

Fiscal Pulse

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Work-Sharing And Working Time Accounts Enhance Labour Market Flexibility

- **Innovations in labour market arrangements can benefit both labour and business.**

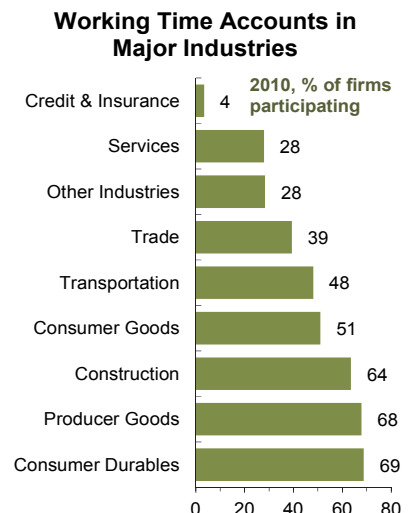
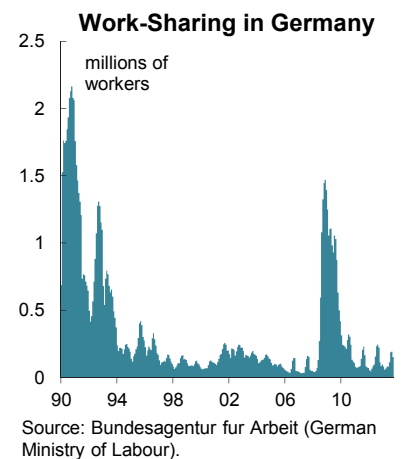
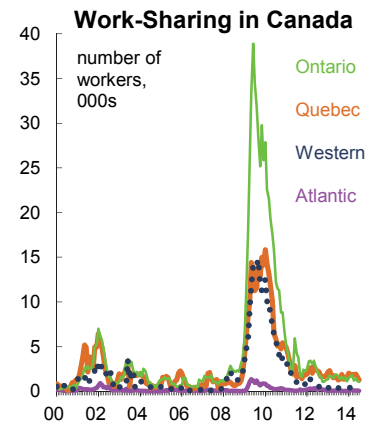
Work-sharing, while often considered a recession defense, deserves recognition as an ongoing policy tool to help mitigate economic volatility and industry restructuring. In lieu of laying workers off, it allows companies to reduce their employees' working hours and salaries, with government (un)employment insurance providing a partial offset for lost wages. For employers, work-sharing avoids the costs of layoffs, re-hiring, and training new workers; for employees, it helps to sustain skills, incomes and household spending. During the last recession, similar to several other nations, Canada expanded the maximum length of its work-sharing agreements from 26 weeks (plus a 12-week extension) to one year (plus a 26 week extension)¹. At the program's peak in June 2009, almost 68,000 Canadian workers were covered by work-sharing agreements (*top chart*).

Germany's work-sharing program stands out for its scale and its extensive historic use. In 1990, work-sharing was part of the response to the profound challenges posed by German reunification, with over two million workers participating in the program (*middle chart*). Also used extensively during the recessions of 1993 and 2009, Germany's work-sharing program relative to population remains substantially larger than Canada's and consists of three distinct applications:

- A cyclical tranche, designed to respond to downturns, running for up to 18 months and extended to 24 months in 2009;
- A seasonal tranche, tailored for outdoor workers during winter (significant use of this program is visible in the middle chart's seasonal fluctuations); and
- A re-structuring tranche, sometimes criticized for propping up industries in decline but still a useful tool for the orderly management of company reorganizations, particularly in hard-hit cities or rural areas.

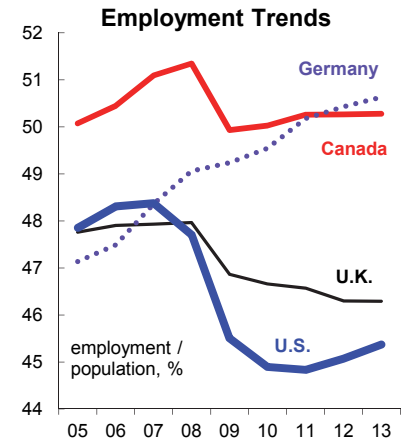
Complementing longer-term work-sharing agreements are Germany's working time accounts, introduced in the mid-1980s, and currently used by almost half of German companies. Under this arrangement, an employee can work additional hours at the regular pay rate during busy periods, accumulating credits in their account to be redeemed during leaner periods while staying on full salary. By industry, Germany's exporters and its firms in more cyclical industries have tended to make greater use of working time accounts (*bottom chart*).

¹ As of October 2012, the maximum agreement length reverted to 26 weeks (plus a 12-week extension).



As employers largely avoid overtime premiums, the concern that employees might be exposed to demands for unlimited flexibility has led to limits on working time accounts, making them primarily suitable for short- and medium-term demand fluctuations. Companies applying for longer-term work-sharing must have drawn down their working time accounts.

Germany's experience challenges the notion that high unionization typically leads to labour market rigidities. The willingness of German business, labour and government to experiment with innovative labour market arrangements in recent decades has introduced considerable labour market flexibility, contributing to Germany's upward trend in employment relative to population (*side chart*).



Source: IMF.

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