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THE INEFFICIENCY OF REGULAR RELIANCE ON SHORT-TIME WORK

Summary

Short-time work makes it possible for companies faced with temporary and exceptional circumstances to receive subsidies to reduce the number of hours worked by their employees by remunerating the time off. Short-time work has both beneficial and detrimental effects. During the Great Recession of 2008-2009, there was renewed interest in short-time work as part of the fight against unemployment, particularly in France, where it underwent successive reforms. This policy brief shows that the short-time work reforms carried out after the recession have mainly benefited large firms using them on a regular basis to cope with seasonal fluctuations in business activity. This expansion of short-time work is inefficient because it subsidizes periods of inactivity, thus reducing total output. In this context, it would be desirable to introduce a bonus-malus system by which companies would fund short-time work via a tax paid over several years and that is proportional to their contribution to the cost of the scheme. ■

- The growth of the short-time work scheme since 2008 has primarily benefited large companies using it on a regular basis to cope with seasonal fluctuations in business activity.
- These subsidies to companies facing strong seasonal fluctuations at the expense of the rest of the economy result in a decrease in total output.
- The introduction of a bonus-malus system, within which companies would fund short-time work via a tax paid over several years and that is proportional to their contribution to the cost of this scheme, would make this policy more effective.

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(2) Banque de France. The opinions expressed in this IPP policy brief are those of the authors and cannot be attributed to the Banque de France or Eurosystem.

Short-time work is a means of **safeguarding employment**. It enables companies faced with temporary and exceptional circumstances to receive subsidies to **reduce the number of hours worked** by their employees by **remunerating them for time off**.

Short-time work can have **beneficial effects** for employees, enterprises and public authorities. With it, employees keep their jobs and are assured a minimum income. The company reduces labour costs and preserves its human capital. By avoiding redundancies, short-time work also improves the social climate and can reduce unemployment insurance expenditure. However, short-time work also has **detrimental effects**. For reasons of profitability, financially viable companies may place certain employees on a part-time basis whom they would have retained full-time if no compensation were available. The scheme may be used by firms facing structural economic difficulties to subsidise jobs destined for elimination and whose employees would otherwise have been made redundant and possibly re-employed in more productive firms.

During the Great Recession of 2008-2009, there was renewed interest in short-time work as a means to combat unemployment. Several countries, including Belgium, Turkey, Italy and Germany, have encouraged its use. Empirical research suggests that short-time work helped reduce unemployment during the recession. However, the positive effect of **short-time work seems limited to periods of recession**. In more favourable economic conditions, short-time work appears to lead to a drop in hours worked without any significant effect on employment³.

However, despite these windfall effects, some countries decided to retain their short-time work scheme after the recession. In France, since 2008, under pressure from companies that most rely on short-time work, the public authorities have decided to make the short-time work scheme more generous, which has contributed to a considerable expansion of the scheme. This policy brief shows that **this expansion has mainly benefited large companies that use it on a regular basis to cope with seasonal fluctuations in business activity**. This situation is inefficient because it subsidizes companies and sectors with high seasonal fluctuations at the expense of the rest of the economy. These cross-subsidies reduce overall production. In this context, the introduction of a bonus-malus system, within which companies would fund short-time work through a tax proportional to their contribution to the cost of this scheme, would make this policy more effective.

THE SHORT-TIME WORK SCHEME SINCE 1 JULY 2013

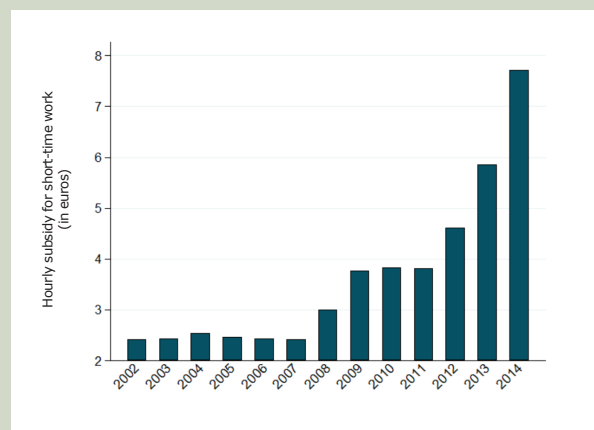
All companies subject to the Labour Code and all their employees are eligible for the short-time work scheme. Six grounds can justify its implementation: (1) Economic situation; (2) Modernisation, restructuring and transformation; (3) Problems in the supply of raw materials and energy; (4) Disaster; (5) Exceptional bad weather; (6) Other exceptional circumstances.

Short-time work may be applied to all or part of the company and may take the form of an hourly reduction or a temporary suspension of employment. A company uses short-time work for its non-working hours of less than 35 hours per week (or the contractual or collective working time if this is less), for a maximum period of six months (which can be renewed in exchange for commitments), and for a maximum of 1,000 hours per employee per year.

For each hour taken off for short-time work, the company compensates the employee up to 70% of his or her previous gross hourly wage (100% if the employee is undergoing training). The company is then partially reimbursed by the government in the form of an hourly subsidy according to the size of the business: €7.74 for companies with 250 employees or less and €7.23 for companies with 251 employees or more.

