Collegio Carlo Alberto

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No. 222
November 2011

Carlo Alberto Notebooks

www.carloalberto.org/working_papers

CAPITALISTS AGAINST CRISIS: EMPLOYERS AND SHORT TIME WORK IN GERMANY AND ITALY, 2008-2010

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ABSTRACT

Why did employers pro-actively support the temporary expansion of short time work (STW) schemes during the recent crisis? This paper conceptualizes the role of STW in this contingency as an instrument of *subsidized job protection* that enabled employers to hoard skilled labor, reduce non-wage labor costs on fallen work hours, and preserve social rest with unions. Two sources of variation are analyzed, at cross-national and cross-sectoral level. By comparing Germany and Italy, the paper finds that employers support for STW was especially strong in skill-intensive manufacturing sectors in both countries, in line with theoretical expectations. However, cross-national diversity in the design and institutional function of STW within their respective labor market regimes shaped different incentive structures for employers in small firms and low-skill services. More generous subsidization of STW through public resources explains the stronger favor of this group in Italy than in Germany.

KEYWORDS: employers, short time work, employment protection, financial crisis, cross-sectoral approach.

JEL classification: K31, J65, J68

Word count: 9,732.

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1. INTRODUCTION

The disruptive employment consequences of the 2008 financial crisis prompted grand part of European governments to strengthen, inter alia, one program aimed at subsidizing working time reductions in order to protect employment levels, namely short time work (STW). By deploying extraordinary resources, governments financed temporary adjustments to existing schemes which facilitated access and use conditions for firms, increased the maximum duration of benefits, and extended the range of eligible workers.[1] Perhaps due to actors' awareness of the exceptional gravity of the situation, widespread political consensus accompanied the approval of such measures.[2]

As this paper shows, the expansion of STW during the crisis met with great support also on the part of business. Instead of antagonizing the intromission of politics into the free play of market forces, employers associations openly endorsed a policy which *de facto* constrained their room for adjusting labor volumes under unstable economic conditions. In other words, to borrow Korpi's terminology,[3] employers seemed “protagonists” of rather than mere “consenters” to the boosting of STW. Why did they play such a pro-active role in the potentiation of STW schemes? What factors explain employers policy stances in comparative perspective?

While shedding light on the politics of the labor market responses to the recent crisis in Europe, this essay has two-fold theoretical implications. On one side, it advances an employer-centered interpretation of a relevant policy tool which witnesses a remarkable lack of political science analysis. Whereas in ordinary times STW constitutes a risk-sharing scheme for employers to socialize the costs of job protection, during the crisis it rather turned to an instrument of *subsidized job protection*. Through a considerable lowering of non-wage labor costs on fallen work hours the state supported employers' endeavor to hoard labor via an increase in internal flexibility and allowed them to avoid social and political strains associated to layoffs processes. Building on the literature on Varieties of Capitalism (VoC),[4] STW plays a relevant role in national economies where firms' production strategies predominantly rely on asset-specific skills of their core workforce. This approach justifies a focus on the reaction to the crisis in those countries which VoC scholars labeled *coordinated market economies*[5] and hybrid types thereof, variously named “state-enhanced” or “mixed” economies.[6]

On the other hand, the paper analyzes variations in employers stances on STW across two dimensions identified by the existing literature.[7] Following an actor-centered institutionalist perspective,[8] we may expect that employers stances mainly differ at *cross-national* level. Employers demands for more consistent subsidization of job protection may depend on structural incentives provided by inbuilt mechanisms within ordinary STW schemes, including their interplay with complementary institutions such as dismissals protection and unemployment insurance. By contrast, we may hypothesize that the heterogeneity of post-industrial economies triggers more relevant *cross-sectoral* divides among domestic employers, depending on their relative exposure to market risk.[9] Whereas it is arguable that large manufacturing producers may develop a particular interest in protecting firm-specific skills of their core workforce, employers in low-skill personal services and small firms are unlikely to share this need. Instead, they may evaluate that more spending on STW will lead to future increases in labor taxes. Accordingly, infra-business divides on the expansion of STW will show similar patterns across countries.

The present analysis centers on a pairwise comparison between Germany and Italy. Given strong manufacturing bases, the plummeting of value added in industrial branches by about 20% in both countries between 2008 and 2009 led to the loss of over 300 thousand jobs in these sectors. Whereas Germany's “job miracle” is reflected by a quick recovery of unemployment levels, Italy witnessed perduring employment contractions well throughout 2010 (figure 1).

[figure 1 about here]

Also due to similar levels of workers' protection against dismissals as well as the inherent role of STW in their income maintenance systems, the relaxation of STW rules represented the chief policy response to the employment crisis in both countries.[10] In 2009 STW involved 2.66% of total dependent workforce in Italy and 1.76% in Germany, against a European average of 1.06%,[11] and contributed to rescuing respectively some 120,000 and 200,000 jobs, according to OECD estimates.[12] Yet, the institutional designs of the German *Kurzarbeitergeld* (henceforth, KuG) and the Italian *Cassa Integrazione Guadagni* (CIG) differ under many critical aspects. Not only does KuG cover all types of firms in Germany, whereas CIG is traditionally circumscribed to large manufacturing firms. The regulation of KuG also appears more stringent in terms of eligibility rules, duration of benefits and costs of use than CIG. Therefore, existing STW schemes set different structures of incentives for German and Italian employers to advocate for its expansion during the crisis.

Methodologically, this work relies on process-tracing employers' position during the decision-making process over the extension of STW in Germany and Italy between the outbreak of the financial crisis in October 2008 and the adoption of the main anti-crisis measures in 2009. Qualitative data are drawn on an extensive set of associations documents, parliamentary hearings, quality press articles and a set of four interviews per country with representatives of the main employers associations and trade unions.

The paper is structured as follows. The first section discusses the theoretical interpretation of STW and outlines research hypotheses on employers stances in this regard. The second section analyzes the main institutional traits of STW schemes in Germany and Italy before the crisis. The third and fourth sections respectively deal with the German and Italian cases. The fifth section concludes by discussing the comparative results.

