Italy, Spain and, especially, West Germany are highly responsive to changes in industrial production.

3.1 Comparing levels of short-time work

Given the limited comparability of national programme data, we use a second best strategy of estimating full-time equivalent persons working short-time on the basis of national programme data. This allows us to compare the order of magnitude of short-time work and its labour market impact.

The estimates were constructed as follows: For **Germany** national data on the average annual number of participants are converted to full-time participants according to a standard formula.²⁰ For **France** national programme on annual number of days in programme is converted into annual working hours and divided by hours worked per year by full-time workers in industry.²¹ For **Italy** and **Spain** data on the total number of hours compensated are

²⁰ The percentage reduction in working time is estimated on the basis of reported data by broad categories.

²¹ A further complication in the French case is the fact that the available data on authorizations do not reflect actual program uptake since employers do not actually use all short-time subsidies applied for and authorized under the program. For purposes of comparison of levels of uptake of short-time work the only solution appears to be to rely on estimates of the percentage authorized days of short-time work actually used. Actually uptake in recent years is estimated to be about 45-47% of uptake (Béraud, Lefèvre, Sidhoum 1993). The existence of variation across industries and over the course of the business cycle complicates use of such estimates.

converted to full-time equivalents by dividing this figure by hours worked per year by full-time workers in industry.²²

The resulting estimates are only approximate indicators and not precise measures due to the complexity of the estimating procedure and differences in national data sources. Nevertheless, they provide a useful basis for cross-national comparison. As we would expect, short-time work is markedly more important in Italy, where there were consistently above 200,000 full-time equivalent employees on short-time from 1980-93 (Figure 6). Spain where the number of full-time equivalent participants never falls below 100,000, has the second largest programme followed by West Germany. However, in 1990-91 utilization of short-time work in united Germany surpassed even that in Italy and Spain due to the huge importance of this programme in the new German Länder. France has the lowest level of short-time work surpassing 50,000 only in the peak year of chômage partiel in 1993.

²² Although the Italian data are based on authorizations we have undertaken no adjustment. One expert interviewed suggested that the data on the CIG-Ordinary may overestimate actual use by as much as one third.

Fig. 5 a. France: Annual total of authorized days of short-time working per employee in industry

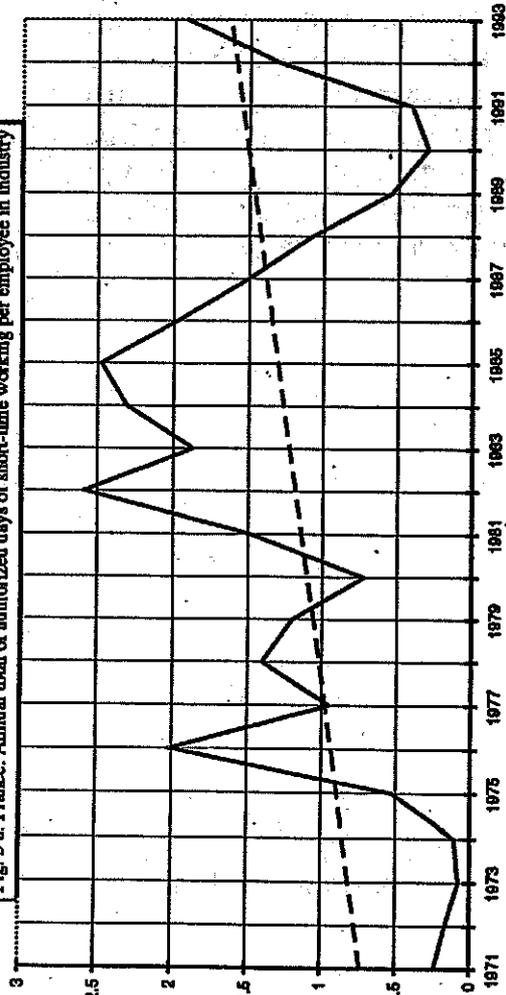


Fig. 5 b. Germany (West): Participants in short-time work per 100 employees in industry

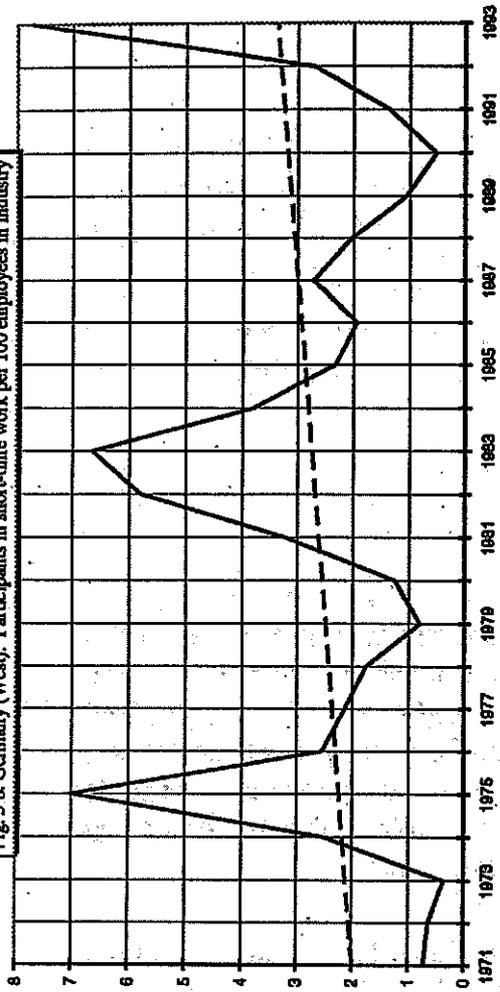


Fig. 5c. Italy: Annual total of authorized CIG hours per employee in industry

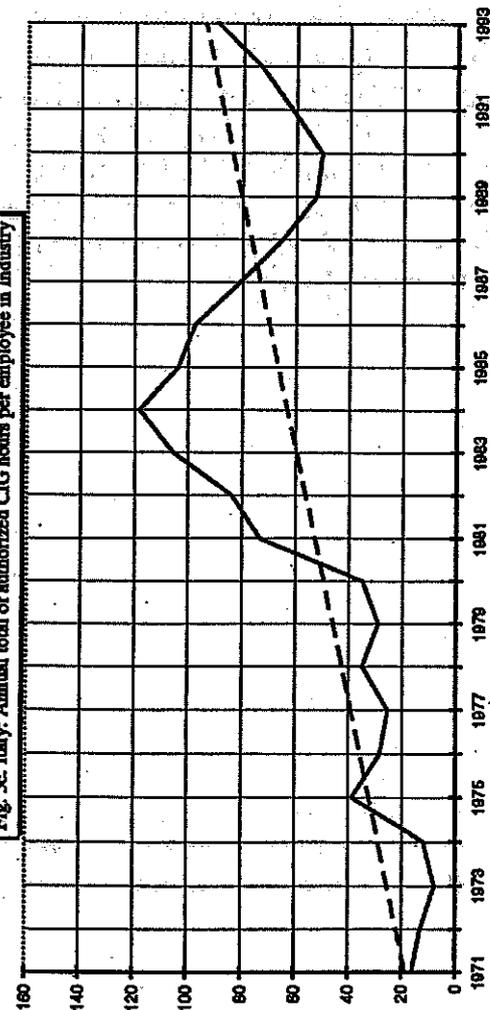
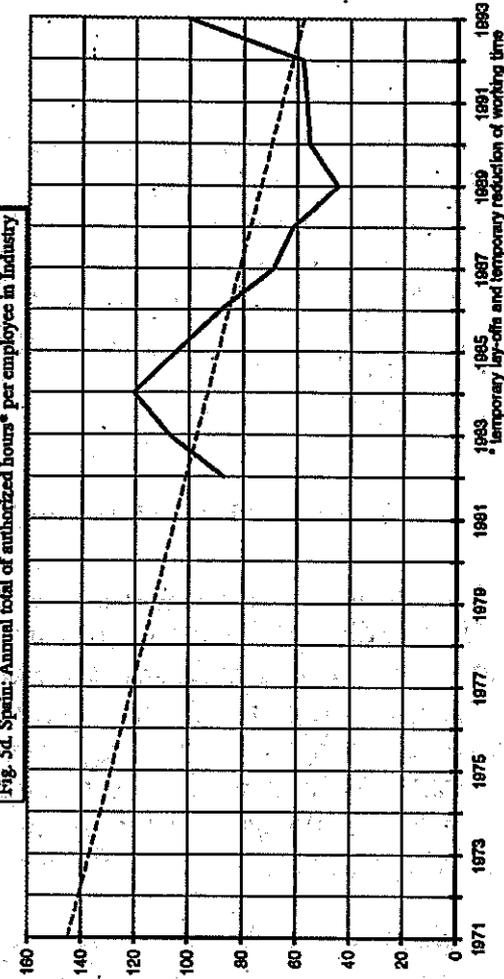


Fig. 5d. Spain: Annual total of authorized hours* per employee in industry



Sources: 1. Employment in industry: OECD Labour Force Statistics; ISIC 2; 5; 2. National Program Data: France: Ministère du travail, de l'emploi et de la formation professionnelle, Bulletin mensuel de statistiques du travail; Germany: Bundesanstalt für Arbeit, Amtliche Nachrichten der Bundesanstalt für Arbeit, Jahreszahlen; Italy: Istituto Nazionale della Previdenza Sociale (INPS); Spain: Ministerio de Trabajo y Seguridad Social, Anuario de estadísticas laborales and own calculations.

If these data are adjusted for population size and industrial structure by expressing them as a percentage of dependent employment in industry, we find that the gap between Spain and Italy and the other two countries widens. Short-time work in Spain never falls below 2% of dependent employment in industry and surpassed 6% at its peak in 1984 (Figure 7). Italy shows a similarly high level of use of short-time work followed by West Germany and, at an even lower level, France, where short-time work never rises above 1% of dependent employment in industry.

3.2 Explaining national differences in utilization

How can these clear national patterns and differences in the incidence of short-time work be explained? Clearly fluctuations in economic output and hence the demand for labour are a principal determinant of uptake of short-time work. This is evident in the more or less strong cyclical pattern in the programme data (and for the surge in short-time work in East Germany) in all countries. However, national differences in the amplitude of fluctuations in economic activity over the business cycle are too small to explain these consistent national differences in the level of uptake of short-time work.

