

EMPLOYMENT PAPER

2001/14

Labour market policy for  
socially responsible workforce  
adjustment

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### *Employment Sector*

This ILO Sector has the responsibility for assisting and advising ILO constituents in analysing national and global employment and labour market developments in order to elaborate and negotiate policies and programmes for employment promotion and human resources development. The Employment Sector encourages them to invest more in training and human resources development for enhanced employability; to implement special employment promotion programmes in situations of high unemployment, particularly in the context of different types of crisis; to promote the creation of quality jobs in enterprises; upgrade the informal sector and promote gender promotion in employment.

## Preface

This paper is part of a series of papers that have been prepared for the research programme 'Adjustment of labour markets to business cycle and structural change: labour market flexibility, security and labour market policies' by the labour market policy team (LMPT) of the ILO's Employment Strategy department.

Labour market policies have many functions: one of their main functions is to contribute to the smooth matching of supply and demand. It deals with supply side problems, such as skills mismatches, as well as temporary demand inadequacies dealt with through job creation schemes. More generally, it should contribute to the functioning of the labour market by providing firms with adjustment possibilities whilst providing income and employability security to individuals.

The present paper discusses a framework for labour market policies to permit such adjustment in security. It presents a concept for a fictitious computer programme which provides those who have to deal with large scale redundancies with a whole array of possible labour market measures which limit their impact on the workers concerned.

Whilst the computer programme is fictitious, the labour market programmes which are presented and discussed are real: they have been tested in many developed countries and have also been used in transition countries. For the purpose of this paper, the whole array of existing measures for prevention of lay-offs, and for internal and external workforce adjustments are briefly discussed. Whilst such an extensive range of measures does not exist in any individual country, a sort of ideal-type of adjustment framework emerges, if we add up all the different measures which exist in different developed countries.

As institutional contexts differ between countries, it seems difficult to imagine that a particular country could apply all of the measures in a comprehensive adjustment oriented framework. However, the paper might give useful hints to personnel managers and union representatives concerning the way in which redundancies could be handled, irrespective of the institutional context in which their firm is placed.

It illustrates also the concrete measures that can be used to implement ILO Convention 158 and Recommendation 166 on termination of employment.

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## Contents

<b>1.</b>	<b>Introduction</b>	<b>1</b>
<b>2.</b>	<b>Institutional background of worker displacement</b>	<b>2</b>
<b>3.</b>	<b>Prevention, internal and external adjustment to structural change</b>	<b>3</b>
<b>4.</b>	<b>Prevention of lay-offs</b>	<b>4</b>
<b>5.</b>	<b>Prevention is better than cure</b>	<b>4</b>
<b>6.</b>	<b>Install advance warning systems</b>	<b>5</b>
<b>7.</b>	<b>Anticipate changes in technology and work organization And invest in human resources and training</b>	<b>5</b>
<b>8.</b>	<b>Internal adjustment</b>	<b>6</b>
<b>9.</b>	<b>External adjustment</b>	<b>9</b>
<b>10.</b>	<b>Conclusions</b>	<b>12</b>
	<b>Annex</b>	<b>14</b>
	<b>Bibliography</b>	<b>19</b>

## 1. Introduction

As a response to business cycle and structural change, companies restructure and such restructuring usually has negative effects on employment. Business-cycle downturns are of a temporary nature but of unpredictable length, so there are chances of return to the status ex-ante. Structural change affects the labour market permanently. Change might be of a continuous nature (e.g. the forces of globalization, constant technological and organizational change) or come as a sudden external shock (financial crisis, collapse of markets, war, or a technological “revolution” in processes or products). However, there is no certainty of such a return; even business cycles might affect jobs permanently. In addition, it is hard to disentangle the effects of business-cycle downturns and structural change, as the former may trigger the later.

There are basically three sets of strategies to cope with the changes affecting labour markets. A first step is to prevent negative effects for the labour force, a second is to adjust the workforce internally and the third step is to adjust it externally. While in the reality of workforce adjustment all three factors are used simultaneously, albeit in different doses, one should distinguish them analytically in order to have a clear picture of the different measures that should be taken. Prevention, internal and external adjustments are usually used in a sort of hierarchical order: prevention should come before “cure”, and internal solutions should come before external ones.