2. SOCIALIZING JOB PROTECTION: SHORT-TIME WORK IN EMPLOYERS PERSPECTIVE

STW is an insurance scheme whose main objective is to maintain existing employment relationships in place by compensating workers for temporary reductions in working time with a wage replacement allowance for fallen working hours. Upon agreement with workers' representatives and labor offices, in turn, employers benefit from a reduction in labor costs for a limited period of time.

From a systemic viewpoint, STW interacts with two other labor market institutions, i.e. *dismissals protection* and *unemployment insurance.* On one side, STW is complementary to high levels of dismissals protection for permanent workers. In countries where individual and collective redundancies are subject to costly and time-consuming procedures, STW may provide firms with an instrument for immediately adjusting work volumes through internal flexibility. On the other hand, STW schemes constitute an inbuilt feature of insurance-based unemployment compensation systems,[13] though functionally separated from more conventional unemployment benefits. In fact, the latter intervene to sustain workers' income levels after the termination of an employment relationship, thus counterweighting firms' recourse to external flexibility, whereas STW upholds the security of existing jobs.

From employers perspective, instead, STW represents a policy tool to *socialize job protection* in times of market turbulence by shifting the associated costs onto a broader redistributive pool. Employers regularly pay earmarked contributions to a common fund, in most cases incorporated within unemployment insurance, whose resources finance reductions in wage costs when firms recur to STW. On its part, the state wholly or partly subsidizes these schemes by relieving firms from paying payroll taxes[14] on fallen work hours. Ensuing labor costs reductions endow employers with an option to hoard labor through an increase in internal temporal flexibility, which may result more efficient than layoffs for firms' strategies if they estimate their own potential of quick recovery and future labor need. Moreover, the protection of workers' jobs avoids the emergence of conflict with trade unions, thus contributing to social rest within plants and more generally in domestic industrial relations.

A Varieties of Capitalism approach provides a possible comprehensive framework in order to provide a comparatively understanding of the institutional function of STW in the light of the specific characteristics of domestic production structures and institutional complementarities:

- in a *coordinated market economy* (CME) such as Germany, STW performs a “pure” function of socialized job protection in the face of strict regulation of collective dismissals. Core workers' specialization in asset-specific skills in leading manufacturing branches and cooperative industrial relations stimulate the development of consensual strategies at plant level in order to retain the trained workforce in times of market crisis. The state exerts an *enabling* role[15] by deploying own resources to support negotiated crisis management, surveilling the effects of STW on inter-firm competition, and providing comparatively extensive income maintenance for workers made redundant;
- in a *mixed-market economy* (MME) such as Italy, STW represents a tool of subsidized job protection. These witness a reflexive equilibrium between strict dismissal protection, a production regime skewed towards a predominant layer of price-sensitive small firms and the segmentation of social protection schemes.[16] STW is mainly targeted on fewer core skill-intensive firms, and constitutes a device for the state to mediate adversarial industrial relations through conspicuous public resources aimed at rescuing jobs, thus also compensating for scant unemployment protection;
- STW plays little role in *liberal market economies* (LME), where general and transferrable skills couple with low employment protection, and redundancies represent

the most effective strategy for firms during downturns.[17] In the UK (but also in Denmark and Finland), in fact, STW is organized as temporary lay-offs (or "partial unemployment"), in which workers maintain their work contract but are nevertheless subject to job search obligations.[18]

A VoC approach does not allow for broader generalizations of the use of STW during the Great Recession, as table 1 shows. Nonetheless, it provides us with an analytical key to interpret the reasons why Germany and Italy figure at the top of the ranking in table 1, and also hints at the possible self-interest of employers in these countries to protect the asset-specific skills of their core workforce in periods of acute market uncertainty.

[table 1 about here]

However, as critiques to VoC remarked, it seems overly functionalist to infer employers preferences on STW solely from the institutional characteristics of domestic production regimes.[19] Not only would we risk downplaying variables of political nature, such as unions mobilization in favor of job protection and governments' electoral motivations in upholding employment levels. In deed, empirical evidence is needed in order to assess whether employers favor to the expansion of STW during the crisis was the outcome of a "genuine" interest in job protection or rather of a reluctant consensus to unions mobilization or governments' initiative. Given the heterogeneity of post-industrial production structures, and in line with a consistent body of literature, we may also expect significant cross-sectoral variation in employers positions on STW, especially between exposed skill-intensive manufacturing producers and sheltered low-skill services. The basic insight is that "the relative incidence of [market] risk affecting a firm's workforce is an important factor affecting the preferences of employers" on social policy.[20]

Table 2 gives a synoptic representation of the expected distribution of employers preferences on STW during the crisis according to two fundamental characteristics, i.e. economic sector and firm's dimension.

[table 2 about here]

Employers in manufacturing branches and in traditional financial services are expected to advocate for greater expansion of STW in order to avoid shedding their core workforce. Whereas their production activities rely on highly-trained labor with asset-specific skills, their export orientation exposes both employers and employees to higher degree of risk in times of an international fall in product demand. Moreover, higher union density in these sectors will increase their propensity to favor STW in order to minimize industrial conflict and, in face of strict dismissals protection especially for collective redundancies, the economic costs of layoffs. On the other hand, we may expect employers in sheltered services, e.g. in retail commerce and personal services, especially in small-size companies, to resist excessive expenditures for STW because of the general skills of their workforce, including the diffusion of non-standard work,[21] lower union density, and their concern for future increases in non-wage labor costs.[22] Smaller craft firms and large services firms (e.g. wholesale commerce, telecommunications) represent hybrid cases in this picture. Due to their skill-intensiveness, the former may support STW only if related costs do not impinge on their balance sheets, thus upon the condition of a consistent deployment of public resources. Given generally lower degrees of skill-intensiveness than in manufacturing, the latter may rather evaluate its functionality to overcome slumps in consumptions and to avoid costly redundancies procedures.

To sum up, STW provides a scheme through which employers socialize the costs of labor hoarding during crises and avoid political and social costs associated to redundancies. The role of STW is especially great in CMEs and MMEs due to the firm-specificity of core workforce skills and its complementarity with high employment protection on standard work and unemployment insurance. In comparative perspective, two sources of variation in employers policy demands are expected. First, cross-national differences underpin the function of STW in Germany vis-à-vis Italy. In the former, STW constitutes a resource for social partners' autonomous coordination in consensually managing market crises, whereas in the latter the state plays a greater role in dampening industrial conflict through a strategic distribution of resources. Secondly, the incidence of market risk and cost sensitivity are likely to prompt cross-sectoral divides between employers in large manufacturing firms favoring greater expansion of STW, and those in low-skill services resisting excessive public intervention.

