

# Anti-Crisis Programmes in Europe and the USA

## International Diversity

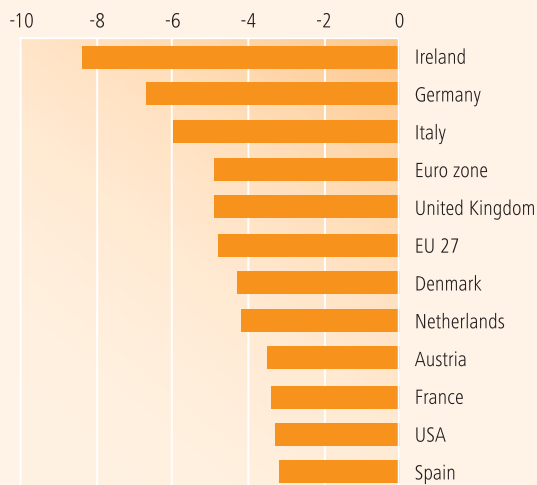
The current worldwide financial and economic crisis began on the property market in the USA and has been encroaching on Europe at the latest since Autumn 2008. The effects vary from country to country. Likewise, the programmes chosen to deal with the crisis differ. Institutional framework conditions play a major role in the question of how the governments of the various countries attempt to safeguard income and employment. Their reactions to the crisis have sometimes been successful, sometimes not.

The drop in gross domestic product (GDP) in the first quarter of 2009 against the previous year illustrates the extent of the crisis. What is striking is that this was still relatively moderate in the USA (see Figure 1). The same applies to Spain, despite crisis-related developments on the property markets in these countries. Germany on the other hand

was particularly hard hit, with a sharp decline in GDP of 6.7 per cent. This is a result of the strong dependence that German industry has on exports and, in addition to that, of the comparatively large importance of the manufacturing industry, as the manufacturing industry was more strongly shaken by the crisis than the service sector. In March 2009, for instance, industrial production on the EU average fell by 18 per cent in comparison to the same month of the previous year – German industrial production on the other hand by 22 per cent. Among the largest industrial nations, the sharp decline was only higher in Italy at minus 27 per cent. In view of its specialisation on high-value industrial products, the German economy has been over-proportionally hit by the global shock. Through this, relatively productive and well-established companies in economically strong regions have also been affected; hence it is not possible to talk about a structural crisis in the classical sense.

On the labour markets, this sharp decline in the economic situation engendered a great variety of very different effects (see Figure 2 on page 40). In Denmark, Ireland, Spain and the USA the unemployment rate rose steeply to April 2009 – in parallel to the drop in GDP. This development continued in the last three countries mentioned until July 2009. In contrast, however, the employment rate in Germany and the Netherlands only increased moderately up to April 2008 and then even to July 2009 only insignificantly.

Figure 1  
**Decline in the gross domestic product  
 in selected countries**  
**1st quarter of 2009 as against 1st quarter of 2008**  
 in per cent



Source: OECD.Stat, status 09.09.2009

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In countries with minimal employment protection (Ireland, Denmark, USA) or with a high proportion of temporary employment (Spain), the crisis hit labour markets early on. In all countries persons in so-called atypical employment relationships were first, and most strongly, hit by unemployment. This included above all hired labour and temporary employees.

### **Safeguarding employment and income**

Both at a national and an international level, one can differentiate between two principally different points of application for crisis measures. The first type of measures is applied at the level of the individual establishment and primarily attempts to secure employment and avoid unemployment. This includes measures accompanying employment such as short-time work, but also forms of working time cuts as well as agreements at the establishment level on wage restraints or even wage cuts. These can make a contribution to the continuation of employment in times of crisis. A survey carried out in the OECD Member States at the beginning of 2009 showed that most of the pro-

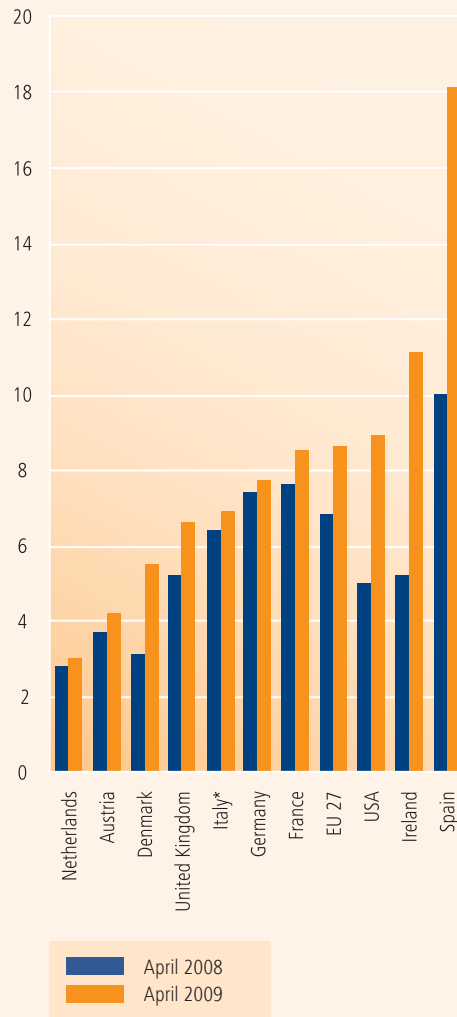
grammes that had been applied at the establishment level essentially combined three subtypes of measures: firstly the expansion of wage subsidies and public employment programmes; secondly cut-backs in social security contributions paid by employers; and thirdly – depending on the country in question – more flexible and more generous regulations for short-time work or temporary layoffs.