The causes of worker displacement are also important in regard to the responses adopted to counter its adverse effects. If workers are displaced because of a business-cycle downturn, the duration of displacement is important: if workers are reabsorbed quickly once the recovery comes then a link with their employer should be maintained during their temporary displacement. Several institutional features of employment systems will then come into play: lay-off systems and/or short-term working provisions or counter-cyclical training measures. They can contribute to keeping labour available for a new take-off of economic activity. Not having labour available when the economy enters into an upturn might have severe consequences; misjudgements on the nature and temporality of the crisis will therefore affect economic efficiency quite dramatically.

If labour is displaced permanently as a consequence of structural change, then another series of measures is required. While it might be advisable not to break the employment link with the company or public administration immediately and to use the organizational and financial capacities of the firms and administrations (and even measures such as short-time work and training) for outplacement activities, the main destination of redundant labour is the external labour market. Therefore the measures needed to accompany structural change should target placement on external labour markets.

The following lines deal mainly with those workers displaced by structural change, assuming that jobs have disappeared permanently and that those displaced have to find jobs elsewhere in the economy. Again, “devising appropriate responses ... to large-scale worker displacement depends not only on the nature of the crisis but also on countries= regulatory, legislative and judicial framework and the nature of management-labour relationships” (Evans-Klock et al., 1999, Foreword).

## 2. Institutional background of worker displacement

Put in a simplified picture, companies (and public administration as an employer) make people redundant on various grounds (globalization, etc.) and the institutions in which they are imbedded are crucial to the ways in which such redundancies are handled. While we are aware that there is no such simplicity in the reality of economic life, we will keep the argument here in its simplest form<sup>1</sup> in order to make our point clear.

What follows should be seen as a sort of checklist or manual on measures to be taken when the need for redundancies emerges. In a way it is like the menu list on your computer, which tells you what to do in order to implement an action. “Redundancies” is the name of the programme and once you open it you will find the items “prevention”, “internal adjustments” and “external adjustments”. Click on these and you will find an array of measures to be taken in each of the broader categories. If you click on the “specific measures” icon you will then find a general description of the measures to be taken. However, the icon for “implementation of measures” is not available, because this is your task.

As stated above, the institutional context (country, region) in which you are placed is important, because it decides the availability of measures. For example, you will most probably only choose early retirement or any other adjustment measure to alleviate the social impact of redundancies, if such measures are part of the company culture or if public systems of early retirement exist.

Therefore the proposed “manual” is at the same time simplistic and idealistic as it starts from the assumptions that all possible measures are available, while we know that reality is bounded and that many countries lack such measures. However, the demonstrations of what could be done – based on strategies and measures available in a fully functioning labour market of industrialized countries – might also be an incentive for institution-building. Besides the “idealistic” presentation of measures, we will also provide information on possible negative effects based on evaluation research. This exercise is based on former ILO and non-ILO research on redundancies and adjustment measures in an international perspective, to which the author has also contributed (Evans-Klock, Kelly, Richards, Vargha, 1999; Mosley, 1994; Bosch, 1990; Auer, 1991; Auer and Speckesser, 1998).

We start by placing ourselves in the perspective of a human resource manager of a company, or a public administration, with knowledge on the availability of public programmes which can accompany workforce adjustment. Proceeding in this manner puts us in the realm of the bigger companies and mass redundancies. In small firms, redundancy procedures and measures are usually different, but there is no reason smaller firms might not also use some of the measures proposed.

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<sup>1</sup> In economics, in the final analysis, everything is linked with everything. Especially nowadays in the supply side approach, there is a suspicion that “vicious circles” exist, in which the remedy is the cause of the sickness. Consider accompanying measures such as early retirement: while they fulfil their task in providing flexibility for firms and administrations and (income) security for those made redundant, they imply heavy costs for social security administrations. Public finance requirements might therefore crowd out the private initiative leading to job creation. And, because of such expensive measures, non-wage labour costs have to be high or even increased, which again impacts negatively on employment. Thus, at the end of the day the remedy (accompanying measures) might be the reason for the sickness called redundancy. However, such reasoning, which links the micro and macro dimensions of workforce adjustment, is not at the core of this article, which stresses the micro side of adjustment. While this article does not concur with such arguments, they should be borne in mind (see Conclusions).