The programme, regulatory and institutional factors discussed above clearly explain the high level of use in Italy, in particular, the generosity of the short-time subsidy and the stringency of employment protection.²³ Moreover, other flexibility options in the working time regime and in the use of fixed-term contracts are severely restricted (see Figure 8). In contrast to Germany, where reductions in weekly working time has been accompanied by a marked increase in working time flexibility, the working time regime in Italy, like that in France and Spain, remains relatively rigid. In particular overtime remains strictly regulated, and collective agreements are as a rule even stricter than the legal limits (Goldin 1995).

²³ Employment protection appears stronger in Italy than in any other EU state. Moreover, Italy is the only country to have actually strengthened employment protection in the last decade by extension of unfair dismissal regulations to previously exempt small firms.

Figure 6: Annual Total of Full-time equivalents in France, Germany, Italy and Spain

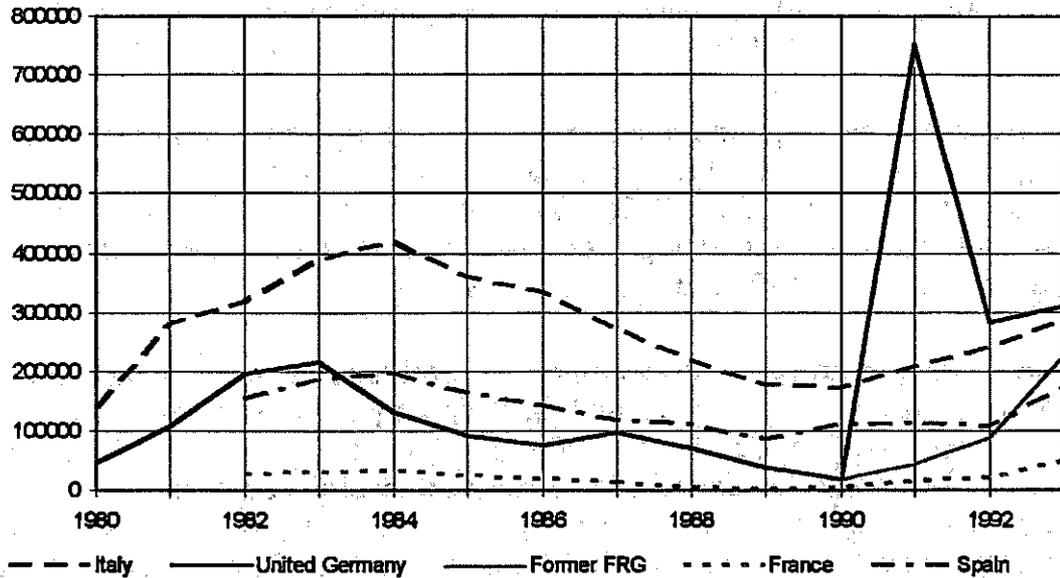
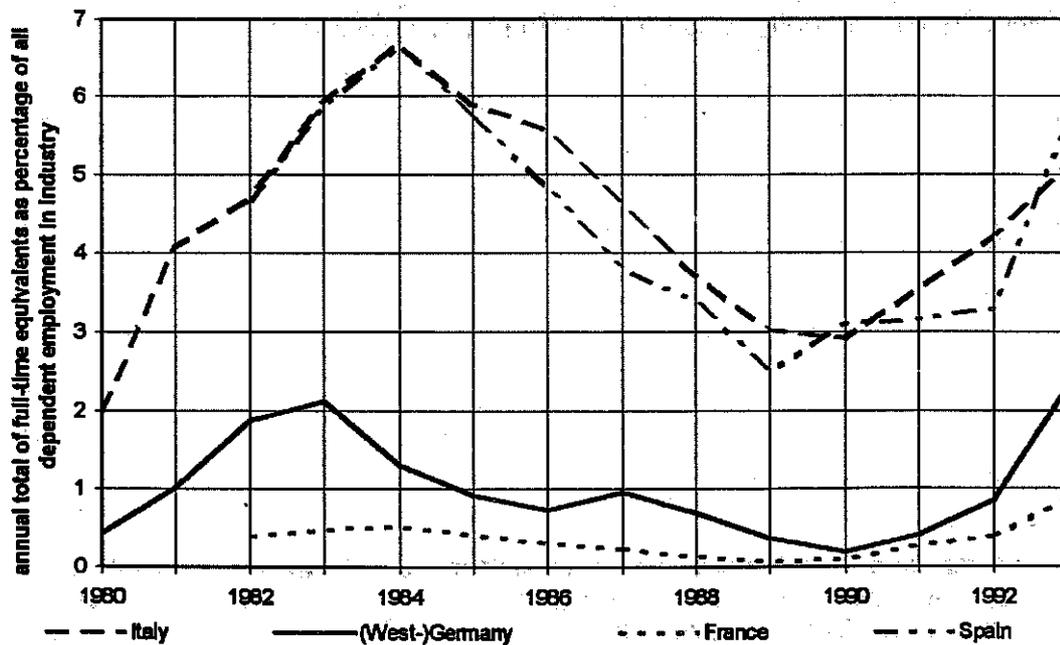


Figure 7: Full-time equivalents as percentage of all dependent employment in industry



Source: National Program Data on participation (see Figure 5) are converted to annual hours divided by working time of dependent employees in industry as described in the text. Annual hours estimated from Eurostat data on usual weekly working hours less holiday and annual vacation as reported in Eurostat labour force survey results and *Social Europe Supplement 4/ 1992*.

The high level of uptake of short-time work in Spain is somewhat puzzling. Although we would expect the generosity of its short-time work programme and the stringency of employment protection in Spain to generate a higher level of uptake than in Germany or France, it is surprising that uptake is as high as in Italy. Although employment protection is also stringent in Spain, where it is even applicable to the smaller firms,²⁴ the maximum duration of short-time benefits is shorter and the wage-replacement rate somewhat lower than in Italy.

Moreover, although the working time regime in Spain is inflexible (as in Italy),²⁵ Spain has developed an extraordinarily high level of fixed-term employment since the mid-1980s, which we would expect to function as a functional equivalent, reducing the need for short-time work in adjustment situations (Schömann, Rogowski, Kruppe 1995).²⁶

An examination of the composition of short-time in Spain shows that the Spanish programme is predominantly a temporary layoff scheme in which the employment relationship is suspended. Only a small fraction of total compensated hours is attributable to reduced hours (see Figure 10). While layoffs (i.e., short-time work at zero hours) also occur in France and West Germany and are very frequent in Italy, this form of 'short-time' is most frequent in Spain. Apparently the Spanish programme functions primarily as a temporary layoff scheme in which affected workers are compensated through the unemployment insurance system but remain *pro forma* employees of the firm. Unfortunately, we have no information on the percentage of Spanish workers on layoff who eventually resume their normal working time.

24 The impact of institutional feature is reflected in the fact that use of short-time work is apparently relatively higher in smaller firms in Spain (although the available data are not strictly comparable; see Figure 10 below).

25 Spanish reforms adopted in 1994 now provide for a great deal of flexibility based on collective agreements.

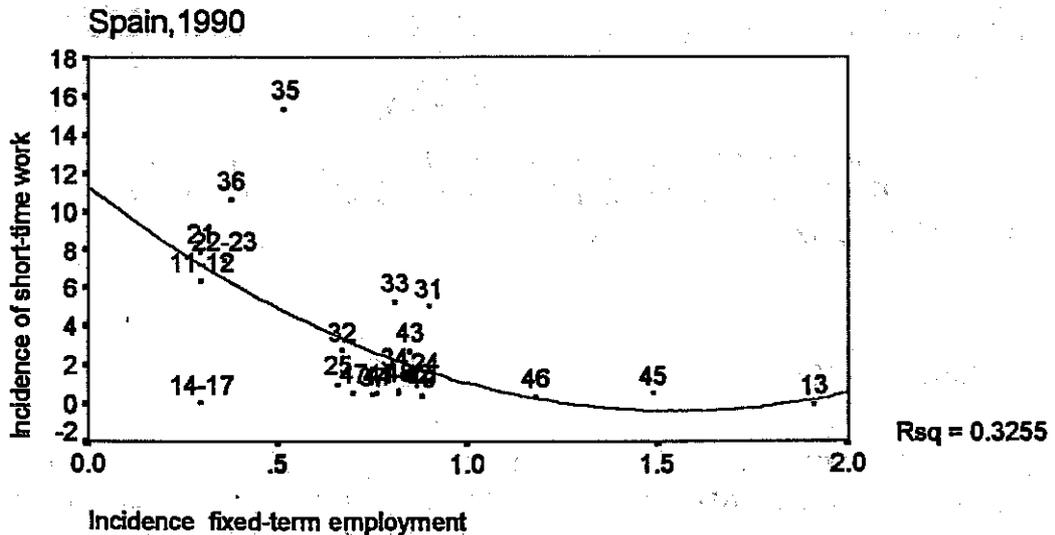
26 In the manufacturing sector, in which short-time work is concentrated, only 2.9% of all employees in Italy were on fixed-term contracts, whereas 28.5% were employed on such "atypical" contracts in Spain in 1991 but only 8.5 and 7.1% in France and Germany respectively. In 1994 new restrictions were placed on temporary employment.