THE SHORT-TIME WORK REFORMS OF 2012-2013

FIGURE 1 - Hourly short-time work subsidy from 2002 to 2014.



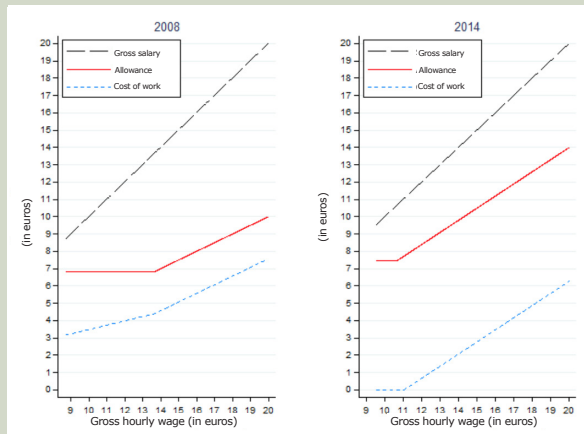
Sources: DADS (Insee), Sinapse (DGEFP) and Extranet (ASP).
Field: Metropolitan France excluding Corsica; business sectors excluding agriculture; firms relying on short-time work for economic reasons.
Definition: The hourly short-time work subsidy is defined as the total short-time work subsidy divided by the total number short-time work hours.

(3) Cahuc, P. (2014). Short-time work compensations and employment. World of Labor, page 11. Institute of Labor Economics (IZA).

After a report by three representatives of large companies and a senior civil servant⁴, and in response to requests made by professional organisations in the National Interprofessional Agreement (ANI) of 13 January 2012, the public authorities reformed the short-time work scheme.

Thus, in July 2013, the short-time work allowance was increased from 60% to 70% of the previous gross hourly wage and the hourly minimum of €6.84 was abolished. These reforms have also led to increases in the hourly short-time work subsidy, which was successively raised from €3.33/€3.84 to €4.33/€4.84 in March 2012 and to €7.74/€7.23 in July 2013 (Figure 1). Over the period as a whole, while employees in short-time work, most of whom are paid around the minimum wage, saw their hourly short-time work allowance maintained at their usual wage level, the company's cost for short-time work fell from 50% to 0% of the allowance between 2008 and 2013 due to the increase in the public subsidy (Figure 2).

FIGURE 2 - Hourly cost of short-time work in 2008 and 2014.



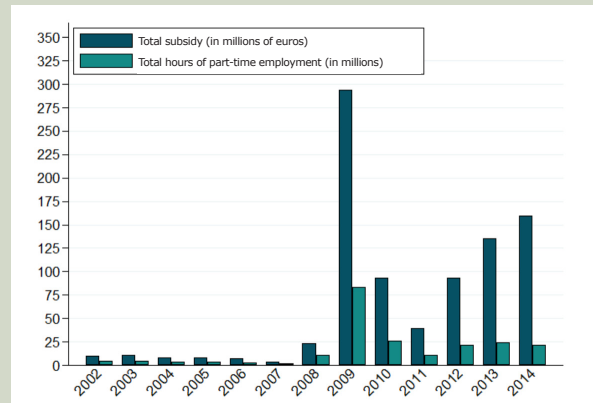
Note: The origin of the horizontal axis corresponds to the cost of work at the minimum wage level; the allowance corresponds to the remuneration of hours not worked by the employee; the cost of work represents the hourly cost of short-time work borne by the company.

THE RISE OF SHORT-TIME WORK

Before the Great Recession of 2008-2009, short-time work was not widespread, and its budget fluctuated between €5 and 10 million per year. In 2009, in response to the economic recession, this budget amounted to €300 million. In 2012 and 2013, the reforms considerably increased the amount of the scheme's benefits, the cost of which was multiplied by 20 in 2013 compared with the period prior to 2009 (Figure 3).

Short-time work nevertheless plays a small role in the French economy as the scheme concerns less than 1% of companies and less than 0.5% of hours worked. However, the hours of short-time work are extremely concentrated within a small number of companies that use them on a regular basis. To understand this pattern, it is useful to distinguish three categories of companies:

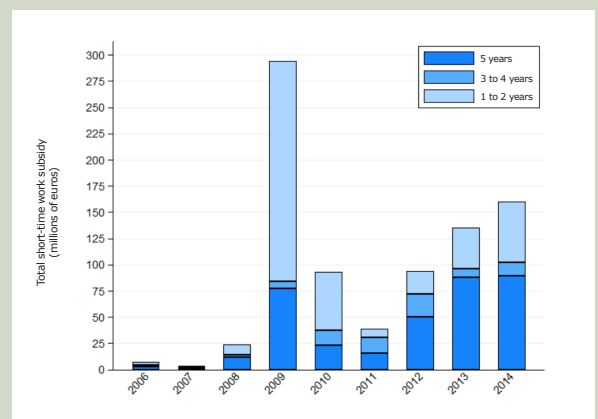
FIGURE 3 - Total short-time work subsidy and total number of short-time work hours from 2006 to 2014.