However, also trade union representatives need to know about these measures in order to giving advice to their members. In general, workforce redundancies are an important area for the social dialogue. For example, the European Commission has just announced a package to reduce the social impact of major job cuts. As this corresponds quite narrowly with the argument developed here, we have put the Commission proposal in the Annex of this paper.

We do not deal here with the legal and conventional side of redundancies. Some information is contained in Evans-Klock, et al. (1999) and a major ILO publication deals with this topic in depth ("*Termination of Employment Digest*", ILO, 2000).

The procedures necessitated by redundancy, such as the delays observed for notification to individuals and authorities, the amounts of severance to be paid according to years of service etc., which vary across countries, are presumed to be known and followed accordingly.

Employment protection regulation, however, has several implications for redundancy policies. Research has found that countries with rather strict dismissal regulation also have highly developed accompanying measures. In part this coincides with the importance of social plans which prescribe measures to be taken in case of mass dismissal. There also seems to be some trade-off between the restrictions on workforce flexibility (free hire and fire) and these measures: they provide for the adjustment flexibility that firms might otherwise lack (Auer and Speckesser, 1998; Mosley, 1994; Bertola, Boeri and Cazes, 2000/1). But other trade-offs are possible. For example, easy access to and high "generosity" of unemployment benefits might under certain circumstances be seen as a trade-off with loose dismissal protection. In this sort of trade-off, low employment protection at the company level seems to accompany high flexibility, owing to a strongly developed protection at the societal level. (Buti, Pench, Sestito, 1998; Auer, 2000).

### **3. Prevention, internal and external adjustment to structural change**

What if your workforce is threatened with redundancy?

Managers of private firms and public administrations have some choice when faced with redundancies. A first choice should already have been made, before redundancies occur: the choice for prevention. But even when redundancies have to occur, various options remain.

Obviously, product cycles can be altered in order to maintain the workforce. Production on stock, production of alternative/additional goods and services are also a possibility. For example, in the 19770s in Sweden, subsidies for stockpiling and government orders were used to prevent or retard redundancies and, in Austria, the then large nationalized sector served as an employment buffer. However, in times of privatization (lean government and tight budgets as well as lean production which requires no or low stocks), these practices go out of fashion.

The question of employment service involvement in redundancy management, which might influence the choices available, can be crucial for firms and workers, in order to have information on accompanying measures and to proceed with socially cushioned dismissals. Public/private interactions of this sort are critical for allowing effective and equitable management of redundancies.

Here we concentrate not on the production process side of redundancy or employment service involvement, but on labour market policy and the training implications of worker displacement. The main focus is on redundancies and accompanying policies in the larger private sector companies. Both small firms and the public sector have other options.

## 4. Prevention of lay-offs

Returning to our computer programme analogy, if you click on the “prevention” button of your redundancy programme, the following menu items will appear on your imaginary screen:

Advance warning  
 Training and human resource development  
 Employability  
 Work-organization changes  
 Preventive workforce management

If you click on internal adjustment, the following menu appears:

Training  
 Leave schemes  
 Working-time changes  
 Work organization changes  
 Short-time work  
 (Temporary lay-offs)

And if you click on external adjustment, what appears is:

Attrition  
 Dismissal  
 Redundancy payments  
 - voluntary  
 - involuntary  
 Conversion training  
 Temporary wage-cost subsidies  
 Mobility aids  
 Enterprise creation  
 Intermediary organizations  
 Repatriation grants

We now describe the above options in order to give a comprehensive picture of the choices available.

## 5. Prevention is better than cure

While this is easily said, it is more difficult to do. Prevention requires the capacity to actively manage internal labour markets and a good predictability base, at least for the more continuous forms of structural change (such as technological change and the impact of globalization). Sudden shocks are more unpredictable and therefore less easy to handle with personal management tools. Even so, preparation (e.g. simulation of possible event scenarios and management reactions) reduces uncertainty and offers better possibilities when the event actually occurs.