Figure 8. Schematic assessment of institutional factors influencing short-time work in France, Germany, Italy, and Spain

INFLUENCES	FRANCE	GERMANY	ITALY	SPAIN
Short-time scheme				
-benefit level	low	middle	high	middle
-wage cost relief	high	low	high	high
-duration	low	middle	high	middle
Employment protection	middle	middle	high	high
Flexibility options				
-temporary employment	middle	middle	low	high
-working time flexibility	low	high	low	low

The higher rate of utilization of short-time work as an adjustment strategy in Germany in comparison with France reflects the German scheme's more generous compensation to employees and, above all, the fact that it is potentially available for a significantly longer period, although the employers labour cost saving for employees on short-time is greater in France.²⁷ There is by contrast little difference between the two countries with regard to employment protection as French regulations are on a par with those in Germany, although not as restrictive as in Italy or Spain (Mosley 1994).²⁸

Figure 9: Fixed-term employment and short time in industry



Index values all industry av. = 1. Points = 2-digit NACE industries

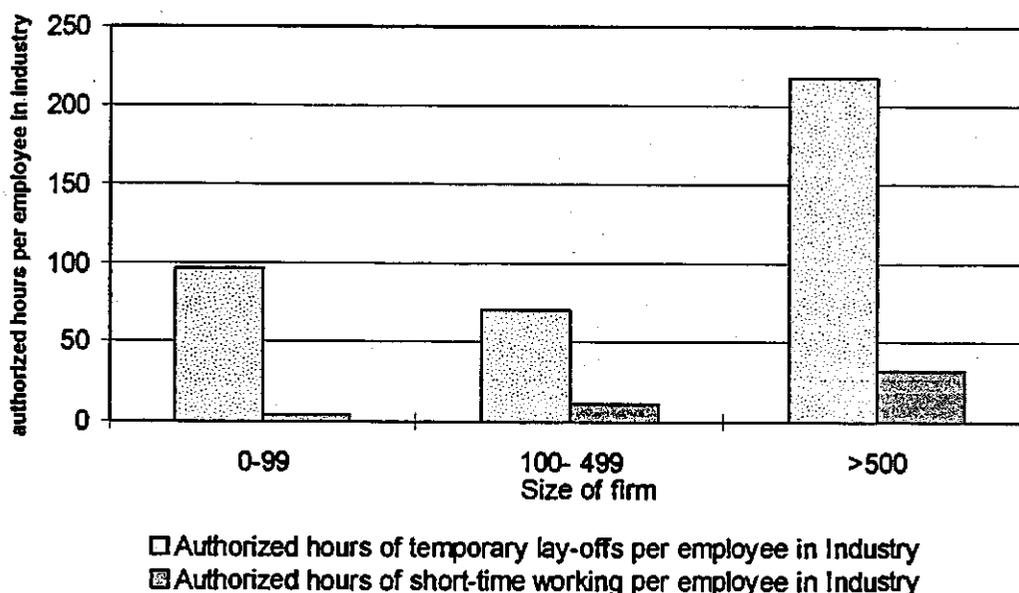
Source: Fixed-term employment data from European Labour Force Survey 1990 and short-time work by industry from Anuario de Estadísticas Laborales.

²⁷ This is to a large extent a reflection of the lower wage-replacement rate for employees in France.

²⁸ Prior to the abolition of prior administrative approval for redundancies in the mid-1980s, French regulations were arguably even more restrictive than in Germany.

Two other factors speak strongly for a higher German preference for internal adjustment through short-time work: First, the decidedly stronger position of employee representatives at the enterprise level in Germany, especially the strength of the works councils; second, the much greater reliance on temporary employment as a flexibility option in France. Ad hoc accompanying measures are much more important in France in situations of structural adjustment, but this public leverage has not been used to promote greater reliance by firms on short-time work during structural adjustment. In fact, the French case suggests that such accompanying measures may constitute an alternative to short-time work.²⁹

Figure 10: Short-time and temporary lay-offs by firm size, Spain, 1988



Source: Anuario de Estadísticas Laborales

3.3 Labour market impact

Because a primary goal of short-time work programmes is to maintain employment and avoid unemployment, their labour market impact is a principal concern in evaluation research. Moreover, estimates of the labour market effects of short-time work programmes are useful in assessing the cost effectiveness of short time work programmes in comparison with other labour market instruments. The estimates made by national labour market authorities are, however, only approximations given the limitations of the available data

²⁹ For example, early retirement for labour market reasons.

and the assumptions that have to be made. This section discusses estimates of the labour market impact of short-time work programmes.

Since the actual reduction in weekly working time for workers on short-time may vary from a couple of hours to a total lay-off, the initial problem is to estimate the level of short-time work in terms of full-time equivalents. How this is done depends on the national programme data available. For example, German programme data reports the number of participants and their percentage reduction in normal working time only in four broad categories (10-25%, 26-50%, 51%-75%, 76%-100%) and the total number of hours spent in the programme can only be estimated on the basis of a weighted average of these categories. The number of full-time equivalent participants in the programme is then calculated on the basis of statistics on annual working time adjusted to take into consideration absence from work due to sickness and annual leave. The German estimating procedure (Flechsengar 1979) understates programme impact by using average working time rather than weighting working time by the incidence of short-time work, which is concentrated in industries in which working time is generally lower.

The resulting full-time equivalent figure is regarded as an estimate of the employment effect, i.e. the number of positions saved through the programme. For example, the total number of participants in the programme during 1993 was 767,000 persons and the estimated full-time equivalent employment effect was 228,000. The estimated full-time equivalent employment effect for France, Germany, Italy, and Spain is reported in Figures 6 & 7, above.

This procedure, however, overestimates the actual incremental employment effects of the programme since it fails to take into consideration windfall effects. Enterprises hoard labour routinely during cyclical downturns (Bosworth and Westaway 1991) and short-time work programmes provide an additional incentive for a course of action that firms might in any case pursue. For example, in Canada it has been estimated that ca. 7% of compensated short-time in Canada would not have resulted in layoffs even without the programme (Graves and Dumas 1993).³⁰ We are not aware of other reliable estimates of windfall effects.³¹ In order to minimize windfall effects programmes may impose special threshold conditions, for example, in Germany the

³⁰ The principal reasons based on the experience of the comparison group are: 1)Resort to privately financed work sharing; 2)labour hoarding in firm's interest; 3)unexpected improvement in the economic situation.

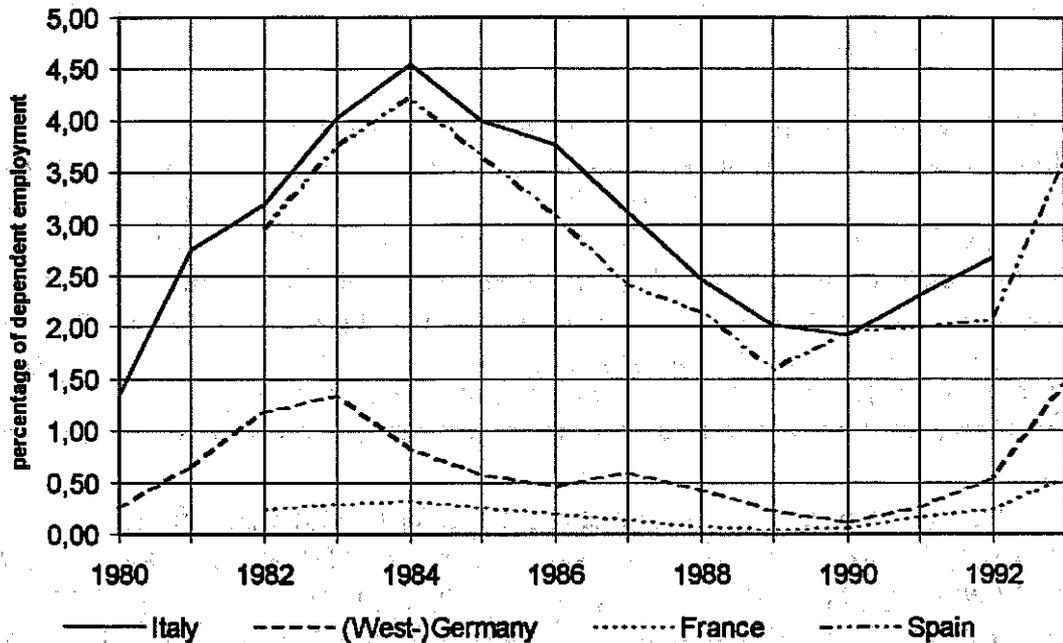
³¹ On the basis of a regression analysis of firm-level unemployment insurance claims Kerachsky et al. (1986) estimated "lay-off conversion ratios" for three US states with short-time programs. The results were, however, erratic varying from .01 to .95. In interviews, 20% of user firms stated that they would not have resorted to layoffs even in the absence of the short-time program. However, because of the small size of the short-time program in the United States and the special features of the institutional setting, generalization from this experience seems unwarranted.

reduction in hours must be at least 10% of normal working time and affect at least one third of all employees, for at least 4 weeks. Among the national programmes examined, there are also threshold conditions in Spain but not in France and Italy.

Finally, in estimating the incremental impact of the programme on unemployment, labour supply effects must be discounted. In the official German estimates the reduction in the number of unemployed is considerably lower than the employment effect since the IAB assumes that, in the absence of short-time work, about 1/3 of the loss in employment would be absorbed by withdrawals from the labour force. Thus in 1993 the estimated impact of short-time work on unemployment was only about 152,000 persons (Flechsengar 1979; Bach, Kohler, Spitznagel 1986). While it is necessary to estimate the percentage of workers who would otherwise withdraw from the labour force, the actual statistical assumption used in Germany (1/3) appears to be merely a rule of thumb. Interestingly, the IAB initially assumed that all persons on short-time in East Germany would have otherwise become unemployed. Clearly the labour supply effect of this (and other) labour market programmes has to be estimated in each national labour market.

For the reasons discussed, the actual incremental impact of short-time work on unemployment will be less than the full-time equivalent program participation reported in Figures 6 & 7. Figure 11 reports estimates for France, Germany, Italy and Spain assuming a one-third offsetting labour supply effect and a 5% windfall effect. Thus, the chart should be interpreted to mean that the number of full-time equivalent unemployed persons would be greater by the indicated percentage of dependent employment in industry. The labour market impact of short-time work is presented as a percentage of industry employment because the use of the programme and, therefore, the reduction in unemployment, is heavily concentrated in this sector. The labour market impact is particularly large in Italy and Spain and, in recession years in Germany. Since only a minority of the workforce is employed in industry, the impact on the total labour force is correspondingly smaller in all countries. These estimates are merely indicative of the order of magnitude of the reduction in unemployment through these programmes and should be interpreted with caution.

Figure 11: Estimated labour market impact of short-time work programmes in France, Germany, Italy and Spain



Source: Full-time equivalent programme participation (see Figure 7) discounted by windfall effect (5 %) and labour supply effect (33 %) as explained in the text.

