

Austrian short-time work model: a labour-market policy for the many, not the few

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Job retention plus well-compensated short-time work is better for employers as well as employees than redundancy. Maybe after the crisis we can reopen the debate about working time.

A growing number of countries are facing unprecedented disruptions to everyday life. The rapid spread of the coronavirus has led to a shutdown of vital functions of economies around the world. While the countermeasures to reduce infections are largely undisputed among experts, the ways to deal with the economic crisis are manifold.

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In particular, skyrocketing unemployment poses a major challenge for most countries. But in Austria, the social partners have negotiated a new model of subsidised short-time work which could become an international exemplar.

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Relationship maintained

The short-time work model allows a reduction in working hours while maintaining the employment relationship and granting almost full wage compensation. It even includes the possibility of a temporary reduction to as few as zero hours. Employees only have to carry out on average 10 per cent of their normal working time over a period of three months and it is possible to work that as a block, for instance at the end of the period.

After these three months, it is possible to prolong short-time work for another three months if necessary.

Simon Theurl

Depending on the former income level, the model grants compensation of between 80 and 90 per cent (including special remunerations).

Thus, the short-time work grant from the Public Employment Service Austria (AMS) is much higher than regular unemployment benefits, which comprise 55 per cent of previous net income. In comparison with other countries, the Austrian short-time work model seems to be very attractive, as the replacement rate is high and the same across all sectors.

In Germany, the net replacement rate varies between the regular benefit payment of 60 per cent and up to 67 per cent. In Norway, workers can be put on leave and receive full payment for the first 20 days and then between 80 and 62 per cent depending on the

salary. In Ireland, the net replacement rate equals 70 per cent, in Denmark 75 per cent and in the United Kingdom about 80 per cent.

Fully insured

Every company in Austria, independent of its size or branch of activity, can implement this short-time work model. The public sector will refund all additional costs and the company will only pay for the actual working time. Employers also benefit because the wages and the social-security contributions for the lost hours are omitted, beginning with the first day of short-time work, while employees continue to be fully insured. To reduce windfall effects and to prevent misuse, all applications to the AMS have to be approved by the social partners.

If there is an elected works council (*Betriebsrat*) in the applicant company, a plant-level agreement (*Betriebsvereinbarung*) specifying details of the short-time work is required. Otherwise, employers have to reach an individual agreement with each employee. All agreements on reduced working hours stipulate a minimum retention period of one month after the reduced hours. The retention period after short-time work applies only to those employees who were affected by short-time work, not to all employees of the company.

Let's take a typical case in Austria: Mr W normally works 38.5 hours per week in the metal industry and his gross monthly salary amounts to €2,651 (€1,829 net). Because of the coronavirus, the firm has received almost no orders and Mr W agrees with his employer to adopt short-time work (STW), based on a social-partnership agreement (the works council co-ordinated the agreement). In detail, they agree on reducing his average working time by about 90 per cent for three months. In April Mr W does not work at all, in May he will work 10 per cent (around four hours per week) and in June 20 per cent (around eight hours per week) of his former working time.

Mr W receives a stable minimum net salary of about €1,555 each month during the STW period (see table). The employer faces total effective labour costs of about €1,045 during these three months. In the event of a dismissal by the employer, the labour costs would be around €3,715 due to the notice period (four weeks), which is much more than the labour costs under STW—meaning that it is much cheaper for the company to retain Mr W than to make him redundant.

		Short-time work (STW)		
Net monthly salary before COVID-19 short-time work		April	May	June
		reducing working time to		
		0%	10%	20%
What does the employee earn during STW?	Minimum net salary	€1,555	€1,555	€1,555
Comparison with unemployment benefits in the event of dismissal*		€1,200	€1,240	€1,200
What does the employer pay during STW?	Labour cost	€3,482	€3,482	€3,482
	STW subsidy from the AMS	€3,482	€3,134	€2,786
	Effective labour cost	€0	€348	€696
Comparison with labour cost in the event of dismissal: assumed notice period of four weeks		€3,715		
Additional cost of dismissal		€2,671		

Sources: [AMS STW calculator](#), [gross-net calculator](#), [unemployment benefits calculator](#)

As the STW model proves beneficial for employees and employers alike, as an alternative to unemployment, a number of large Austrian companies have already made use of this policy. Among them are construction companies such as Porr (20,000 employees) and Strabag (11,000), the steel company voestalpine (20,000) and many firms in the automotive sector, such as Porsche (6,400) and BMW (4,500).

Facing rapidly increasing unemployment, the social partners in Austria have negotiated a new and unique STW programme, which is enabling employees to keep their job and sustain consumption levels. The model relies on codetermination at the company level, as elected works councils and employees must agree a specified, plant-level agreement. This strengthens democracy in the workplace, even in a time of deep crisis.

Redistribution of hours

Through short-time work many employees also gain positive experiences of reduced working time, meaning more time for private interests. These experiences could stimulate a general discussion around the redistribution of working hours in society after the crisis. To achieve full employment, the typical working week must be reduced radically, so that work is redistributed to everybody in search of employment.

The economist John Maynard Keynes predicted that in the 21st century 15 hours' working time per week should be enough, due to increased productivity. With hundreds of thousands of employees in Europe working short time during the crisis, their positive experiences may well be a starting point for finally making this vision a reality.