Prevention is strongly linked to reducing the uncertainties which generate insecurity. Possible preventive actions include:

## **6. Install advance warning systems**

Prospect your markets regularly, observe your competitors, and anticipate the impact of regulations on employment. We are referring here to legally enforced or collectively bargained advance notification procedures, which act on an incentive for company action. However, the methods proposed here go further than what is legally required. They represent a first-line preventive action for companies and should be an ongoing exercise in preventive internal labour market management (see below). If major changes are expected, such advance warning systems should also be capable of analysing possible impacts and designing appropriate response options.

## **7. Anticipate changes in technology and work organization and invest in human resources and training**

While no 100% guarantee against redundancies, this measure helps to create a more functionally flexible workforce. A multi-skilled workforce responds better to changes in production and is easier to transfer internally. The provision of flexible skills introduces more employment stability than a narrow focus on specialized skills. The latter might well disappear or obsolesce with the production/service it was able to produce and provide. The same holds true for work organization: if necessary, a work organization based on flexible teams might more easily be changed than a traditional, hierarchically organized workforce.

Employability is a prominent topic today and albeit a somewhat vaguely defined concept, it has entered the realm of policy (for example, through the Guidelines of the European Employment Strategy). The basic idea is that individuals should enjoy employability throughout their working life. In that light, it might also be seen as a sort of general prevention tool: by investing in employability the workforce will be able to carry out their jobs effectively, while at the same time acquiring skills to empower their mobility. This implies that their training is at the same time specific and general. In human capital theory, companies usually see no incentive to invest in general training, a public good for which training grants are often available.

But why should firms *not* invest in such general training, which permits the individuals to move on in the labour market? One reason is that well-trained individuals are a general asset for firms and that general skills are said to be important for firm productivity, for example, in knowledge-intensive sectors. In the case of shocks that necessitate redundancies, voluntary quits on the basis of employability might be a useful instrument to manage redundancies in an effective and equitable way (see Attrition below). The gains of an investment in employability within a preventive internal labour market strategy might only be realized later.

This all adds up to what some big French companies have called “Gestion Prévisionnelle de l’Emploi”. Such firms have designed packages which include the forecasting (prevision) of training needs, the setting up of training courses to matching needs and, also, possibilities of “outplacement” for redundant labour. Some of these firms have also established cooperation with the employment services.

Although preventive workforce management will not in itself prevent redundancies, it can introduce more certainty in internal labour markets and cushion the impact for companies and their workforce. It also makes (human resource) managers aware that companies are embedded in an

institutional context and induces them to take advantage of public policy measures which help them in managing their internal labour markets. Such measures are available for internal and external adjustment of the workforce to structural change.

## 8. Internal adjustment

The menu

1. Training
2. Leave schemes
3. Working-time changes
4. Work organization changes
5. Short-time work
6. Temporary lay-offs

Training as a method of internal adjustment

We do not mean the regular training activities that companies provide for their workers as part of the ongoing production process. Here we refer only to training that is expressly linked to periods of workforce redundancies. This kind of training is triggered off when redundancies loom. It might be financed only by firms but usually there is some kind of public/private financing mix.

Training is used as the “active functional equivalent”<sup>2</sup> of “passive” measures such as temporary lay-offs or short-time work.

The general idea is to invest in the skill of your workforce during idle periods when they do not need to be taken out of productive work. Once things return to normal, the skills of the workforce are enhanced, broadened or updated and the workforce has become more productive. In OECD countries, public programmes for supporting such redundancy-avoiding training exist in Denmark, Germany and Sweden, for example. The scarce evaluation of programmes indicates that this kind of training has been beneficial for the workforce, but results are affected by the degree of uncertainty surrounding even business-cycle downturns. (See also below, the special case of short-time work and training).

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<sup>2</sup> When the functions of two or more policies fulfil the same goal, they are functionally equivalent. In our example, both short-time work and training fulfil the same goal of preventing dismissals. However, training is an “active” equivalent, because besides fulfilling its preventative goal it also enhances the skills of the individual, while short-time work is only passively providing income replacement for the hours not worked. Not working is actually a condition for individuals (and firms) to draw short-time working benefits (see later, Short-time work).