The second bundle of measures concerns persons who have lost their place of work on account of the crisis. This includes improvements in social safeguards when one loses one's job, especially in countries that already have a relatively low level of safeguards. This includes tax breaks for the low paid, the taking over of social security contributions by the state, and changes in the level and duration of entitlement to earning-replacement benefits. Along with these "passive" labour market policy measures, measures aimed at quicker re-entry into employment through activation, advice and qualification are also on the agenda. Integration subsidies and publicly assisted employment programmes are also among these classical measures of active labour market policy.

Figure 2

### Changes in the unemployment rate April 2009 in comparison to 2008

Harmonised unemployment rates in per cent



Note: \* March 2008 and March 2009

Source: OECD

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### Institutions and their effect on reactions to the crisis

The reasons for the considerable differences between countries in the development of unemployment rates are not only to be seen in the structure of sectoral production but also in the institutional framework conditions of the labour market in question. This includes above all employment legislation, the wage-bargaining system, and the established system of passive and active labour market

policies. The way labour market policy in individual countries reacts to employment and income security needs is strongly dependent upon these framework conditions.

In Continental European countries such as Germany, France or Belgium, with strongly regulated labour markets, measures are usually aimed at internal forms of flexibility within establishments themselves. In these countries, recourse is usually made to the instrument of subsidized short-term work. Here many German companies are following internal strategies to an extent previously unknown in order to adjust their staff employment situation to the worsened state of the order books. On the one hand intensive use has been made of the possibility of flexible working time arrangements: this meant that less overtime was carried out, the leeway in the shortening of weekly working time was used, and credit hours on flexi- and working time account balances were reduced. On the other hand the cutbacks in, or cancellation of, wage components that were dependent upon success and that had been agreed within the framework of wage agreements aimed at safeguarding locations and employment – such as the discontinuation of wage supplements for work in excess of statutory maximum working hours or cuts in monthly pay – have contributed to stabilising employment rates up to now.

With regard to safeguards in the event of unemployment, there have been only partial changes in the Continental European countries up to now. In France, for instance, the entitlement to unemployment benefit was extended to out-of-work young people coming from temporary employment relationships. In the Czech Republic, unemployment benefit was increased but the duration of entitlement shortened. In Belgium, however, the duration of entitlement was temporarily extended.

In Anglo-Saxon countries such as Britain, Ireland and the USA on the other hand "external" flexibility, that is the dismissal of workers, dominated. While it is true that here certain individual companies also reacted by introducing "nil short-time work", for example in the form of sabbaticals, this was not supported financially by the state. Labour market policy measures in countries



with only minimal safeguards in the event of unemployment, as for example the USA, for this reason targeted not so much the improvement of employment safeguards but rather income safeguards, for instance through the extension of the period of entitlement to unemployment benefit. To this end, the USA made it easier for its citizens to receive unemployment benefit in the Autumn of 2008, extended the duration of benefit receipt in a number of federal states, and raised unemployment benefit levels for a limited period of time. Britain, which offers a higher level of security in the event of being out of work, for its part extended subsidies for recruitment and further training.

Finally, in Scandinavian countries – with the exception of Finland – direct measures aimed at employment security at the level of the individual establishment were in general disregarded. Here the set of instruments available to active labour market policy was enlarged during the crisis. In Denmark this was even anchored institutionally: the expenditure budget for active labour market policies has been coupled to the development of the unemployment rate. In general, Scandinavian countries grant a higher level of safeguards in the event of unemployment. Hence there were only small changes in the extension of benefit entitlements to unemployment insurance. For example, Finland and Sweden simply shortened the necessary qualifying periods that were to be fulfilled before unemployment benefit could be drawn.

### **Short-time work – The current panacea?**

From a quantitative perspective in Germany, the most significant instrument for easing the burden on the labour market during the crisis is short-time work. In one respect, short-time work can be viewed as a flexibilization instrument within an establishment through which, in an attempt to avoid dismissals, periods of reduced demand for goods or a company's limited access to credit can be bridged. At the same time, short-time work, which is subsidized by means of unemployment insurance funds, is also an important instrument of active labour market policy. It can be regarded as a temporally limited subven-

tion of wages for employees whose job is at risk because of the crisis.

Publicly subsidized short-time working programmes exist in more than half of the 27 EU countries. During the crisis, when short-time work was introduced as a labour market policy instrument in the new EU Member Countries (Bulgaria, Poland, Slovenia, Slovakia, Hungary and the Czech Republic) and during its extension – for instance in Austria – the situation in Germany was used as a model.