The next section applies this theoretical framework to the German and Italian cases.

3. SHORT-TIME WORK IN GERMANY AND ITALY: INSTITUTIONAL FEATURES

STW has constituted a traditional instrument of employment crisis management in both Germany and Italy since the postwar. Its development complemented comparatively strict levels of dismissals protection on standard work. Following the OECD index, Germany and Italy present high levels of employment protection legislation especially for collective dismissals (table 1). In turn, Germany witnesses higher protection against individual dismissals than Italy, although in the latter case legislation introduces a strong differential between firms with more than 15 employees and smaller enterprises, where layoffs procedures are significantly smoother. In Germany, dismissal protection rules apply to firms over 10 employees. On the grounds of the common Bismarckian root, both the German *Kurzarbeitergeld* (KuG) and the Italian *Cassa Integrazione Guadagni* (CIG) are configured as insurance-based schemes. Insured firms and their workers normally pay earmarked contributions and are thus eligible for benefits that replace a percentage of the hourly wage for non-worked hours up to the full working time. Non-core employees such as apprentices and temp agency workers as well as independent contractors are normally excluded.

Notwithstanding these similarities, significant differences underpin the designs of STW in Germany and Italy. To begin with, the German KuG encompasses all types of firms regardless of economic sector and size class. All firms and insured workers pay equal contributions to a unique unemployment insurance fund and share the same entitlement to benefits (table 3). This is very different in Italy, where CIG funds are separated from unemployment insurance. The conjunctural STW scheme (CIG *ordinaria*, CIGO) covers mainly manufacturing firms and related crafts, which pay an additional contribution on top of unemployment insurance. In turn, structural STW (CIG *straordinaria*, CIGS) introduces a further differentiation in terms of size class, as it includes only larger firms in the industrial, commercial and touristic sector (table 4). The organization of risk sharing constitutes a crucial source of actors' coordination. In Germany, diffuse resource ownership stimulate employers and unions to exert more control on resource allocation in order to contain expenditures and prevent distortion effects on domestic competition. By contrast, the segregation of the risk pool in Italy may induce similar coordinative inputs only within the restricted circle of insured sectors.

[tables 3 and 4 about here]

As for eligibility conditions, German employers may apply for KuG only after exhausting alternative flexibility measures such as working time accounts, and nevertheless face a stringent set of conditionalities. Moreover, work councils play a key role not only because plant-level agreements constitute a binding condition for benefit concession, but also because they can even initiate KuG. The constitutional nature of co-decision procedures renders bargaining part of an ordinary process in the German framework of cooperative industrial relations, and KuG provides a *last resort* support by the state to facilitate social partners to strike deals with mutual benefit for firms and workers. By contrast, CIG usually constitutes the *first resort* for managing firms crises in Italy. Consultation with trade unions is mandatory in the application procedure for CIG, although its outcome is not binding to the concession of benefits, which is actually dependent on the decision by public authorities. Thereby unions reap an extraordinary stake in firms management, whereas the state provides resources in order to mediate typically adversarial industrial relations and correct coordination failures by the social partners.

Different costs of use and duration of STW benefits reflect the economic role of the German and Italian states. Germany charges firms with 80% of the total social insurance contributions on fallen work hours, which are halved only after the sixth month of withdrawal or upon the supply of training programs for workers. On the contrary, the usage of CIG bears little costs to Italian firms, which benefit from a full exemption from contributions except for a minor refund to the social insurance institute. Moreover, the duration of CIG can be granted for up to 4 years in cases of firm restructuring or reconversion, whereas the German KuG foresees a formal 12-month maximum. The German state thus controls that long duration of KuG withdrawal does not "dope" domestic competition by granting aids to specific firms or sectors. In turn, looser rules for CIG reflect the propensity of the Italian state to provide conspicuous support to the competitiveness and market survival of domestic firms in order to protect employment by subsidizing internal adjustment processes.

Finally, the social policy role of STW is not only witnessed by the nominally higher wage replacement rate supplied to workers by CIG rather than KuG (80% of the hourly wage vis-à-vis 60%). As a recent research emphasized,[23] it is the configuration of the income maintenance systems that assigns different functions to STW in the two countries. CIG has traditionally worked as a "functional substitute" for a weak system of unemployment benefits, characterized by strict eligibility rules, lower wage replacement rates than CIG, and the absence of a universalistic minimum income scheme. By contrast, KuG exerts a "complementary" function to unemployment benefits which provide equal wage replacement rates and training opportunities, and are underpinned by unemployment assistance for jobseekers.

In sum, the institutional design and function of STW in Germany and Italy reflect different labor market regimes. In Germany, KuG tends to respond to a predominantly *economic* logic of temporary support to firms crisis management by facilitating social partners' agreements through wage compensations for workers. The task of cushioning the effects of redundancies is separately assigned to a comparatively extensive set of income maintenance schemes. On the contrary, considerations of a rather *political* nature underpin CIG in Italy. Its organization overlaps with typical traits of the country's mode of labor market regulation, such as the pervasive intervention of the state in directly mediating social partners' coordination failures[24] and the selective distribution of welfare resources in a “corporatist” fashion.[25]

Against this background, the remainder of this paper analyzes employers stances during the decision-making processes in Germany and Italy which led to temporary adjustments to the design of STW during the crisis.

4. SUBSIDIZING JOB PROTECTION: GERMAN EMPLOYERS AND SHORT TIME WORK

The use of STW in Germany reached the highest historical peak since the postwar in May 2009, as some 1.4 million German workers drew at least one hour of KuG benefits.[26] As widely acknowledged,[27] grand part of this success was due to the strong subsidization of KuG in order to protect existing jobs. With the Second Conjuncture Package (*Konjunkturpaket II*) adopted in January 2009, the government instituted “exceptional rules” (*Sonderregelungen*) to KuG for a duration originally limited until December 2011. Therewith, the then Grand Coalition cabinet deployed € 770 millions to finance the extension of the maximum duration up to 18 months, loosen requirements for firms eligibility, take charge of half of payroll taxes from day one and of the whole amount after the seventh month of use or upon the supply by firms of re-training measures for affected workers. Besides, KuG was extended to temporary work agencies (TWA) and their workers, previously excluded (table 3). In April 2009, the maximum duration was further stretched to 24 months (*Kurzarbeit Plus*), whereas one year later the newly elected conservative government prolonged exceptional rules until June 2012 but simultaneously decreased KuG maximum duration to 18 months.