3.4 Industry distribution and selectivity

This section compares national patterns in the structure of participation in short-time compensation. As a rule, short-time work regulations do not formally exclude specific sectors (except for the CIG-S in Italy; see Figure 3), small firms (except for the Italian CIG since 1991), or certain categories of workers (except for the exclusion of white-collar workers from the CIG-O in Italy until 1991).³²

Sectors

The distribution of short-time work is remarkably similar in all four countries. Short-time work is overwhelmingly concentrated in the industrial sector (Figure

³² An important implication of the minimum benefit and the flat rate subsidy in France is that both the wage-replacement benefit and the state's contribution to financing chômage partiel decline with increasing skill levels and wages (see Figure 4). This means that the state subsidy is greater for personnel least likely to be retained by the employer (i.e., lower paid and lower skilled workers). Although an interesting program feature, the actual difference in costs to the employer is too small to affect personnel practices (see above).

12).³³ Whereas all sectors of industry have a high incidence of short-time work,³⁴ short-time work is hardly used in the service sector.³⁵ There is a significant use of short-time work in the service sector only in Spain in "transport and communication" and in "distributive trade, hotel, catering" in France and Spain.

Why is short-time work almost exclusively an adjustment strategy for the industrial sector? Differences in short-time regulations are not the explanation. Although the CIG-S for structural short-time in Italy explicitly gives priority to the industrial sector, the actual pattern is no different from that in countries without such a restriction. Labour market regulations are also not an explanation since they are with few exceptions common to all sectors. One likely explanation is the strongly cyclical economic pattern in industry: adjustment situations are a regular occurrence in the industrial sector and short-time work appears to have been widely accepted as a routine response.

Although firms encounter economic difficulty or undergo structural change in the service sector as well, they are apparently able to rely more on other adjustment strategies such as natural attrition, atypical employment, and early retirement in adjustment situations. There are not only different adjustment needs but apparently a different adjustment style in goods producing industries.

Utilization of short-time work may also relate to different management styles with different types of workers. It is pre-eminently an instrument for managing adjustment in the blue-collar workforce segment and not for white-collar workers. Thus, in Italy - the only country for which such data are available - over 90% are blue-collar workers even in the CIG-S, which has been in principle open to white-collar workers for many years. Moreover, since 1991 white-collar workers are also eligible for the CIG-O, nevertheless utilization for this category of workers remains low (ca. 10% of all participants in 1993).³⁶ Apparently the regulations themselves are only a minor factor in explaining this pattern of use. The fact that short-time work is an instrument predominantly for adjusting the blue-collar workforce - even within the industrial

33 The index of the relative incidence is computed simply by dividing the proportion of short-time work in a sector by that sector's share of dependent employment for each year; a value of 1 indicates that the percentage of all short-time work in a sector is identical with its share of employment. Figure 12 reports an average of these annual values for the 1983-1991 period.

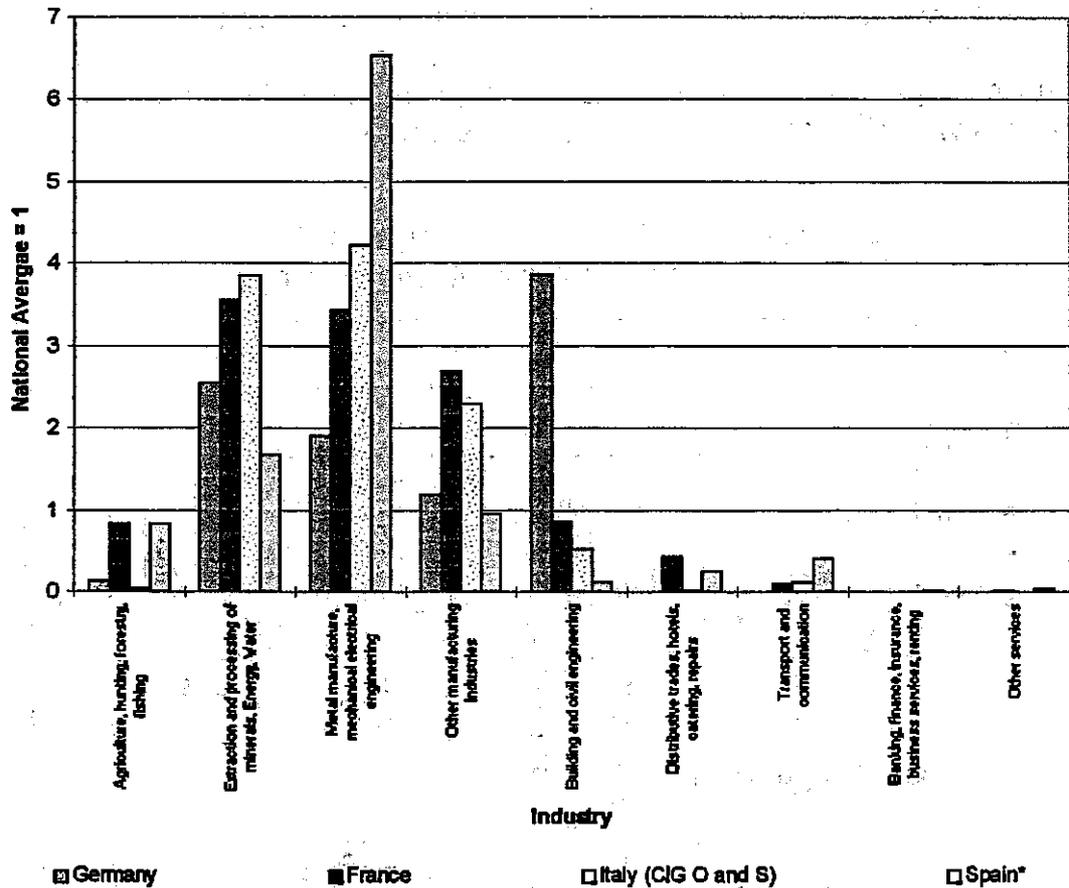
34 The extremely high rate of use of short-time work in the German construction sector may be misleading. Since all four countries have special programs for the construction sector, the cross-national differences reported here may merely reflect differences in the area of application of special construction and general short-time work schemes in each country.

35 There is an interesting partial exception in distribution and personal services in France where the incidence of short-time work is below average but significant.

36 The pattern of use of short-time work for white collar workers in Italy shows a heavy concentration in the industrial sector little different from that for blue collar workers.

sector (see Figure 13 below) - is also a partial explanation for its low level of utilization in the service sector.

Fig. 12: Index use of short-time working in (West-)Germany, France, Italy and Spain 1983- 91



Source: Calculated on basis of programme administrative data and Eurostat data on dependent employment.

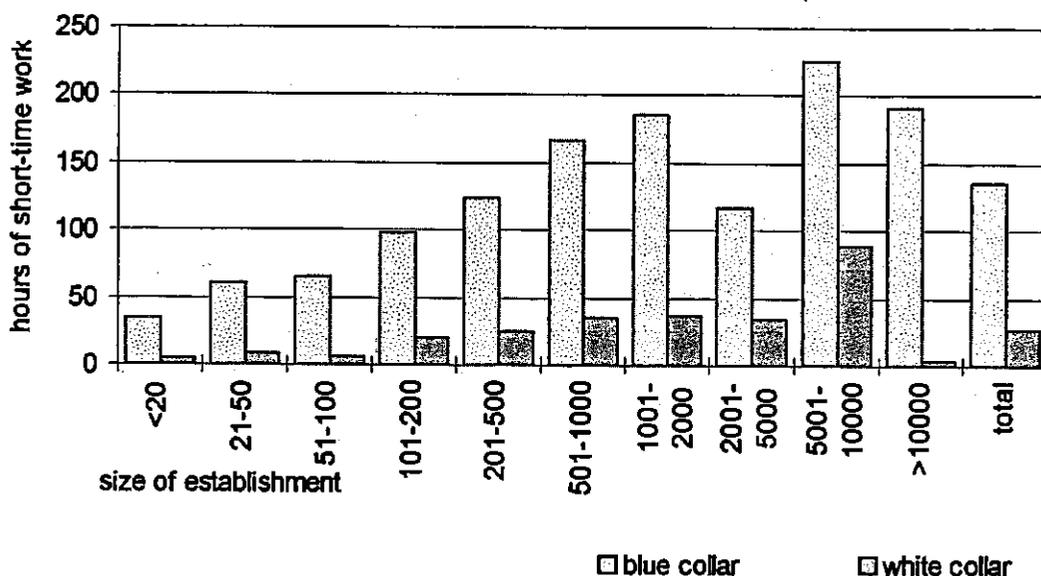
Establishment size

In all four countries larger firms are much more likely to use short-time work as an adjustment strategy than are smaller firms. In France all establishments with more than 500 employees accounted for 38% of authorized days of short-time work but only 12.6% of total employment in 1991, whereas establishments with less than 50 employees accounted for 53% of all employment but only 22% of authorized days of short-time work (Lefèvre, Béraud, Sidhoum 1994).³⁷ Data for the Italian metal working industry show a similar pattern OECD heavier use in larger firms (Figure 13). In Spain too the incidence of short-time work is greatest in larger firms. Although firms with over 500 employees account for

³⁷ Comparable data for 1981 indicates that this has been a consistent pattern of uptake.

only about 28% of dependent employment in industry, they account for about 45% of all authorized hours in the Spanish short-time programme (see Figure 10). Interestingly, this bias in the direction of larger firms is most pronounced for shorter working hours than for temporary layoffs. Apparently temporary layoffs are a form of short-time work that is more compatible with the circumstances of smaller enterprises. Not entirely comparable data from a West German survey in the mid-1980s show that short-time work was ca. 50% more frequent firms with over 100 employees in industry than in smaller establishments. These data are merely indicative; no precise comparison of the relationship between firm size and use of short-time work in the four countries is possible given the limitations of available data.³⁸

Figure 13: Authorized hours of short-time work per employee in Italy by establishment size and status, 1991



Source: Fedemeccanica, Tredicesima indagine sulla situazione dell'industria metalmeccanica 1991 and own calculations.

Again eligibility rules for the respective national short-time work schemes apparently play only a small role. Although it is possible to exclude small firms as in Italy (since 1991), the same general pattern is evident in all countries even though there is to our knowledge no such formal restriction in France or Germany.³⁹

³⁸ The French data refers to the whole economy, while the German data refer to industry and the Italian data to only one sector, and the Spanish data to industry. . Since, as noted above, short-time work is extremely rare in the service sector, the most appropriate comparison would be the incidence of short-time work by firm size in industry separately.