In general an expansion of short-time work has been observed in most countries over the last few months. In Belgium for instance short-time work allowances were also extended to cover temporary staff, while a decision was made to support the qualification of short-time workers. Between December 2008 and February 2009 the number of short-time workers there doubled to 6.5 per cent of all employees. In Austria, the proportion of subsidized short-time workers rose by more than four times between January and April 2009 to roughly 11 per cent of all employees. Short-time workers in France received 50 per cent of their loss of wages up to the end of the year as short-time working allowances; as of April 2009, 75 per cent. There the maximum duration of entitlement to the measure per year was raised from 600 to 1,000 hours. On the whole however, short-time work in France is still linked to a higher loss in wages for employees and higher costs for employers than in Germany. By comparing countries, it becomes apparent that the temporary reduction in working time, as a labour market policy instrument in the crisis, is still the most widespread in Germany.

Nevertheless there are only a few studies that evaluate the effectivity of short-time work as an instrument of safeguarding employment. A descriptive comparison of the development of employment in establishments with and without short-time work on the basis of the IAB Establishment Panel (IAB-Betriebspanel) 2003 indicates that, at least in the short term, dismissals are avoided and hence employment stabilized. In contrast to the USA, in European countries with strict protection against unlawful dismissal (Germany, France, Belgium), short-time work as a flexibilization instrument has improved the adaptation

of the workforce to the circumstances prevailing at their establishment. This is shown by studies undertaken in the USA in the 1990s on subsidized short-time work in Europe. By contrast, evaluations on short-time work in Canada come to the conclusion that establishments with temporary economic problems would have dismissed 40 per cent of their workforce if short-time work had not been utilized. In reality, only 12 per cent of employees were dismissed from these establishments once short-time work ceased.

The French Ministry of Employment estimates that the current expansion of short-time work can save 200,000 to 300,000 jobs and that 10 to 20 per cent of short-time workers will be given further qualifications. The costs of such further training are estimated at 1,000 euros per worker. However evaluation results from France on the effect of short-time work between 1996 and 2004 that are available present a less positive picture: various studies show that short-time work does not provide protection against dismissals; it simply postpones them for six months. The authors of these studies hence come to the conclusion that short-time work is unsuitable as an instrument of "structural flexibility".

The international findings previously available on the effects of short-time work thus present an uneven picture. Short-time work is certainly no panacea against the crisis. While it can considerably relieve pressure on the labour market, stabilize purchasing power, and retain human capital at a particular establishment in the short term, this is balanced against possible negative effects, among them higher costs for the company than if dismissals took place and possible effects in terms of conserving structures.

### Conclusions

Over and above the expansion of short-time work, most labour market policy measures in the crisis in Europe base themselves on the currently available set of instruments for labour market policy. At the moment, there is no indication in any country of fundamental innovations. Most measures of active labour market policy, such as the qualification or integration of the long-

term unemployed via „encouragement and obligations“ („Fördern und Fordern“), are linked to the structural problems of the labour market and are therefore hardly suitable for cushioning macroeconomic shocks in the form of a crisis in demand.

In such a situation, the possibilities for action of labour market policy are clearly limited. This is probably also the reason why in country comparisons only a moderate expansion of public employment programmes has been ascertained at best. On the other hand, in a number of countries emphasis is being laid not only on

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qualification measures for the unemployed but also, and increasingly, on qualification of employees. Subsidies for wages and further training have a banking effect and are currently being increasingly employed in countries in which these measures tended to be unpopular before the crisis, such as Britain. In order to limit negative stimulus effects through more generous earning-replacement benefits, countries like the USA, Belgium, Sweden or the Czech Republic merely increase unemployment benefit for a limited period of time. Similarly they set a time limit on the extension of the period of entitlement.

From a transnational perspective it becomes obvious that expensive strategies for relieving pressure on the labour market by expanding early retirement measures or increasing approval of invalidity, that were used on a massive scale in earlier decades, have not been used up to now. All countries seem to have learned from the mistakes of the past.

In some countries, especially also in Germany, the safeguarding of employment via working time adjustment and the hoarding of labour by companies has been extraordinarily successful up to now. Here short-time work has made a considerable contribution. Short-time work is surely no cure-all against the crisis but it has up to now – together with other instruments of flexibilization at the establishment level – prevented an enormous wave of dismissals. Holding on to members of the workforce is therefore definitely interesting, especially in the case of high (establishment-specific) qualification levels that generally

raise dismissal and recruitment costs (see also the article "The German Labour Market Miracle on the Test Block – Crisis Analysis and Recommendation" by Joachim Möller and Ulrich Walwei).

However it is also foreseeable that establishments will not be able to stabilize employment in the long run via short-time work. As a whole, internal flexibility strategies will meet their limitations if a relaxation of the economic situation does ensue quickly enough. In this case, a clear increase in unemployment in Germany as well is to be expected.

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## The authors



### Regina Konle-Seidl

is a Senior Researcher in the Research Department „International Comparisons and European Integration“ at IAB.  
[regina.konle-seidl@iab.de](mailto:regina.konle-seidl@iab.de)



### Thomas Rhein

is a Senior Researcher in the Research Department „International Comparisons and European Integration“ at IAB.  
[thomas.rhein@iab.de](mailto:thomas.rhein@iab.de)