The financial crisis hit Germany in a moment of stunning employment performance. In September 2008 unemployment had sunk shortly above the symbolical three-million threshold for the first time since 1992. The causes of this job boom were not only related to the liberalization of non-standard work and cuts to unemployment compensation following the 2003 Hartz reforms, but also to five years of continuous growth in core manufacturing branches coupled with a moderate wage policy.[28]

The international downturn terminated this expansionary phase. It did so by affecting precisely those branches which had driven economic growth, such as machine construction and metalworking. Mainly due to their exposure to international product demand, these sectors were the first to face consistent order and financial losses.[29] Upon the first crisis signals, large corporates such as Daimler, BMW and Bosch negotiated production pauses with their workforce mainly by using up accumulated working time accounts, whereas STW did not appear a diffuse option.[30] It was rather the political level that took the initial lead by setting a provisional extension of KuG duration with the first “Conjuncture Package” approved in early December 2008. After the rescue package conceded to the banking system, the government faced consistent pressures to tackle the social consequences of the crisis.[31] Moreover, both ruling parties - the Social- and the Christian Democrats - had an interest in containing unemployment levels with a crucial view on the incoming elections in September 2009.

The extension of KuG was consensually supported by the social partners and appeared as a “real example of concerted decision”.[32] Unions represented the main political sponsor during the government's consultation round which took place at the beginning of November 2008. The peak confederation DGB was subject to the pressure by work councils in manufacturing firms that were contextually bargaining working time reductions within their establishments. Following their indication, unions decisively identified KuG as the most effective measure in order to avoid redundancies and consolidate firm-level agreements.[33] The position of employers was instead more elusive in this first phase. In a joint press statement, the main peak business associations emphasized the need for structural reforms such as tax reduction on firms, including the diminishing of social contributions rates, whereas no mention was made on KuG.[34] Available evidence thus indicates that on the onset of the crisis employers only consented to the extension of KuG, due to the joint impulse of the labor minister - a Social Democrat -, and unions, whose consonance of views eventually fastened political agreement.

However, employers position rapidly shifted with the worsening of the economic situation. By the end of December 2008, the “temporary relaxation” of KuG figured as one of the main demands by employers associations.[35] What explains such change in their position? First, the international contraction of the automobile sector had assumed a key importance for the German production system. Working time reductions negotiated within large plants spilled over into a massive recourse to KuG. Given the prospected duration of the downturn and the aid granted to foreign competitors - e.g. in France and the U.S -, large firms in the metalworking sector considered the subsidazation of labor costs as an essential contribution to their competitiveness. More decisively, the leading market position previously acquired by German manufacturing firms convinced these employers that they only had to weather the storm, as “the crisis was not of structural nature”.[36] As the chief executive officer of Gesamtmetall, the employers association of metalworking and electronic firms, stated: “for what concerns collective redundancies, we do not take them into account as long as we won't witness a dramatic slack in product demand. It is not in the interest of our firms that rather need to keep their workforce for the next upswing".[37]

Therefore, a strategic interest in the protection of human capital emerged as the second factor informing the preferences of employers in core manufacturing, in relation to but also independently from the mobilization of their work councils.

Thirdly, the downturn sparked to the dense network on smaller sub-contractors in crafts and industry-related services. The former employers consented to relaxing conditions to KuG, provided that "bureaucratic procedures be facilitated in terms of costs and paper work, in order for smaller firms to have equal access chances" as larger firms.[38] Labor hoarding assumed a particular importance for crafts employers due to the skills shortage which smaller companies had lamented in the previous years.[39] In turn, the position of industry-related services is exemplified by the case of the only branch with no pre-existing access to KuG - temporary work agencies (TWA). In front of falling labor demand especially in manufacturing where TWA assigned 50.3% of their workers in 2007, employers associations mobilized in order to obtain an extension of KuG to their branch.[40] They had a vital interest in securing jobs because of an intrinsic association with firms' own survival, as sinking labor demand corresponded to falling "product" demand for the branch. Since open-ended employment relationships between agencies and their workers entailed an obligation of wage continuity for firms regardless of workers' assignment, a serious survival threat affected the large majority of small TWA.

A more consistent relaxation of KuG rules and costs ended on the negotiating table for a second Conjuncture Package by the end of January 2009, as the economic crisis entered its peak. The government put forward a set of exceptional rules which confirmed the extension of maximum duration; lifted one eligibility requirement; halved social contributions charges on employers; incentivized the supply of training to affected workers via full contributory exemptions; and allowed temp agency workers to draw KuG benefits regardless of their assignment. All provisions were initially limited until December 2010. The social partners unanimously appreciated the draft legislation. However, two main controversial points arose in the discussion.

First, the crafts employers association ZDH advocated a full exemption from payroll taxes for firms below 50 employees. On one side, they argued that it was "unrealistic" that small firms could organize training programmes for exiguous amounts of workers and could thus benefit from foreseen contributory exemptions.[41] Moreover, smaller firms had "minor endowment of capital and fewer reserves" which diminished their possibility to resort to KuG for equally long periods as larger enterprises.[42] Such disparity generated a redistributive problem with larger firms. Smaller touristic and commercial firms maintained that their payroll taxes would basically subsidize aids to strong manufacturing producers and thereby allow for "distortions to domestic competition".[43] Ensuing demands for more control in expenditures were instead turned down by the peak employers association BDA, traditionally dominated by larger manufacturing firms. The BDA expressed "inestimable" support for the reduction of KuG costs.[44] Looser KuG rules, they argued, would also facilitate the conclusion of agreements with work councils, thus ensuring social rest within large plants.[45]