### *Leave schemes*

Training and parental leave schemes have been used in Denmark, for example. While their objective is not overtly to cope with redundancies, they can contribute at least temporarily to maintaining workforce levels in firms while providing workers with skills (e.g. in the case of training-leaves). Such leave schemes usually provide income support similar to unemployment benefits and include a right of return to the workplace. While training-leaves for the employed might cause bottlenecks when the economy is booming (in which case a job rotation model could be applied, i.e. workers on leave being temporarily replaced by unemployed workers) leave-schemes might be used in downturns to cope with the problem of temporary redundancy. However, the unpredictability of business slumps and business upturns is a considerable barrier to this policy.

### *Working-time changes*

These are a powerful instrument to cope with both temporary and permanent redundancies. The general idea is to reduce the number of hours worked rather than the number of workers. There are many different ways in which this can be achieved. A first measure would be to restrict the number of overtime hours worked. A second step is to reduce working time. Again, the ways in which this can be done vary substantially, depending upon the institutional context in which decisions are made.

By way of example: a general policy of working-time reduction is perceived in many countries as one means of coping with redundancies linked to structural change. As technological progress advances, less and less labour input is needed; reducing labour input by reducing working time is one way to cope with the problem on the macro level. The micro impacts (meaning the impacts at company level) will largely depend on how such policies are implemented and under what conditions are the number of hours reduced, the wage compensation granted and the flexibility possibilities given. However, general working-time policies do not respond to specific company redundancy needs.

Specific company needs for internal adjustment have been addressed in many company bargaining arrangements. In fact company “employment pacts” which foresee departure from the usual legal or conventional practice when redundancies loom, are now fairly frequent in industrialized countries. In cases of labour market problems companies can engage in concession bargaining and, for example, reduce working time without granting (full) wage compensation. A case in point for such concession bargaining is the working-time reduction for saving jobs at the German auto company Volkswagen, where hours of workers were reduced to 28.8 hours spread over a 4-day working week with only partial wage compensation in order to save about 30,000 jobs, or 30 per cent of the German labour force of VW. The agreement has already been renewed three times and, according to evaluation, seems to have worked. The VW company is one of many examples of concession bargaining involving working-time reductions to avoid redundancies.

In other cases, working-time reductions for allowing work-sharing and for avoiding redundancies are subsidized, as in the so-called “solidarity contracts” in France and Italy.

### *Changes in work organization*

How can changes in work organization help to avoid redundancies? On a general level, work organization must adapt to structural change in order to deliver quality products and services efficiently. In turn, this can make companies more competitive and consequently more resistant. However, even the most advanced system of work organization cannot avoid redundancies once

markets shrink. This happened to advanced systems of work organization at several VOLVO plants, which were closed because of overcapacity on the world automobile market (Sandberg, 1995).

This question can therefore not be answered on such a general level but only more specifically. Work organization is strongly linked to working-time changes and it is in this context that work organization matters for redundancies. For example, reduction of individual working time nowadays is often accompanied by the extension of equipment running time or shop/administration opening hours (Bosch, 1990; Bosch and Lehndorff, 1993). To have both shorter individual hours and longer opening hours, new systems of work organization need to be introduced. For example, shift work and part-time work have to be extended. In this area a lot of imagination is needed, but in many industries and services flexible work organization has already been introduced.

### *Short-time work*

An important instrument for internal adjustment which implies public/private financial arrangements are short-time work schemes. These schemes grant compensation for hours not worked, while the employment relationship is maintained. They are a significant redundancy-avoiding mechanism. For example, during the first years of reunification in Germany, this instrument was vigorously applied to cope with a general redundancy situation. In 1991 around 2 million workers were on short time, sometimes with no hours of work at all. (Auer et al., 1992) Italy also has a short-time work allowance, the *cassa integrazione*, under which (at this instrument's zenith) around 400,000 workers received compensation for partial or total reduction of their working time (Tronti, 1994). In France such temporary schemes were at times extended to cover longer periods (e.g. in the framework of the so-called "five years law") of up to a year (Mosley, 1998). A special kind of short-time work is short time due to technical problems, such as stoppages caused by fire, for example.