Sources: DADS (Insee), Sinapse (DGEFP) and Extranet (ASP). Field: Metropolitan France excluding Corsica; business sectors excluding agriculture; firms using short-time work for economic reasons.

(i) occasional users using short-time work from 1 to 2 years in the last 5 years; (ii) repeated users using short-time work from 3 to 4 years in the last 5 years; (iii) systematic users using short-time work every year in the last 5 years. Regular use of short-time work by systematic users increased from 2 to 10 million hours between 2006 and 2014, representing more than 50% of total short-time work hours after the recession and accounting for more than half of public spending on the scheme in 2014 (Figure 4).

FIGURE 4 - Total expenditure for the short-time work subsidy from 2006 to 2014 according to the extent of regular use.



Sources: DADS (Insee), Sinapse (DGEFP) and Extranet (ASP). Field: Metropolitan France excluding Corsica; business sectors excluding agriculture; firms using short-time work for economic reasons.

Note: "5 years" represents systematic users using short-time work every year over the last 5 years; "3 to 4 years" represents repeated users using short-time work 3 to 4 years over the last 5 years; "1 to 2 years" represents occasional users using short-time work 1 to 2 years over the last 5 years.

(4) Brunet, S., Dorge, P., Geneslay, J.-P., et Biehler, M. (2009). *Activité partielle de longue durée: prévenir les licenciements et préparer l'avenir*. Report of the working group, Secrétariat d'État à l'Emploi, Inspection Générale des Affaires Sociales (IGAS).

The top 1% of users, most of whom are systematic users, consumed more than 50% of the short-time work hours between 2006 and 2014. Most of the largest systematic consumers of short-time work are present over the entire 2008-2014 period. A high proportion of systematic users in 2008 also figures among the systematic users in 2014 and this proportion is even higher when the largest systematic users are considered (Table 1). **The reforms of short-time work have therefore mainly benefited a small number of large firms that make massive regular use of the scheme in order to cope with their seasonal fluctuations in business activity.**

Table 1 - Companies making regular use of short-time work in 2008 and 2014.

	Number of regular users in 2008	Proportion of regular users in 2008 who remain regular users in 2014
Total	486	0.26
Among the top 50% of users	244	0.30
Among the top 10% of users	49	0.29
Among the top 1% of users	5	0.60

Sources: DADS (Insee), Sinapse (DGEFP) and Extranet (ASP).
Field: Metropolitan France excluding Corsica; business sectors excluding agriculture; firms using short-time work for economic reasons.
Note: There were 2,501 regular users in 2014.

THE INEFFICIENCY OF REGULAR SHORT-TIME WORK

In times of recession, short-time work offers companies facing temporary and financial difficulties the opportunity to retain their workforce. As such, short-time work generally helps to reduce job losses during a recession. However, short-time work does not have only advantages: it leads to a reduction in the number of hours worked per employee and it can subsidise enterprises that are insufficiently productive at a high cost to public finances.

Our recent research (Cahuc and Nevoux, 2017) shows that the current short-time work scheme in France is not adapted to protect employees and companies from seasonal fluctuations in activity. This measure relies exclusively on public funding. The absence of any contribution from user companies leads to overconsumption and regular use of short-time work. The model we are developing shows that the 2012-2013 reforms of short-time work have induced a financial transfer to enterprises that use short-time work repeatedly and undergo significant seasonal

fluctuations. However, these public subsidies, necessarily funded by other sectors and firms, result in **production losses at the macroeconomic level** insofar as they prevent the reallocation of labour experiencing seasonal fluctuations in business activity towards more productive sectors. We estimate that the aggregate production loss associated with the current short-time work scheme, compared to the social optimum, is equal to 50% of the total short-time work subsidy allocated to systematic users, i.e., around €40 million (Figure 4).

In this context, **unemployment insurance funded by contributions that increase for companies whose employees receive unemployment benefit is more effective.** This bonus-malus for unemployment insurance encourages companies to internalise their redundancy costs and thus to keep their employees employed during periods of low activity. This unemployment insurance can usefully be supplemented by short-time work, so that firms facing temporary difficulties can retain their employees by reducing working hours. Funding of short-time work should however follow the same bonus-malus logic.

CONCLUSION: LIMIT THE REGULAR USE OF SHORT-TIME WORK

Our results highlight that short-time work schemes in which employers contribute little to their funding encourage firms faced with large seasonal fluctuations in their business activity to use them on a regular basis, thus reducing aggregate output. It is thus desirable to limit the regular use of short-time work. The introduction of a bonus-malus system, by which companies would fund short-time work in proportion to their financial involvement in the scheme, is one way of achieving this. The introduction of a bonus-malus for short-time work would however reduce its attractiveness and consequently lead to job losses. The current short-time work scheme must therefore be supplemented by a bonus-malus for unemployment insurance in order to encourage companies facing temporary difficulties to retain their workforce and to fund unemployment benefits for employees who lose their jobs.

Reference:

Cahuc, P. and Nevoux, S. (2017). Inefficient short-time work. Discussion Paper 11010, Institute of Labor Economics (IZA).