The second controversy concerned the extension of KuG to temp agency workers. Somehow paradoxically, it were unions that opposed this provision by claiming that "the regulation [...] is inconsistent and aims at protecting firms rather than workers".[46] In their view, given the low wages paid by TWA, a reduction of paid working hours through KuG would likely drag the low incomes of temp agency workers under the unemployment assistance level. Moreover, the possibility to draw KuG would implicitly subsidize the TWA branch and diminish their social responsibility on the higher risk faced by temp workers.[47] Unions demands to restrict KuG withdrawal only to temp workers assigned to firms with short-time work arrangements in place were forcefully rejected by the BDA. Not only were TWA to be considered "an economic branch as all others”,[48] also given equal contribution levels to unemployment insurance, and thus deserved no inferior treatment. Manufacturing employers also considered TWA as an essential element of labor market flexibility which had greatly favored the rise of employment levels during the previous years. A contraction of the branch implied constraining flexibility resources once the downturn would be over.[49]

The measures finally approved by the Bundestag closely reflected the demands of large manufacturing producers which in fact made greater use of available resources (figure 2). Whereas cost reductions for smaller firms were rejected, the Conjuncture Package extended KuG to temp agency workers irrespectively of their assignment situation. Subsequent adjustments to KuG confirm the influence of manufacturing employers and their unions on final policy outputs.

[figure 2 about here]

The newly elected conservative government firstly prolongated KuG duration up to 24 months in June 2009, then procrastinated the validity of exceptional rules beyond the initial limit until March 2012. Such measures were especially advocated by metalworking unions and employers to dampen the difficulties in branches which were experiencing a slump in product demand with a deferred timing.[50] However, interviewees report about noticeable resistances by employers in commercial sectors who contended that extending KuG would undermine the financial stability of the unemployment insurance fund and lead to future increases in payroll taxes.[51]

To sum up, the German case confirms theoretical expectations. Given the stringency of pre-existing KuG rules, employers formulated pressures for a stronger subsidization of labor costs in order to retain their workforce. Yet, relevant cross-sectoral divides underpinned employers demands. Interests for KuG expansion was greatest among large manufacturing producers with a highly trained workforce and higher union density, also due to their exposure to the contraction of international demand. On the other hand, small craft employers appreciated the labor hoarding functionality of KuG especially in the face of skill shortage but conditioned their support to stronger state subsidization of the costs of usage. In this picture, service sectors employers instead demonstrated a weaker interest on KuG, even though the case of TWA is emblematic of the fact that industry-related services tended to interpret STW as an implicit aid to business survival.

5. "FIXING A HOLE": ITALIAN EMPLOYERS AND SHORT-TIME WORK

The crucial role played by CIG during the crisis in Italy only partially resembled a similar logic of subsidized job protection as in Germany. Both decree n. 185 of November 2008 and the Anti-Crisis package approved in February 2009 (law n. 2 of 2009) extended CIG not only to uncovered low-skill sectors but also to the non-core workforce, including apprentices and temp agency workers (table 4). Such policy witnessed an outstanding concern by policy-makers with "fixing the holes" of a fragmented unemployment compensation system, whose reform had unsuccessfully remained on the political agenda since the late 1990s.[52] Strict eligibility rules for unemployment benefits determined low coverage rates to the particular detriment of non-standard workers.[53] Moreover, the exclusion of standard workers in small and service firms from CIG also created a "mid-sider" category in terms of social protection,[54] although tax-funded extensions had been covertly implemented on a yearly basis since 2003 ("emergency CIG", *ammortizzatori in deroga*). This situation represented a key factor in shaping actors' preferences at the outbreak of the international crisis.

Italy had entered an early phase of GDP contraction since early 2008, after a decade characterized by substantial stagnation in economic growth coupled with low labor productivity and diminishing competitiveness of export-oriented manufacturing branches.[55] These were affected by an even stronger contraction during the last trimester of 2008. By November some 300 thousands workers already drew CIG benefits.[56] The exceptional intensity of the downturn laid bare the structural weakness of the overwhelming layer of micro and small sub-contractors of Italian and foreign manufacturing corporates: “in our first meetings, employers associations repeatedly pointed out that this crisis was turning into a disruptive event that put into question the underpinning structure of the Italian production system, given its small dimensional character”.[57]

Facing the perspective of massive employment losses, job protection predictably figured as the top priority for trade unions. The main confederations preoccupied with ensuring continuity of resources for pre-existing emergency CIG schemes and extending the range of beneficiaries in uncovered sectors. They also advocated income support measures for non-standard workers and apprentices exhausting their contracts or at risk of dismissals.[58] On more consistent funding for emergency CIG, unions demands crossed with the spontaneous mobilization of employers associations in craft[59] and commerce sectors.[60] The former held specific motivations. Not only did the shortage of skilled labor generate concerns that firms would not find “valid substitutes for skilled workers” once production took up again[61] or that the latter would transmigrate to direct competitors.[62] Given the proximity of employment relationships in micro firms, craft employers also tended to stress the social hardships of dismissals in front of the widespread acknowledgement that “the inconsistency of the unemployment insurance system throws fired people directly onto the street”.[63] Commercial employers showed more ambiguous motivations. Their peak association Confcommercio mainly remarked the necessity of sustaining Italians' purchasing power “for firms exclusively relying on internal demand”.[64] Smaller retail employers thus tended to conceive of CIG as a Keynesian policy in support of consumptions, whereas wholesale commerce firms shared similar motivations for labor hoarding as craft.[65] By contrast, the largest employers association Confindustria did not show but a tacit consensus to the extension of CIG until early 2009 as a matter of solidarity with smaller industrial firms. Such restraint was not due to employers aversion to short time work, but rather to the fact that its core membership basis was mainly constituted by manufacturing firms already covered by ordinary schemes through which they "could have well weathered the storm by relying on their own resources".[66]

Tight electoral bonds of both coalition partners in the center-right government (Berlusconi's Freedom's Party and the Northern League) with small business, especially in Northern regions, stimulated a readily give in to the latter's demands. In November 2008, the Italian government deployed € 1.6 billions to finance emergency CIG in uncovered sectors with decree no. 185, while postponing the elaboration of further interventions to its conversion into law. During the ensuing policy-making process, the predominant imperative to preserve budgetary rigor however placed a rigid constraint to spending capacities. As the Labor Minister claimed, "the main objective is to ensure the stability of public finances in a country with high debt […]. [The government] certainly intends to expand the range of beneficiaries of income maintenance instruments […]. But it must be clear that this is an emergency plan and not a structural reform".[67]