³⁹ It is difficult to judge whether informal practices discriminate against smaller firms.

For organizational as well as cultural reasons smaller firms rely more heavily on external mobility. This is implicitly recognized even in labour market regulations. Although most regulations are equally applicable to small firms there is an important exception: Employment protection regulations are more stringent for larger firms. For example, regulations pertaining to the existence of a works council (Germany, France), the requirements for social plans (France, Germany), special procedures for collective redundancies (France, Germany, Italy, Spain) or coverage of unfair dismissal legislation (Germany, Italy) have firm-size thresholds. Moreover, in practice labour representation tends to be weaker with decreasing firm size.⁴⁰

4. Short-time Compensation as an Instrument for Structural Adjustment

Initially introduced as a flanking measure for firms experiencing temporary difficulties, short-time work programmes are increasingly used as an instrument for assisting firms and their employees in coping with structural change. The case for short-time work is, however, much less clear cut in enterprises or industries undergoing structural change in which a large portion of the workforce will eventually be made redundant. From the employers perspective there is, under these circumstances, little incentive to hoard even skilled labour and termination costs must be incurred in any case. Moreover, extended short-time work may entail significant opportunity costs for firms by prolonging the restructuring process. For employees who will eventually lose their jobs the lack of a clear signal may encourage false hopes and hence retard individual reorientation and reintegration in new employment. Moreover, the firm runs the risk of losing employees it intends to retain, and hence of losing control of the labour shedding process, because they may seek alternative employment due to fear of job loss, with possible negative effects for the firm's survival chances.

This section addresses a number of questions related to the use of short-time compensation in structural adjustment:

- To what extent are national programmes available for intervention in structural rather than cyclical adjustment?
- How important is structural use of short-time work in the countries examined?

⁴⁰ In Germany the requirement that short-time work be approved by the works council may be a partial explanation for the lower level of utilization: In the absence of a works council (which is disproportionately the case in smaller firms) each individual worker must agree to the change in his or her employment contract.

- How have short-time work programmes been adapted to the new task of structural intervention, for example, by improving linkages to training and other active programmes?
- What policy lessons can be drawn from European experience with short-time work in structural adjustment?

4.1 Structural Regulations

To what extent are short-time programmes focused on structural rather than cyclical adjustment situations? Since the inception of the CIG-S in the late 1960s, Italy has had an explicit programme for structural short-time work (see Figure 3, above). At least since the 1970s Germany has also used short-time work as a structural instrument, if initially on an ad hoc basis. Until the recent introduction of the TRILD programme in 1994, chômage partiel in France has been the least receptive to using short-time work in situations of longer-term structural adjustment. Although there is no special regulation for structural intervention in Spain, the regular programme has been used flexibly in structural adjustment. This section briefly describes the special regulations for structural intervention in Italy, France, and Germany.

The Italian employment system is traditionally highly regulated and protective of existing employment relationships, especially in industry. In this context special CIG-S benefits were introduced in 1968 and rapidly expanded in the following years. In contrast to the Cassa integrazione ordinaria (CIG-O), the CIG-S has the specific task of providing assistance to in case of structural crises in a company, sector or regional that adversely affect the employment and earnings of employees. The CIG-S differs from the regular short-time work programme primarily in the duration of benefits, which may last up to four years.

Accompanying measures in labour market policy in France are well developed but heavily oriented toward external mobility. In this context short-time work, especially structural intervention, is relatively little developed in comparison with the other countries examined. Only recently was a special regulation for structural intervention, Temps réduit indemnisé de longue durée (TRILD), adopted in December 1993. The new programme clearly represents an increased emphasis on short-time work as a policy instrument for assisting firms undergoing a prolonged restructuring. TRILD is conceived as an alternative to and not a prolongation of the regular chômage partiel scheme, although the subsequent conclusion of a TRILD agreement in firms with a recent history of chômage partiel is not per se prohibited. The principal difference between TRILD and the regular chômage partiel programme is that

the maximum duration of benefits in the new programme is considerably longer.⁴¹

Short-time work in Germany traditionally aims at offsetting a short-term, cyclical decline in production. However, the extension of the period for short-time benefits beyond the "normal" maximum of six months has been a regular practice during recessions. Beginning in 1974 short-time work regulations were modified to permit the Minister of Labour to extend the maximum duration of short-time work from twelve to twenty-four months if warranted by special labour market conditions.⁴²

Special regulations were introduced in 1983/84 and in 1987 for the steel industry, permitting short-time work benefits for up to 36 months. In 1988 a change in regulations made it possible for the first time to apply for short-time compensation even if it was uncertain whether the employment relationship would be continued after the period on short time (i.e., structural short-time work).⁴³ Originally limited to the coal and steel industry, this regulation was later extended to other industries.⁴⁴ Its explicit goal is to avoid mass dismissals that must be notified in advance under the law on unfair dismissal. After the dissolution of the GDR, eligibility for structural short-time work was extended to all companies in the five new Länder. Extensive use was made of this regulation and short-time work quickly became the most important labour market policy instrument in the East German region.⁴⁵

4.2 The Extent of structural intervention

The extent to which national short-time programmes are used for structural intervention is difficult to assess precisely. One indicator of *de facto* structural use is the duration of short-time work. Separate administrative data for programmes for structural intervention in Italy, Germany and - since 1994 - in

41 Twelve hundred hours per employee over 18 months in contrast to seven hundred hours in one year in the regular *chômage partiel* scheme. Since TRILD is intended to avoid impending redundancies in situations of restructuring, it is administered by the *Fond national de l'Emploi (F.N.E.)* and requires the conclusion of a special agreement with the state.

42 Either in generally or for particular industries or firms. This regulation has been applied differently in different regions and there has never has been a clear definition of "extraordinary circumstances."

43 §63 par. 4 AFG.

44 Originally scheduled to expire December 31, 1995, but now it has been extended until the end of 1997.

45 In order to react to the sudden changes in the former GDR in 1989, a special regulation of §63 para. 5 AFG was introduced in 1990 until the end of 1991, which basically entitled all branches of economy to structural short-time work.

France - provide another source of information. The latter data, however, clearly underestimate the actual extent of structural intervention because the regular programmes for temporary intervention are in practice frequently used to accompany structural change.

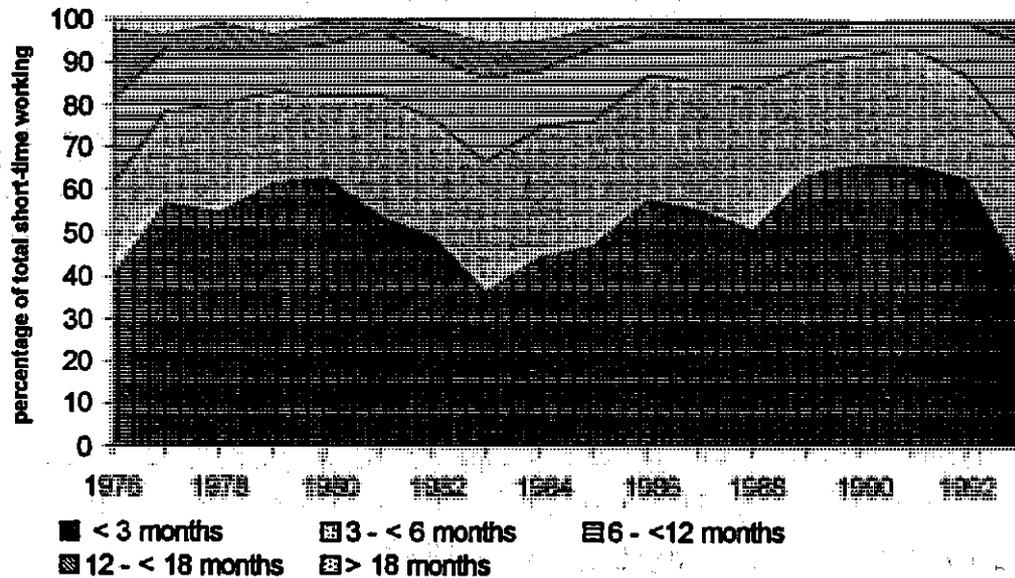
This dilemma is clearest in the case of Germany, for which both types of data are available for recent years. Official programme data show that structural short-time work under the special regulation (AFG §63 Para. 4) accounts for only a small fraction of total short-time work in West Germany (never more than 6.8% of all participants in 1993), although structural short time is higher in certain industries such as steel and coal as well as in the East German region.

On the other hand, data on the actual duration of short-time work in West Germany (Figure 14), suggest that structural use is (a) much broader than that reported under the explicit regulation for this purpose and (b) is a long-established practice that predates the new regulation. Thus, the duration of short-time work since 1976 in West Germany shows a pronounced cyclical pattern but no apparent trend (Figure 14). Depending on the year, the percentage of German short-time workers having been on short time for more than six months vary between 10% and 38% of all persons on short time. Nevertheless, short-time work in Germany remains today, as in the past, primarily a programme for cyclical adjustment situations; only the expansion of short time in East Germany represents a really new dimension in the use of short-time work for structural intervention.

Our analysis of the Spanish case shows clearly that temporary lay-offs, i.e., short time at zero hours, accounts for most short-time work and is even more frequent than in East Germany. Moreover, the average duration of temporary layoffs is long, for example, over 100 working days per participant in 1988 (i.e., ca. six months). This pattern of utilization is indicative of a relatively heavy use of the programme as an instrument for structural adjustment.⁴⁶

⁴⁶ By comparison the average duration of all spells of short-time work in Germany in 1988 was only ca. 4 months.