While short-time work is efficient in situations of temporary redundancies, the problem is precisely the difficulty in distinguishing temporary from permanent redundancies or structural from business-cycle changes. Although the duration of schemes has been extended in time and thus addressed the problem of prolonged periods of redundancy, the problem of permanent redundancies is not capably solved by short-time work. Why? Because these are mainly passive measures which are financing hours not worked and they oblige recipients not to work while drawing benefits.

Such schemes have been accused of delaying necessary adjustments in the labour market and of postponing solutions. In the wake of criticism, there have been attempts to "activate" such measures, for example by allowing them to be combined with training. Available evidence on these measures is scant. They appear to make sense in situations where a take-up of activities is to be expected in the near future and where future skill needs are known and can be addressed through adequate training. In East Germany the problems of adjustment seem to have been too formidable; there was too much uncertainty on the future ownership of companies, their product or service segment and future markets and, accordingly, their training needs. In such cases measures for external adjustment (see below) may have been the better alternative.

### *Temporary lay-offs*

As a functional equivalent to short-time work, temporary lay-off systems might be of some value for avoiding permanent redundancies. Temporary lay-off also entails public/private financing, but people on lay-off, instead of working reduced hours, do not work at all while laid off. They are of course no real functional equivalent because, as opposed to short-time work, the contractual link with the dismissing firms is weaker. This is the case when there is no legal or conventional right to be

recalled after a given period of time. Many temporary lay-offs turn out to be permanent. There is also more incentive for workers on temporary lay-off to change jobs, so that the problem of attrition can become important.

On the positive side, lay-off systems seem to have introduced certain employment stability in certain sectors of the economy, for example those with large seasonal fluctuations. In some countries between 30 and 40 per cent of the unemployed return to the dismissing employer, which shows the capacity to stabilize the employment relationship, even if this means a partition of wage costs between the (small) companies and the unemployment protection system. In some of the lay-off systems, an experience rating (the more you use the system, the more you pay) has been introduced.

In sum, there is a series of options which can be used in the case of pending redundancies and which might avoid worker displacement. As mentioned previously, the difficulties here are uncertainties on the nature of the cause of economic problems and thus the expectations of their duration. In the real world, these options are very much influenced by the type of institutions and the measures available when redundancies loom.

Despite these difficulties, it still seems preferable initially to use the first options of prevention and internal adjustment, before other measures of external adjustment are taken.

## 9. External adjustment

7. Attrition
8. Dismissal
9. Redundancy payments
10. - voluntary
11. - involuntary
12. Conversion training
13. Temporary wage-cost subsidies
14. Mobility aids
15. Repatriation grants
16. Enterprise creation Intermediary organizations
17. Intermediary organizations.

It might sometimes seem to human resource managers that indeed forthright dismissals are a clear solution to the redundancy problem. Usually unemployment benefits exist to cushion the social impact of dismissals and labour exchange and labour market policy will later on help those dismissed to get new jobs. Certainly in parts of the labour market this is a form of redundancy management. And in the flexible labour market environment of today, which has seen the deregulation of dismissal protection legislation, dismissals have become a more frequently used option.

However, on the internal labour markets of large companies in the industrialized countries, straightforward dismissals are still seldom used. This is due to the enforcement of social plan, which oblige firms to design alternatives to dismissals. Such alternatives (e.g. early retirement) are often publicly financed or at least co-financed. However, companies themselves have interests in some stability in their labour markets and exit management contributes to that stability. Such firms are usually aware of the social impact of mass lay-offs and the destructive effect of the mere possibility of dismissals on workers' morale and motivation that they prefer alternative ways of workforce reduction. As the public authorities are also aware of the disruptive impact of mass dismissals on

communities and the economy, public policies in a typical industrial country frequently support alternatives to dismissals. Several possibilities exist for redundancy management:

#### *Attrition*

While attrition is not an active redundancy measure *per se*, voluntary quits from the labour force may diminish the redundancy problem considerably: not replacing voluntary quits is one of the less costly means of adjustment. The downside is that you cannot influence the level and structure of departures according to age and skills, for example. Experience has shown that often the most motivated and skilled workers exit when redundancy situations loom. So, in efficiency terms, attrition is only a sub-optimal and partial solution.