In deed, the government as well as trade unions deemed raising costs of usage of emergency CIG as a necessary measure not only to control expenditures but also in order to avoid opportunistic behavior by firms, which could have otherwise resorted to emergency CIG subsidizations with little previous attempts to rely on own resources.[68] A structural inclusion into the ordinary system, as demanded by the union confederation CGIL, would have entailed the payment of related payroll taxes in place of the generous arrangement under emergency CIG.[69] Given typically shorter periods of production suspensions, crafts employers rejected such option with the argument that "we would have financed a scheme mainly apt to the large industry only by having our labor costs augmented".[70] Considering that commercial employers viewed CIG as a support to consumptions, as shown above, craft and services employers had a joint interest in a simple expansion of public resources with little further strings attached. On the other hand, given the consistent surplus of the ordinary fund, industrial producers feared that a loose regulation would pave the way to the free-ride by small firms and therefore mobilized to defend the ownership of contributory resources. As one leading Confindustria officer put it, "I understand Labor Minister's preoccupations [for the protection of crafts and commercial sectors], but the access to social shock absorbers has to remain selective, else we run the risk of a massive recourse to CIG".[71]

With the approval of law no. 2 in early February 2009, the government increased the financing of emergency CIG with € 8 billions for the years 2009-10 and conditioned benefit withdrawal by firms excluded from the ordinary system to a modest participation (20% of wage replacement) of existing sectoral funds established through collective bargaining (so called *enti bilaterali*). Moreover, it extended eligibility to non-standard employees, including temp agency workers and apprentices. Employers support to the latter measure was colder and admittedly driven by strong unions' pressures,[72] an exception being the income protection granted to apprentices due to the particular interest of craft employers for a form of employment widely diffused in their branch.[73]

The intensification of the crisis in key metalworking and mechanical sectors in early 2009 finally stimulated the mobilization of industrial employers. Confindustria demanded to double the maximum duration of conjuctural CIG scheme up to 24 months.[74] On one side, this responded to unions pressures for the protection of workers in firms which were about to exhaust CIG withdrawal periods.[75] Yet, manufacturing producers also witnessed an own motivation in "maintaining our precious human capital" as "firms are first in line to avoid redundancies" and needed to "dispose of some more oxygen in order to overcome this period with less dramatization”.[76] Such instances led the government to pass a further act (law no. 33, April 2009) which reformulated the method for computing CIG hours across week time and quickened procedures of benefits payment, thereby *de facto* allowing for longer duration of benefits for firms and workers legally entitled to it.[77]

In fact, the use of CIG remained predominantly concentrated in skill-intensive industrial branches, although their share on total short time work hours progressively declined since Fall 2009 due to increasing applications by craft and services firms (figure 3). This was mainly due to the fact that, starting from February 2009, the management of emergency CIG resources was delegated to regions. This contributed to the emergence of a great variety of arrangements tailored on local business structures which favored a distribution of benefits to the advantage of smaller manufacturing firms, particularly in Northern regions.[78] Yet, a widespread belief consolidated among actors that thin controls on the implementation of co-financing arrangements prompted an excessive recourse to CIG[79] especially by smaller entrepreneurs, due to the exiguous costs attached to benefit withdrawal.[80] This may confirm an interpretation of these employers' view of CIG as a tool to reduce labor costs rather than to protect workers' skills.

[figure 3 about here]

The Italian case witnesses the salience of country-specific institutions in shaping employers interests on STW. In line with theoretical expectations, manufacturing producers as well as skill-intensive crafts showed a significant interest in the skill protection function of CIG. However, the low costs attached to the withdrawal of benefits under preexisting schemes stimulated a late advocacy by core industrial firms for regulative adjustments, as the intensity of the crisis eroded contributory resources. On the other hand, the segregation of risk sharing represented a crucial factor spurring cross-sectoral divides especially with smaller crafts and service employers. Due to their exclusion from ordinary schemes and to expectations on generous government's intervention, these employers tended to regard “cheap” CIG regulation as an industrial policy aimed at avoiding large scale market clearance. In this light, the extension of emergency CIG attained the multifold scope of protecting skilled workers, sustaining consumptions by upholding workers' income levels, and aiding domestic firms by subsidizing labor costs, thus resulting an attractive option for a vast range of employers with heterogeneous interests.

6. CONCLUSIONS

To reprise the initial question, why did German and Italian employers pro-actively support the expansion of STW to deal with the labor market consequences of the 2008 financial crisis? From the empirical results presented above, employers in both countries identified STW as an effective policy instrument to achieve three main objectives, i.e. hoarding labor, reducing non-wage costs, and preserving social rest with unions. Albeit subject to the pressure of organized labor and to a certain extent in reaction to governments' initiative, employers witnessed a self-interest in limiting layoffs through STW, partly due to the costs associated to dismissals protection legislation but also to a “genuine” endeavor in retaining core workers' skills within firms. However, it was foremost the considerable subsidization of preexisting risk sharing schemes via regulatory facilitations to benefit accession and significant lowering of non-wage labor costs on work time reductions that constituted the crucial aspect of employers interest in job protection in the face of market uncertainty.

In this respect, a comparative focus on Germany and Italy allows to retrace the sources of employers preferences on country-specific design of ordinary STW schemes. Equal participation and access to risk sharing arrangements, stringent eligibility requirements for firms, and high costs attached to the use of KuG constituted a strong push factor for German employers to advocate for exceptional rules that consistently subsidized job protection efforts with a view on consensual crisis management solutions within firms. By contrast, the segmentation of risk sharing arrangements and the comparatively much lower costs of CIG usage in Italy explain the ambiguous motivations underpinning especially the mobilization of employers in excluded sectors to extend the coverage of CIG as a means to correct inequalities in the distribution of state resources, enhance labor hoarding opportunities, and endow fragile economic segments with aids to business survival. In a nutshell, institutional differences in STW arrangements led to important cross-national variations in the dynamic of employers advocacy for adjustments during the crisis. Whereas in Germany it was mainly large manufacturing producers to lead demands for temporary relaxation of KuG regulation, in Italy the extension of CIG was rather driven by smaller firms in industrial, crafts but also tertiary branches.