Figure 14: Short-time Work in West Germany 1979-1993
According to Duration of Short-time Working (%)



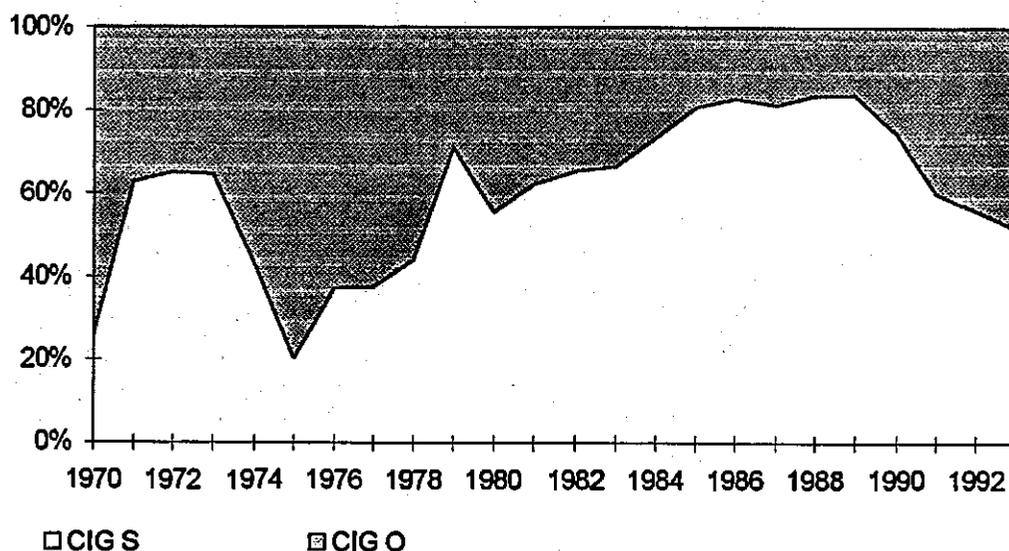
Source: ANBA Jahreszahlen, several volumes

Although there is no programme data available on the duration of short-time work in Italy and France, participants in the CIG-S, the special Italian programme for structural intervention, accounted for about two thirds of total CIG hours during much of the decade of the 1980s, falling to slightly more than half in the early 1990s (Figure 15). Utilization of the CIG reached its high point during the industrial crisis of the early 1980s in which more than one million jobs were lost. During this period the number of hours compensated through the CIG reached a peak of 8% of total hours in the industrial sector in 1984. The CIG, thus, played a principal role in buffering the impact of restructuring and the labour market crisis (Tronti 1993).

Although firms undergoing restructuring in France do benefit from chômage partiel, which can be used in the context of social plans, the French programme has not been expanded as an instrument for long-term structural intervention as is the case in Germany, Italy and Spain. This focus on short-term adjustment situations is reinforced by the still relatively low wage-replacement rate (50% of previous wages) and the relatively short maximum duration of the benefits available (currently 700 hours). As noted above, a special short-time work programme has been recently introduced in France, "Long-term Short-time Compensation;" TRILD), which is specifically aimed at situations of structural adjustment, although the wage-replacement rate remains unchanged and the

potential maximum duration of benefits limited in comparison with that in the other countries examined. TRILD is, however, too new to assess its impact.

Figure 15: Cyclical (CIG O) and structural (CIG S) short-time compensation in Italy, 1970-1992



Source: INPS and own calculations.

4.3 Adapting programmes to structural use

ITALY

The heavy reliance on the CIG as an instrument of adjustment, especially short-time at zero hours in the CIG-S, came under increasing criticism in the late 1980s. It was criticized in particular for carrying job security to the point of preserving purely fictitious jobs without any economic sense and for being a source of labour market rigidity. Moreover, the CIG was regarded by many as a form of "Balkanization" of social benefits. While relatively privileged workers in industry enjoyed a high degree of job security, most Italian workers lacked even minimal unemployment benefits.⁴⁷ Finally, the rapid expansion of the CIG programme led to a great deal of administrative discretion - even arbitrariness - in the granting of benefits and blurred of the distinction between the "ordinary" and the "extraordinary" or structural form of intervention.

⁴⁷ This criticism is not wrong but fails to recognize the real cause, which is not the CIG but the lack of a general system of unemployment insurance. If unemployment benefits reach an adequate level, the utilization of the CIG-S will decline. A new legislation in 1991 and 1993 is a step in the right direction. It raised benefits to 30% (until December 31, 1994) and thereafter to 40% of previous earnings.

The 1991 legislative changes aimed at curtailing the use of the short-time benefit as a social buffer for redundant workers with little hope of further employment. This was to be accomplished by limiting the duration of benefits (to a maximum of 2 years), shifting a greater burden of the financing of the programme to employers using the programme and providing, for the first time, clear procedures for making workers in the CIG redundant. The intention of the reform was to return the CIG to its classical functions as a programme for workers in firms experiencing temporary difficulties and away from providing income maintenance in situations of prolonged structural decline.

Redundant workers are now entitled to a "mobility" benefit equal to 80% of their previous earnings for a maximum period of 12 to 48 months, depending on age and region.⁴⁸ Previously, workers who lost their job due to collective dismissals were entitled to benefits for a maximum of only six months. Workers made redundant through the new mobility procedure enjoy recall rights if their former employer hires new staff. Moreover, they are placed on special "mobility" lists in the public employment service from which companies with more than ten employees are required to recruit 12% of their staff.⁴⁹ In effect external mobility is facilitated by providing special accompanying measures for displaced workers as well as adequate income maintenance benefits.

Moreover, firms are now required in principle to use the CIG-S on a rotating basis instead of the widespread practice of putting part of the workforce on zero hours for an indefinite period. Rotation conflicts with prevailing practice of using structural short-time work as an instrument of *de facto* exclusion of redundant workers rather than to support work sharing, which the rotation principle presupposes.⁵⁰ Although the actual frequency of the practice of rotation is unknown, we had the impression from our own expert interviews that most firms have successfully resisted this requirement, preferring to pay the financial penalty for not doing so.⁵¹

48. The maximum duration of benefits are as follows: 12 months for workers under 40 years of age; 24 months for those over 40 years of age, 36 months for those over 50 years of age. These limits are increased by 12 months in the South (Mezzogiorno).

49. The priority placement lists also include the long-term unemployed. As an additional incentive, employers who hire workers displaced via this procedure on fixed-term contracts receive a wage subsidy in the form of a rebate of social security contributions and a subsidy equal to 50% of the displaced worker's remaining "mobility benefit" if hired on an unlimited contract.

50. Another feature of the 1991 reform is that it provides an incentive for employers to assist dismissed workers to find alternative employment. Companies can reduce the level of the redundancy payment they make to INPS if they are successful in placing redundant workers assigned to the mobility rolls in alternative employment (Liso 1992).

51. Firms not practising rotation must pay a penalty: Twice the normal contribution (i.e. 9% instead of 4.5%) on the amount paid out to their employees under the program.

Short-time and Training

Participation in training activities while receiving short-time benefits is permitted in both the CIG-O and the CIG-S, and workers in the CIG-S can in principle lose their benefit entitlement if they refuse an offer of training. Public further training programmes are, however, little developed in Italy -with the exception of some regions - and the possibility of using publicly supported periods on short time for internal training is seldom used in small and middle-sized firms.

There are, however, many examples of larger enterprises using periods in the CIG for training purposes, sometimes with the assistance of the European Social Fund or regional governments. For example, the 1995 plan for cutting 2000 jobs at Olivetti contains a combination of various measures. In addition to transferring 425 older employees to the CIG-S to finance the transition period until they become eligible for early retirement, 425 mainly younger employees which the company would like to retain were to receive benefits short-time benefits in combination with a re-training. The training agreement foresees, after a training period of 8 months, either recall and a new job at Olivetti or placement through the external labour market. The training program is being financed through the European commission with state and regional support within the framework of target 4 of the ESF and Article 9 of law N. 263/93 (Goldin 1995).

Alternatives

Solidarity contracts (Contratti di solidarietà), special collective agreement between a company and the unions reducing working time and wages to avoid redundancies (or to create additional employment), were given a new impetus by legislative changes in 1993. Previously workers reducing their working time received benefits for a maximum of 24 months (in the Mezzogiorno up to three years) at a level of 50 % of the wage for the hours lost.⁵² In the past this programme has had a relatively low uptake largely because the conditions in the CIG-S were much more favourable. However, for the 1993-1995 periods special temporary conditions have been introduced: For firms eligible for CIG, employees receive 75% of wages for lost hours and firms receive 25% of value of wages for reduced working time. In addition, these employers can claim a rebate of 20 to 35% on social insurance contributions, depending on the extent of the reduction in working time.⁵³ In all other firms the corresponding incentives are 25% for both employees and employers. These new conditions

⁵² Special conditions in Southern Italy: Three entire years of wage compensation at a level of 30 % in cases of work-sharing in order to avoid dismissals or to realize new employment.

⁵³ Thirty to forty per cent in some problem regions.

have led to a surge in uptake and substitution of solidarity contracts for structural short-time work in the CIG.⁵⁴

In contrast to the CIG-S, in which the reduction in working time is typically in the form of a lay-off for part of the workforce, these agreements reduce the working time proportionately for all affected employees. In practice the various forms of work sharing are mixed. For example, at Olivetti not only short-time benefits but also solidarity contracts are being used to avoid redundancies.⁵⁵

GERMANY

Experience with structural short time work as a separate programme first in special regulations for the coal and steel industries, then in East Germany and, subsequently, as a general amendment to the German short-time programme have led to a number of changes in design of the instrument. As in Italy, the short-time work programme has been shaped by conflicting goals, which are by no means consistent. Thus, recent changes have extended the duration of cyclical short-time work to a maximum of 24 months (the same as for structural short-time work!) in response to the labour market crisis,⁵⁶ while at the same time the cost of short-time work for employers has been increased substantially by requiring them to bear the costs of health and pension contributions for short time.⁵⁷ Evidently, labour market policy considerations are being overridden by budgetary restraints.

Although there is a great deal of flexibility in the German short-time work programme, the usual practice in Germany has been work sharing, i.e., distribution of the reduction in working time among a broad group of employees rather than laying off part of the workforce. In case of structural short-time work, which expressively serves the purpose of avoiding mass dismissals,⁵⁸ the affected employees are to be organized in independent units so that the remaining part of the company can continue to function normally. The role of the short-time unit might be, for example, to perform repair work, to have employees ready for work on short-term notice, or to carry out training measures.

54 There is a cash limit of only ca. 11 million DM in 1993.

55 In addition to the changes in solidarity contracts, other provisions of the 1993 law provide incentives for workers within five years of eligibility for retirement to convert to part-time jobs (Ministero del Lavoro 1993: 229-230).