#### *Dismissal: Early retirement and invalidity pensions*

These two measures (for mass lay-offs, especially the first) are the most widely used among all adjustment measures to avoid the negative social consequences of redundancy and worker displacement. Paradoxically, these age-related measures have made the most protected part of the workforce, those with long tenure, into the main target for redundancies. The trade-off between dismissal protection and accompanying measures can be most clearly seen here. Early exits via these measures have resulted in sometimes very low employment rates for the workforce aged between 55 and 64 years and to increasing costs for state and/or social security budgets.

Consensus between workers and their organizations and between employers and the State has been disrupted and the schemes have been made less attractive for workers and more expensive for employers. There is also an attempt to introduce gradual retirement options such as part-time pensions.

Despite such attempts, whenever mass lay-offs occur, early retirement is still a preferred option for exit in many European countries. It provides the kind of stability that internal labour markets need, because it acts like a flexibility buffer and is part of arrangements which provide “lifetime employment”.

#### *Redundancy payments*

One way to increase the attractiveness of leaving is to give financial incentives to workers on the condition that they quit voluntarily. Such “golden handshakes” are used in most industrialized countries. In the United Kingdom, they are the preferred way of coping with redundancy and the only legal provision for financial compensation for mass dismissals. Similarly in other countries, forms of severance pay do exist. However, firms usually voluntarily offer better financial compensation than those legally provided for. The amount of redundancy payments depends on length of service. They can be quite costly to firms and in comparative terms are in fact the most costly of all redundancy measures for firms (only in the United Kingdom are they relatively low, Auer, 1998). Their problems arise with this kind of payment: although such payments could be used to restructure labour markets in terms of age and skill, they are frequently offered to white-collar workers only, and often to those with the best job-finding chances, so that a problem of equity occurs. In the United Kingdom, where the equity problem is less widespread, another problem occurs: it has been shown that workers exiting with redundancy payments have a more than proportional chance to find themselves in long-term unemployment later (White, 1983). This is probably the case in other countries as well, especially if redundancy (severance) payments are low.

Today it is also common for redundancy payments to be deducted from unemployment benefits, thus losing much of their attraction for workers.

### *Conversion training*

Conversion training for the external labour market has gained some importance in France, where these schemes -are part of minimum social plan requirements. They also exist in most other European countries as well and are, for example, part of the policy instruments used by “employment companies” in Austria and Germany (see below, Intermediary organizations). The rationale of conversion-training measures is to provide training for workers made redundant in order to enable them to take up jobs elsewhere in the economy. Such training can consist in short-term update training or in long-term adaptation to new professions. Evaluation results have shown that their effectiveness depends on the business cycle and decreases when redundancies increase, but the overall impact of such measures is positive.

### *Temporary wage-cost subsidies*

For a limited period, these compensate for the income losses of displaced workers willing to take up lower paid jobs. They have been used in France, but are also available in some other countries. Their take-up has remained limited but they could be an interesting instrument, as they link the aims of the European Employment Strategy (increase jobs in low paid sectors by subsidizing wages) with the problem of redundancy. Well-designed (e.g. phase them out, when wages increase) they could still be an instrument to consider for cushioning the impact of worker displacement.

### *Mobility aids*

Mobility grants have been used substantially for allowing reallocation of displaced workers. They have been part of the traditional Swedish labour market policy, which in general was designed for accompanying structural change. The rationale for mobility grants is to allow workers to move geographically from areas of redundancy to areas with labour demand. They compensate for higher costs due to relocation.

### *Repatriation grants*

A special kind of mobility grant is the provision of repatriation aids for displaced foreign workers. Their rationale is to allow foreign workers to move to their country of origin and provide them with means either to set up on their own or to start salaried work. Usually such grants consist of a lump-sum payment, travel expenses and the possibility to recoup pension fund money earlier than statutory provisions would foresee.