This finding hints at the relevance of cross-sectoral divides in employers stances on job protection. In line with recent analyses of change in labor market institutions,[81] the propensity to protect employment levels of the core workforce resulted significantly higher among large manufacturing producers in both Germany and Italy on the grounds of the structural characteristics of these firms. Higher risk exposure and skill-intensiveness of production stimulated employers to safeguard their standard workforce from market uncertainty during the economic downturn. Moreover, higher labor organization prompted a search for consensual solutions with unions in order to maintain social rest. Smaller crafts witnessed a similar interest in protecting skilled jobs but mainly preoccupied of achieving more generous subsidization of labor costs. By contrast, service employers showed more ambiguous preferences balancing between the sustenance of consumptions and the aid to firms' market survival.

Obviously, the exceptional nature of crisis-related measures should not lead to undue generalizations on employers interests in job protection over time. Albeit noticeable for its particular contingency and emblematic political dynamics, the experience of STW is not likely to produce lasting changes to employers stances on social protection institutions in neither country. Quite on the contrary, STW rather seemed to consolidate 'dualistic' tendencies between the job protection accorded to core workers and residual income maintenance interventions in favor of non-core workers with atypical contracts. The assessment of the effects of STW on dualization dynamics is however left to further research.

Acknowledgements

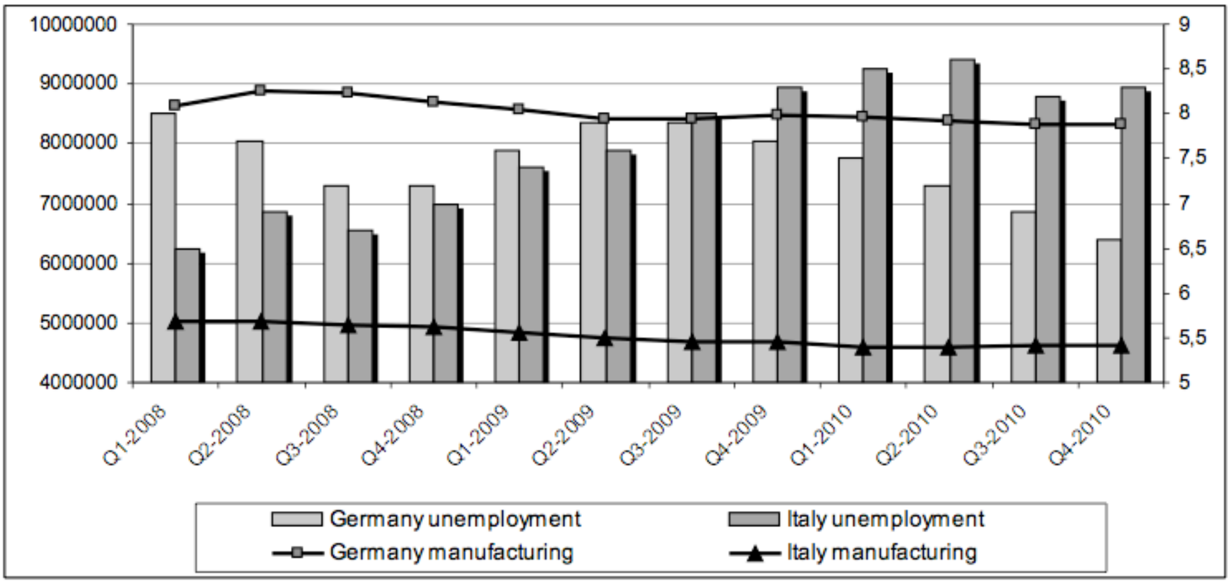
Earlier drafts of this paper were presented at the Graduate Conference of the Italian Association of Political Science (SISP) in Turin, June 2011, and at the ESPAnet Annual Conference in Valencia, September 2011. For useful comments I especially thank Maurizio Ferrera, Matteo Jessoula, Paul Marx, Stefano Sacchi, and Georg Picot.

Funding

This research was funded by the Collegio Carlo Alberto in Moncalieri (Turin) within the project “Causes, Process, and Consequences of Flexicurity Reforms in the European Union: Lessons from Bismarckian countries”.

APPENDIX

Figure 1. Employment levels in manufacturing (data in .000) and unemployment rates, Germany and Italy (2008 – 2010),



Source: OECD, Labor Force Statistics, MEI online database
* Manufacturing data, left-hand axis; unemployment data, right-hand axis.

Table 1. Ranking of STW usage (year 2009), EPL on collective dismissals, and skill profile in selected EU countries

	STW over total dependent employment (%)	**EPL – collective dismissal (2008)**	**Skill profile**
Italy	2.66	4.88	Firm/occupational
Germany	1.76	3.75	Firm/industry/occupational
Denmark	1.64	3.13	Industry/occupational
Finland	1.44	2.13	Industry/occupational
Ireland	1.28	2.38	Occupational/general
Belgium	1.08	4.13	Industry/occupational
France	0.69	2.13	Firm/occupational
UK	0.38	2.88	Occupational/general

Source: column 1, EUROFOUND 2010, 37; column 2, OECD; column 3, Estevez Abe et al. 2001, 152.

Tab. 2 Hypothesized distribution of preferences on STW, depending on the firms types.