56 Until June 1995 and, thereafter, declining degressively to 12 months.

57 These costs, which constitute an additional ca. 15 per cent of wages since January 1995 and 30 per cent since 1990, were previously reimbursed by the Bundesanstalt für Arbeit.

58 This automatically excludes companies with less than 20 employees.

Links to the former employer must be maintained but independent legal entities are also permissible, for example, Arbeitsförderbetriebe (employment companies) and Beschäftigung-und Qualifizierungsgesellschaften (employment and training companies), so long as ties continue to exist to the former employer. These ties may consist, for example, of an agreement to rotate employees between the short time unit and the company, the possibility of recalling workers from the unit, or the financing of vacation and holiday pay, which is not covered by short-time compensation.

Innovative approaches should also be mentioned. It is possible to operate the short time unit as a licensed temporary employment agency or to carry out on-the-job training and re-orientation measures in craft businesses by loaning out workers from industrial companies. For example, an innovative experiment in Northrhein-Westfalia allowed workers on structural short-time work at zero hours in the steel industry to work temporarily (up to 6 months) in craft enterprises (in which there was a shortage of skilled labour) in so-called „taster“ - courses while remaining employees of their firm. Although many such placements were offered by craft enterprises, the steel industry employees showed little interest. They had good reasons for not accepting these offers: The costs of geographical mobility, a high wage gap between industry and craft sectors - after the expiration of the 6 month-subsidy, and the job guarantee given by the steel industry before implementing short-time work.

The effectiveness of the specific design features for implementation of structural short-time work are undermined by the fact that they apply only to the small fraction of short-time compensation that is officially designated as being for structural reasons. In fact, the boundaries between cyclical and structural application of the programme are fluid, and the extension of the duration for cyclical short-time work to 24 months practically eliminated the difference between the two regulations. Whether short-time work is used to overcome a cyclical or structural problem usually can only be distinguished in hindsight.

Short-time work and training

Structural short-time work was originally used in the steel and mining industries mainly as a smooth transition to early retirement. In the East German region increased efforts were made to combine short time work with training, especially short-time with zero working hours. This use of short-time was, however, never obligatory for firms and participation in training at its peak averaged about 15% in the eastern region. Training programs were usually initiated by the employees and their representatives, took place in large corporations and targeted the external labour market (Seifert 1993 et al.: Auer et al. 1992)

The possibility of linking short-time work with training was also incorporated in the new regulation for structural short-time work but employers are not obliged to offer training. For cyclical short-time work, access to training measures was first made possible by decree at the end of 1993.

Although now permitted, several factors make it in practice difficult to combine training measures with short-time work in Germany:

- 1) the training may not only be relevant to the company's training needs but must provide employees with qualifications that will increase their employment prospects on the external labour market.
- 2) Eligibility for training and training allowances are decided on an individual basis in Germany, and financing of training measures for affected employees in an enterprise as a group is not possible.
- 3) It is difficult to conduct more than short-term training measures for employees on short time because, on the one hand, the actual duration of short-time work is difficult to foresee and, on the other hand, according to the newest regulation employees have to be available for placement on the external labour market after 6 months on short-time work.⁵⁹
- 4) Only "necessary training" to avoid imminent unemployment is being subsidized and no longer training that is simply "useful".⁶⁰ Except for structural short-time work, training measure may not last longer than 6 months, because it is assumed that short-time work during longer longer measures is only being used for training purposes (Kruppe 1995).

Alternative measures

German firms in economic difficulty have also negotiated cuts in working time outside the framework of the short time work programmes; the VW experiment with the four-day week being the most prominent example. VW has proved to be the forerunner of a new style of working time reductions in Germany. Since April 1994 collective agreements in the German metal working and electrical equipment industries contain a provision that allows for voluntary plant-level agreements to preserve employment in which working time can be reduced to 30 hours per week ("Tarifverträge zur Beschäftigungssicherung"). Similar provisions were subsequently introduced in collective agreements in other sectors (Rosdücher and Seiffert 1994).

There are two basic variants in the local work sharing agreements concluded in the metal working industry: 1) reduction in working time for all

⁵⁹ The placement office has to be informed of name, age, profession etc. Whether this requirement will be important in practice is uncertain.

⁶⁰ Support for career training, e.g. for skilled workers who wish to become master craftsmen, has now become more or less impossible.

employees with an employment guarantee for the life of the agreement; 2) reduction in working time affecting only part of the workforce in which there is a partial compensation of wage losses (1% to 7% depending on reduction in hours) but no employment guarantee. The first option is apparently intended in particular for firms who have exhausted their contingent of regular short-time work and the second is a possible alternative to the short-time work programme.

According to a survey conducted in July of 1994 there has been a strong response to this option with 110 enterprises accounting for 16% of all employees have concluded such agreements. On the assumption of an average reduction in working time of 10% for the 500,000 employees affected by such agreements, the study implies a potential impact of up to 50,000 dismissals avoided in these firms (IFO 1994). The number of such agreements subsequently declined rapidly in the course of the economic upswing - as did the number of employees on short-time work.

FRANCE

While French labour market policy has devoted a large share of its resources to special programmes targeted on enterprises in economic difficulty, short-time work has played only a minor role. French accompanying measures have promoted above all forms of external mobility in adjustment situations, especially measures directed at older employees.⁶¹ France has also developed a unique set of special training schemes ("mesures de conversion") designed not for internal redeployment but to promote external mobility and acceptance of restructuring. First introduced in the early 1980s to deal with crises in the steel and shipbuilding industries, conversion leave (congé de conversion) was subsequently extended to larger firms undergoing collective dismissals and finally to all other firms and even to individual redundancies (convention de conversion).

In this policy environment short-time work has been used as a temporary measure but not to provide long-term benefits for employees in industries in structural decline. In 1993, in response to rising unemployment, the maximum duration of benefits was raised (from 500 to 700 hours) and the state subsidy increased for employees on short-time. Nevertheless, there is a clear drift in policy toward use of short-time work in situations of structural adjustment (Lefèvre, Béraud, Lallement, 1994). This trend is exemplified by the introduction of the new TRILD programme for prolonged intervention, which extends the application of short-time work to situations of prolonged

⁶¹ Reduction in the retirement age, diverse early retirement programs; special regulations in the unemployment insurance system that permit older displaced workers to receive benefits until they reach retirement age without the usual obligation to actively seek work.

restructuring. Nevertheless, French policy still rejects use of short-time work as an alternative to mass dismissals in enterprises undergoing structural decline.

How does labour market policy in France respond in similar situations without resorting to structural short-time work? Comparison of French and German experience with structural adjustment in the steel industry in the 1980s indicates that age measures and, especially after 1984, external training were most important in France, whereas redundancy payments (including voluntary agreements) and reductions in working time were more important in Germany, in addition to early retirement (Auer 1989, Houseman 1992). The reductions in working time were the result of short-time work, which was available for up to 36 months in the steel industry, but also of reductions in contractual working time, which was already at 36.5 hours in 1988. In Germany it was especially older workers who were put on structural short-time work for extended periods prior to becoming eligible for early retirement. While this was not possible in France, there was a labour market measure, *dispense d'activité*, in which the older employees remain employees of their firm but do not work and get wage compensation payments from the state until they reach early retirement age. Although not part of the short-time work programme, this measure is evidently a close functional equivalent for short-time work at zero hours for older workers in Germany and Italy.

Short-time work and training

French companies may use periods on short-time work for training purposes. In addition a new programme provides for a public subsidy for training during phases of low capacity utilization as an alternative to use of the short-time work programme.⁶² Prerequisite is an agreement between the company and the National Employment Fund (Fond national de l'Emploi; FNE). Such agreements are part of the FNE's program for further training and retraining. This regulation, which was introduced in 1991, is not a supplement to normal short-time work but rather an alternative: Combination of benefits from regular short-time work and the training program is not possible.⁶³

One condition for the state training subsidy is that a homogenous group of employees (all from one department, one category of employees) must take part in the training measure. The company may also bring forward training measures already foreseen in its annual plan or conduct other training that conforms to FNE guidelines.

⁶² The regulations for training programs are laid down in the *Circulaire* of March 8, 1991 and were originally limited to a year.

⁶³ The regulations for training programs are detailed in the *Circulaire* of March 8, 1991.

Training measures supported by the FNE under the programme may deviate from two otherwise binding regulations: a) The duration of the training may be less than usual minimum (50 hours for training measures, 120 hours for re-training); b) categories of persons may take part who are not otherwise eligible for FNE-subsidized training (e.g. secretarial personnel, higher technicians, managers, engineers).

Even if the FNE pays part of the wages during the training, the participants remain employees of their firm. The wage subsidy is usually 50% and otherwise conforms to normal FNE guidelines.⁶⁴ The costs for the measures are as a rule financed by the FNE.⁶⁵

The new program can probably be traced back to experience between 1988 and 1989 with a local pilot programme in the textile sector.⁶⁶ Like the current program training was binding for those affected and replaced the otherwise normal short-time work routine. Management in the participating enterprises regarded the experiment as a relative success, although there were complaints in some cases that the courses offered were insufficiently specialized. The reaction of the employees was by contrast equivocal. On the one hand, many employees were motivated and actively prepared for changes in their working environment, which was judged positively. On the other hand, especially older employees wondered about the relevance of the measure. In addition, there was criticism that it was not possible to obtain recognized certificates.

4.4 Lessons from European experience

Short-time work programmes perform at least three principal functions for employees and enterprises, which correspond to three different ideal-typical adjustment situations:

1. The overcoming of a temporary decline in demand for labour, typically due to cyclical reasons. In this situation short-time work is supposed to stabilize employment and enable the firm to retain skilled labour and avoid adjustment costs.
2. The overcoming of a longer-term decline in demand for labour for structural reasons. In this case the same programme goals are applicable. After a

⁶⁴ See Circulaire of September 23, 1986.

⁶⁵ The cost of training may be paid by the FNE if there are grounds for an exception, if the measure to be conducted has not been scheduled in the company's annual plan, and if it does not claim any of the above mentioned exceptional regulations (duration, category of persons).

⁶⁶ See the report by Françoise Daulty, *Se former pendant les périodes de chômage partiel*, 1992

period of restructuring, the rejuvenated enterprise may be able to continue to employ the workers who were on short time, but the outcome is uncertain.