Take-up has usually fallen short of expectations and there is almost no information available on the success of foreign workers once back in their home countries to find alternatives to jobs lost in host countries. Take-up rate is here also a function of the generosity of the grants offered.

### *Enterprise creation*

This is one of the more promising areas of redundancy measures and some companies (e.g. British Steel and the French steel mills Usinor-Sacilor) have in the past been fairly successful in stimulating enterprise creation in areas hit by structural change or severe business downturns (see Evans-Klock, 1999).

Also in this area it seems that “intermediary organizations” have contributed to the success in setting up new small enterprises. The rationale here is to stimulate workers made redundant to set up on their own. Means for stimulating small businesses are the provision of venture capital (or information

on its sources) and advice as well as the provision of business premises, often the refurbished sites of closed plants and offices. Subsidies have also been provided.

### *Intermediary organizations*

As separate entities such intermediary organizations have taken over the task of placing workers made redundant into new jobs. Different organizational forms exist for these intermediary firms: they can be specific units of (large) companies, specific smaller private companies, public/private companies or associations. The staffing industry (temporary work agencies) also takes a growing share of this business. The public employment service is another player in this field.

The task of these intermediaries is usually to bundle all services which exist for workers made redundant (advice and information, job placement, training and other labour market policy measures) and propose them to their clients. These clients sometimes have contractual relationships with the intermediary organization. Such intermediaries have the advantage that the company which made workers redundant does not have to deal with “outplacement” and the clear function of the intermediaries and their capacity of bundling measures can make them effective in dealing with displaced workers. Some of these have indeed been effective (e.g. British Steel Industries, the Stahl- or Arbeitsstiftungen in Austria and some of the Beschäftigungsgesellschaften in Germany) (Evans-Klock, 1999; Bosch, 1990; Auer, 1991). However, the danger is that firms are no longer active in redundancy prevention, nor in redundancy management, once such intermediaries exist. And indeed, there are companies, such as for example Telia in Sweden, which have succeeded by the creation of their own “redundancy unit” to avoid redundancies or to successfully outpace a large number of workers made redundant.

## **10. Conclusions**

The latter example of intermediary organizations shows most clearly that a range of options are available and that it makes sense to bundle these services (e.g. to create “one-stop shops” for workers and firms). A redundancy situation calls for a differentiated and individualized approach to a collective problem. It also requires an organizational focus point. It is ultimately the range of options available and their combinations and targeting which can make redundancy measures efficient.

The *Atypical@industrial country*, in which all the measures listed above are available, does not exist. No country has such a range of measures available, but in many countries a selection of these measures are available and some countries offer a fuller range of choices than others. The availability of these measures is not unrelated to employment protection legislation and, very often, tight dismissal protection accompanies a wider range of choices. The adjustment flexibility lost through tighter dismissal regulation is somewhat traded off for a better social protection, especially for the older workforce (a main target for redundancies, despite being the most protected group because of seniority rules).

In terms of our analogy to the computer programme offering a menu choice on possible actions of prevention and internal and external adjustments, sometimes your menu list will be rather short, depending on the institutional context in which you are placed. Sometimes you have no “prevention” button and sometimes your “internal adjustment” menu consists of only a few actions. In most industrialized countries, preference is usually given to external adjustment which is overwhelmingly geared towards the cushioned exit of older workers. This

specific policy, which was at the centre of adjustment policies, has been increasingly criticized as being costly to public budgets. High benefit-dependency rates (less and less actives have to finance more and more inactives) lead to claims that low employment-to-population rates for older workers (which have been found as one of the reasons for low overall employment rates in Europe) should be increased. Demographic ageing is putting even more pressure on policy makers to refrain from early retirement.

Thus, the menu choice of “early retirement” might disappear from your redundancy programme soon. Alternatives, which are not straightforward dismissals, need to be found, in order to hinder the development of poverty pockets for older workers who have been made redundant.

This paper has given a succinct overview of the programmes that can be used to mitigate the impact of mass lay-offs on workers. A more thorough guide to worker displacement will be shortly published by the Infocus Programme on Skills, Knowledge and Development of the Employment Sector (Hansen, forthcoming).