	Skill-intensive sectors	**Low-skill sectors**
Examples Firm size	*Manufacturing, banking and insurance*	*Personal services, wholesale and retail commerce*
Medium and Large firms	- high risk exposure - capital intensive; - firm-specific high skills; - high union density	- medium/low risk exposure; - capital intensive; - mixed skill profile; - medium union density
Expected policy preference	*greater extension of STW;*	*moderate extension of STW;*
Micro and small firms	- medium/high risk exposure; - labor-intensive; - firm-specific high skills; - low union density	- low risk exposure; - labor intensive; - general and low skills; - low union density.
Expected policy preference	*moderate extension of STW*	*no extension of STW*

Table 3. Institutional design of KuG in Germany before and after the crisis

	Rules until october 2008	**Modifications during the crisis**
Eligibility firms	All firms At least 1/3 of workforce with loss of 10% monthly wage	Inclusion of temporary agency work firms Only 10% monthly wage loss
Eligibility workers	Dependent workers No apprentices,TAW, independent contractors	TAW included
Benefit amount	60% of net wage per fallen working hour (67% if with children)	Unvaried
Benefit duration	6 months, extensions up to 12 months	18 months (24 months, Mai 2009 - April 2010)
Cost for employers	UI contribution rate: 3.3% (January 2008) Upon usage, employer charged with social contributions (including the employee’s share) for non-worked hours. Halved social contributions after 6 months, or from day one if training provided	Lower contribution rate (2.8) to UI until 2010; Social contributions halved from day one up to 6 months, and entirely taken over by the state thereafter, or if training provided.

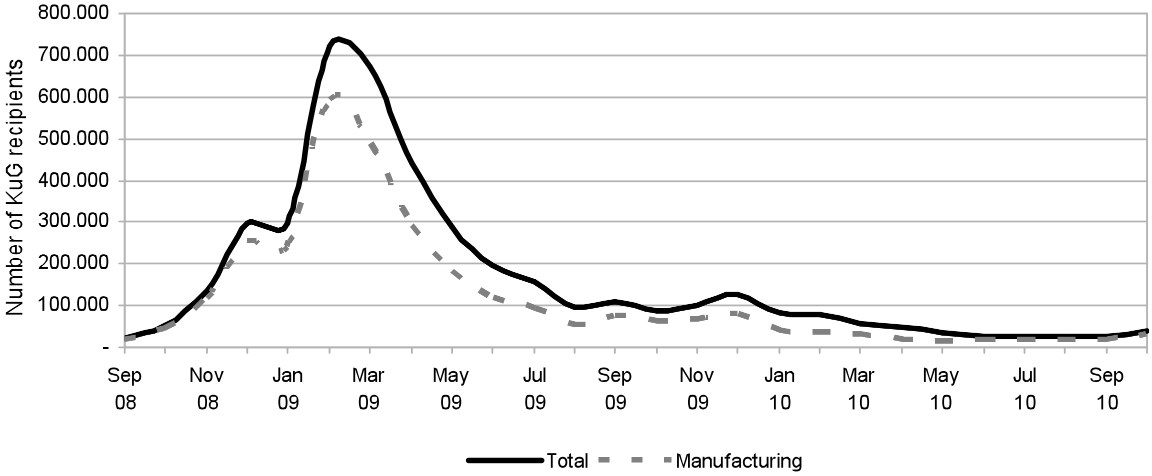
Source: own adaptation from Sacchi et al (2011)

Table 4. Institutional design of CIG in Italy, before and during the crisis

	Rules until October 2008	Modifications during the crisis
Eligibility firms	Conjunctural CIGO: manufacturing and construction sectors (CIGO). Structural CIGS: manufacturing firms with more than 15 employees, related crafts, touristic and commercial branches over 50 employees.	All firms, regardless of sector and size class.
Eligibility workers	Dependent workers; Marginal workers excluded (apprentices, temp workers, independent contractors).	Inclusion of apprentices and temps, no independent contractors
Benefit amount	80% of hourly gross wage, but maximum wage ceilings;	unvaried
Benefit duration	CIGO: up to 12 months within 2 years; CIGS: up to 48 months for restructuring	Up to 12 months, but possibility of cumulating ordinary and emergency schemes. Extensions upon decision of tripartite commissions chaired by public authorities
Cost for employers	CIGO and CIGS: social contributions entirely taken over by the state CIGO: earmarked contribution to CIGO fund: 1.90% - 2.20% (depending on firm size) Upon usage, 4% of STW benefit (8%); CIGS: specific contribution, 0.90%; Upon usage, 3% (4.5% for larger firms)	Unvaried. Newly admitted firms pay regular contributions upon usage. Co-financing of benefits (20%) by sectoral funds for excluded sectors (mainly crafts and temp work agencies)

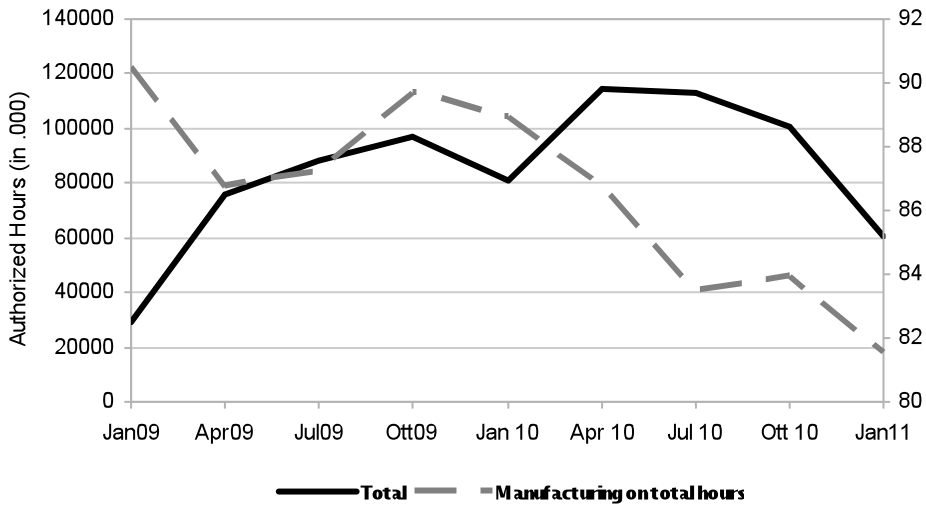
Source: own adaptation to Sacchi et al (2011)

Figure 2. Workers recipients of conjunctural KuG benefits, Germany (september 2008 – october 2010), breakdown by sector



Source: BA, Statistik über Leistungen nach dem Sozialgesetzbuch III, Angezeigte Kurzarbeit

Figure 3. Authorized hours of CIG in Italy (January 2009 – January 2011), breakdown by sector (data in .000)



Source: INPS, Coordinamento Generale Statistico Attuariale, own calculations
* Dotted black line (industry on total, %), right-hand axis.

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