

# Labour Market Effects of Work-Sharing Arrangements in Europe

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## Executive summary

Theory tells us that work-sharing is rarely good for employment. Or, at least, conditions under which work-sharing boosts employment are relatively demanding and are rarely met in practice. However, some countries implemented workweek reductions when others did not. One potential answer to this discrepancy is overly simplistic and populist. In those countries that decided to share work, politicians, union members or leaders, or even the public opinion were never confronted to the basic elements contained in Econ 101, the first course in economics taught at virtually all universities. They suffered from a miscomprehension of basic market mechanisms. Another answer goes as follows. For complex (historical, religious, and institutional more generally) reasons, countries came up with different agreements between the various social forces. These agreements are also the outcomes of collective bargaining, which takes very different routes in continental Europe. Finally, such agreements reflect basic preferences over various fields of each country citizens' common life (work and family in particular, or the respective importance and role of the private and the public spheres). The outcomes of the social processes at work should be reflected in the multiple ways of sharing work that have been adopted across Europe, as we will see.

To help understand the situation that exists now, we first investigate the determinants of work-sharing building on theoretical work (chapter 1). Then, we examine the employment effects of work-sharing using Germany (chapter 2) and France (chapter 3) as leading examples. Finally, we try to understand

some of the institutional and social factors affecting the choice of workweek reduction, using Sweden (chapter 4) and the Netherlands (chapter 5) as leading examples.

As mentioned above, work-sharing is rarely good for employment and the conditions that make work-sharing a possible policy are rarely met in practice. Indeed, the first and central message of the country studies can be clearly phrased: in no country work-sharing per se has created employment. Many reasons can be invoked. In particular, wages responded to workweek reductions. In all countries that implemented hours reductions, monthly wage compensation mechanisms were put in place, mostly under the pressure of unions. Even when wage subsidies and other incentives were offered, the increase in hourly wages resulting from wage compensation always mitigated the potential (short-term) effects of hours reduction. For instance, in France, there was an explicit wage compensation mechanism maintaining monthly pay, and because firms went to 35 hours at different moment in times and under different regimes (laws), in 2002 multiple minimum wages were prevailing for the firms under the differing regimes. These minima eventually converged in 2005 to a unique value, the highest within this multiplicity. In Germany, in Holland, empirical evidence show that hourly wages increased. The second central message that can be derived from the country studies can also be clearly expressed: in all countries there were and there still are forces pushing for some form of work-sharing. But the exact implementation is an equilibrium phenomenon that largely depends on a complex set of factors ranging from institutions, the size and international positioning of the country (contrast Sweden, a small open country, and France, a much bigger one with ambiguous feelings vis-à-vis globalization), the centralization or decentralization of union-firms bargaining (see Germany, with industry-level bargaining, versus France, with relatively weak unions), family preferences (see the Netherlands, where a significant fraction of citizens prefer women taking care of children, and contrast with Sweden, where men are virtually mandated to take parental leaves)... The impact of work-sharing on productivity is a central concern of governments when wanting to implement a reduction in hours. It is central because high-productivity firms export, innovate, train, and, maybe more importantly, grow i.e. hire workers. The country studies show that it was not always the case in the past. For instance, in France, reduction in hours is associated with decreasing productivity. And, by contrast, West-German firms that increase hours have (mildly) increasing productivity. Maybe even more troublesome is the death process apparently associated with workweek reduction when firms' productivities are affected in a world of global competition. This fact is the explicit reason for Swedish unions refusing any reduction of the workweek: international competitiveness does not allow any manipulation of hours. And, the same

Swedish unions who had preferences for shorter hours pushed for career breaks who are found to have essentially no impact for the long-term unemployed. A final and interesting message that springs from this book is the value of theory. Theory is really helpful. It is able to illuminate both the reasons for adopting a work-sharing strategy, the shape this strategy takes (part-time, more vacation, less hours,...), and the consequences of work-sharing.

There are many good reasons to reduce working time, even though it does not create jobs. Retraining, raising children, starting a new firm, doing music, shopping, etc. are all valid things that require more “leisure” and some cannot be done at night or during vacations. Hence, workers may need work interruptions lasting one hour, one week, one month, or one year. The baffling number of such potential reasons for “breaks” makes a centralized, authoritarian strategy likely to fail. The direct gains for the economy of such breaks are not overwhelming but the risks incurred are quite low, as long as the changes follow a negotiated, evaluated, and consensual route. All grand (not properly evaluated) strategies are doomed to failure or, at least, they entail large risks; indeed, the consequences of large changes are often unknown and reshuffle economic welfare of large portions of the population in totally unpredictable and unintended directions.