3. The "social buffering" of mass redundancies. This situation involves either the use of short time as an alternative to mass dismissals or the stepwise termination of the entire workforce and closure. In this situation short-time work is used as primarily as a "social shock absorber" in order to defuse tensions in the enterprise and the community.

Although short-time work (function 1) has unquestionable advantages, the other two functions (2,3) of short-time work in structural change cannot be viewed uncritically. The process of structural adjustment may be retarded in enterprises or whole regions and the development of alternative strategies postponed. For employees, short-time work mainly means a temporary reduction in work time, whereby structural short-time work may ultimately culminate in dismissal. In the latter case, however, a misleading signal is sent to the affected personnel, which may inhibit voluntary mobility, or other desirable activities such as job hunting or additional training. On the other hand, employees who are really needed by the firm to regain competitiveness might leave because they interpret short-time work as a sign that their jobs are at risk.

Although the trend toward structural use of short-time work is common to all four countries investigated, the European countries investigated have followed different paths.. Italian labour market policy was the first to use short-time compensation in structural adjustment and has gone furthest in this direction. However, since 1991, Italy has been trying to replace structural short-time work (3rd function) by improving the external mobility of workers to be laid off. This goal is supposed to be achieved by more restrictive use of structural short-time work, the re-regulation of collective redundancies, and by introducing for the first time adequate unemployment benefits.⁶⁷

The relatively small French short-time work programme forms a sharp contrast to that in Italy, offering what is probably only a suboptimal incentives for short time (i.e., limited duration of benefits and a low replacement rate) even in situations of cyclical short-time work (function 1). The new TRILD programme for structural short-time work, which grants benefits over a longer period, extends the application of the programme to cover an intermediate period restructuring lasting up to 18 months (function 2). However, in our opinion, the basic features of the programme, especially the low wage-replacement rate, are probably inadequate for this purpose. Furthermore, the lack of a role for

⁶⁷ The drastic increase of structural short-time work in Italy in the eighties and the resulting abuse of the programme can be traced back mainly to the fact it was supposed to act as a substitute for the lack of an adequate unemployment insurance benefit.

employee representatives in decisions concerning short-time work means that their interests are likely to be underrepresented.⁶⁸

The absence of the parachute function (function 3) in France demonstrates that structural use of short-time work can be dispensed with if national labour market policies offer functional equivalents. In the case of France, those are extensive, even innovative adjustment-oriented accompanying measures, including "dispense d'activité." As described above, the latter regulation replaces the widespread and questionable practice of using short-time compensation to finance an extended waiting period prior for employees prior to entering early retirement.

In Germany, it was the labour market crisis in the East German region that led to the rapid expansion of structural short-time compensation as an alternative to mass dismissals, which had previously been practiced only in the coal and steel industries (function 3). Short-time work - frequently at zero working hours - was used in practice as a social shock absorber in the aftermath of the miscalculated "shock" transformation of the East German economy. This was an understandable quick response to an emergency situation but also a distortion of the short-time work programme: the exception became the rule. The level of short-time work in Germany (and structural use) even surpassed that in Italy in 1990-91 (functions 2 & 3).

Does structural short-time work represent a justifiable form of intervention?

If short-time work has been introduced for reasons which are not simply cyclical, the key question is, in our view, whether continued employment of those on short time is likely after completion of the restructuring process. If short-time work is used, a return to full-time employment is not always predictable but should at least be the goal.

If short-time work merely means a delay before dismissing all or part of the workforce, then short-time work is only being utilized because the instrument is readily available and can be used in a flexible manner. In such a case, short-time work is not being utilized for its classical functions, i.e., the retention of human capital and the stabilization of employment. The separation of the affected employees from their former employer and retraining for the external labour market is surely the preferable solution, and we see no reason to finance this through short-time compensation.

⁶⁸ For similar reasons, Beraud, Lefevre, Lallement (1994) regard TRILD as a form of compulsory part-time work.

The advantage to enterprises of managing redundancies through use of short-time work is mainly that they can select affected employees more according to qualifications and the business needs of the firms rather than by the social criteria that are applicable in the case of mass dismissals. Furthermore, dismissals costs can be avoided as personnel can be gradually reduced over a longer period through natural attrition, reducing or eliminating the cost of severance payments or a social plan. In addition, the employer benefits from an immediate reduction in wage costs, which is particularly large for employees on short time at zero hours. If short-time compensation is used in situations of structural adjustment, these savings should be invested in active measures for the reintegration of the employees to be released.

Moreover, if short-time work is used for structural intervention, the signals given by the company are important in order to minimize negative side-effects. For example, placing short-time workers in a "organizationally independent unit" as required by law in Germany appears to provide a clearer signal than is the case when cyclical short-time work is used for an extended period.⁶⁹

Although the merits of a policy of excluding older employees can be debated, the widespread practice in Italy and in Germany of using short-time work at zero working hours as a transition to early retirement is, in our view, an extreme case of bad practice in labour market programmes. Manageable and effective programmes should be designed to fulfil a clearly articulated and limited set of goals in terms of which they can be consistently administered, performance monitored, programmes evaluated, and instrument design and programme goals continuously reassessed. Short-time work as a prelude to early retirement represents a makeshift extension of the programme that violates the clear rationale of the programme and reduces policy transparency.

Training and short-time work

Combining short-time time work with training is an appealing strategy for using periods of slack work productively, especially, prolonged periods of "structural" short-time work. Participation in training has long been permissible in France and Italy for employees on short time. In Germany it was not possible to combine training with structural short-time work until 1990 and not until 1994 for those receiving regular benefits. This is apparently due to the greater concern in Germany about enterprises using short-time work to finance their own training needs. This concern seems to us to be exaggerated since production workers on short time are not usually priority recipients of company training; in Italy and France the problem is rather the very low use of this

⁶⁹ Still, one cannot expect these signals to be clearly understood by the employees as some links to the company continue to exist, for example, the employers resort to employees in the short-time unit in "case of need".

possibility even where it is permitted. Based on French and German experience, there are also considerable practicable problems in planning courses and scheduling training for persons who are active employees. We think that, as part of a strategy of activating passive benefits, public policy should promote greater use of short time for training even when in the interest of the firm.

Combining training with structural short-time work, i.e., as an alternative to mass dismissals, is beset by special problems. Enterprises are primarily interested in training employees they want to keep. For older employees structural short-time work is frequently a form of pre-early retirement and there is little interest in training. For less senior workers training (or other active measures) are indispensable, but it is difficult to see why it should take place on an employment status. It is difficult to resist the conclusion that the affected workers, their employers and society would be better off if these redundant workers received the same benefit in the form of unemployment insurance payments or a redundancy payment in combination with active measures.

Group-oriented vs. individual measures

An important obstacle to linking prolonged or structural short-time work with training or job creation programmes in Germany is the fact that eligibility for active measures under the German Labour Promotion Act (AFG) is individually determined. This means that intervention in favour of a group of affected employees, which makes sense in situations of structural change, is not possible based on the AFG. Problems affecting part of or an entire workforce, or even whole regions, are treated as individual problems. This is especially an obstacle to organizing training programmes: Teams which work together well cannot be sponsored as such, each individual has to establish their eligibility in order to gain access. In contrast to Germany, measures of labour market policy in France and Italy are much more firm-oriented. The application of various labour market instruments is usually negotiated simultaneously in a package that is tailored to the company's need. The establishment of a special fund like in France for structural short-time work and other related accompanying measures might be an alternative for Germany too.

5. Conclusions

The classical rationale for public short-time work programmes in Germany and elsewhere is that they permit employers to retain human capital, especially skilled workers, over the trough of business cycle, realizing significant savings in turnover costs and enabling the firm to expand output more rapidly when market conditions improve. For employees employment relationships are

stabilized in comparison with a temporary lay-off or (even worse) a hire and fire system. From the point of view of public labour market policy this type of work sharing prevents unemployment at little net cost to the public because, in most cases, the affected employees would otherwise have been entitled to unemployment benefits. There is, thus, a strong case for short-time work as a co-ordination mechanism of public labour market policy that advances both equity and efficiency in comparison with what would have been the outcome of decisions by market actors without public intervention.

The incentive structure for utilization of short-time work is strongly related not only to the generosity of short-time schemes but to other elements of the institutional framework such as employment protection, flexibility options, and labour representation. Employers own incentives for short-time work based on turnover costs are strongest in the classical case of short-time work in response to temporary adjustment situations and weak in the case of structural short-time work.

Analysis of estimated full-time equivalents shows the highest incidence of short-time work in Italy and Spain, followed by West Germany and France. This pattern is stable at least over the last ten years. It is the product not only of the relative generosity of short-time schemes but of a variety of other institutional factors. In terms of employers' labour cost savings during short time, the German scheme ranks surprisingly low. Cost shifting in the programme and trends in collective bargaining have greatly increased the costs of short-time work for employers in Germany.

Short-time work is highly concentrated in industry and disproportionately in larger enterprises in all four countries. This is not importantly a result of short-time programme characteristics and eligibility conditions but rooted in complex differences in markets and adjustment style. An important policy question is whether short-time work is a form of work sharing that can be extended, with appropriate programme changes, to white-collar workers and the service sector (or even the public sector) or whether new and different policy instruments are needed to spread work sharing beyond its traditional boundaries.

The use of short-time work as an instrument for structural adjustment is particularly strong in Italy and Spain but has also been widely practiced in Germany since the early 1970s. The economic crisis in the East German region pushed use of short-time in Germany ahead of Italy and Spain, at least temporarily.

As long as short-time work serves as an instrument of active labour market policy in the sense of work sharing, i.e., actually saves jobs, it fulfils an important function. However, the (unproductive) preservation of a pro forma employment relationship with employees who are to be ultimately separated not

only sends out the wrong signals to individuals but represents a distortion of the programme: Instead of actively promoting employment through work sharing it is transformed into a vehicle for social exclusion, albeit with a special form of income maintenance.

The goal cannot, however, be simply to prohibit use of short-time compensation in situations of structural adjustment but to replace it with more suitable measures. It is, therefore, necessary to develop alternative instruments of employment policy to assist employees in enterprises undergoing structural adjustment which are group-oriented (rather than individual measures), which are financed through special funds (rather than general unemployment insurance contributions), and which aim at the re-integration of short-time workers into the labour market (rather than merely providing passive benefits).

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