

Longer Working Hours? More Flexible Work Schedules? Do Austrian Economic Policymakers Need to Act?

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On September 23, 2004, the Oesterreichische Nationalbank (OeNB) hosted a workshop to discuss extending working hours and increasing working time flexibility. After Peter Mooslechner (OeNB) outlined the development of the present discussion in the media and presented some facts, the participants delivered their statements. Erhard Fürst (Federation of Austrian Industry and Austria perspektiv) called for more flexibility rather than for an extension of working hours. He supported this view by pointing to the rising competitive pressure on enterprises. Sepp Zuckerstätter (Chamber of Labor) opposed lengthening working hours, because this would reduce employment and decrease aggregate demand. In his opinion the current regulations are sufficient. Herbert Walther (Vienna University of Economics and Business Administration) explained that in theoretical models the impact of more flexible working hours on employment is uncertain. Moreover, no connection between the degree of flexibility and key labor market indicators could be established. In the weeks and months preceding the workshop the media reported calls for the extension of standard working hours and more flexible working hours in enterprises.

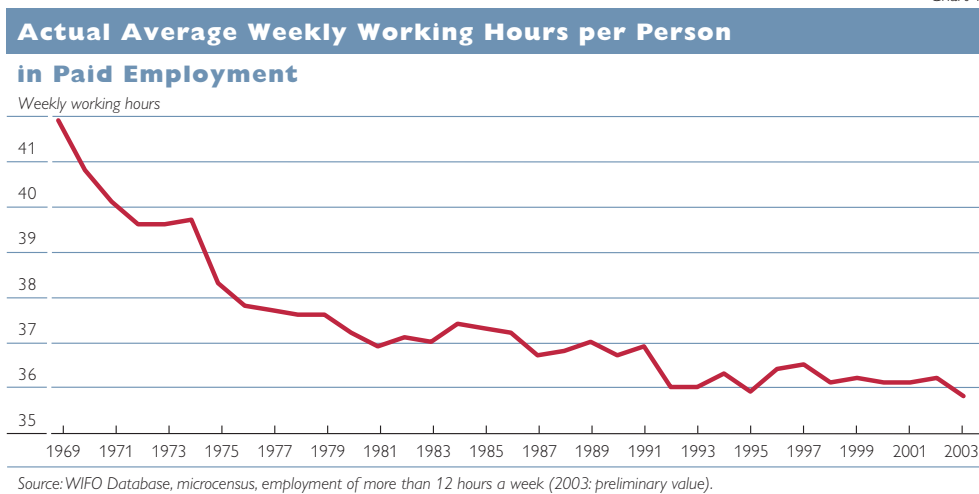
In his introduction, *Peter Mooslechner* referred to the most important elements of the discussion in the media on extending working hours and increasing working time flexibility. From the Austrian perspective it is striking that the topic is discussed much more intensely in Germany than in Austria. In Germany, above all, the developments at Siemens and DaimlerChrysler caused a considerable stir, where an extension of annual working hours was agreed in view of the growing competition from Eastern European countries. In Austria, industry representatives opened the debate on extended working hours and later called for abolishing public holidays. Employee representatives opposed these arguments primarily by claiming that longer working hours would result in decreased overall economic demand, which ultimately could not be in the interest of enterprises. Finally, the discussion in Austria very quickly turned to the issue of establishing a more flexible regulatory framework for working hours. In this vein, the president of the Austrian Federal Economic Chamber, Christoph Leitl, demanded a “radical increase” of working-time flexibility.

Peter Mooslechner stated that the data available on working time, above all for Austria but also internationally,

is insufficient and partly contradictory. According to OECD statistics Austrian employees’ actual annual working hours came to almost 1,500 in 2003. Employees in Germany, the Scandinavian countries and the Netherlands show fewer annual working hours. However, people in the U.S.A. and Eastern European countries like Hungary, the Czech Republic and Poland work longer, while Switzerland has about the same annual working hours as Austria. According to the DICE database of the Munich ifo Institute, the collectively agreed standard working time of 1,700 hours a year in Austria approximately corresponds to the EU average.

The microcensus (Statistics Austria) shows that in the long term, the actual average weekly working hours per employee in Austria decreased significantly from 42 to 37 hours between the beginning of the 1970s and the end of the 1980s. However, since then, it has remained constant despite the increase in part-time work (chart 1). A typical feature of the Austrian labor market is that labor schemes generally associated with flexibility represent a relatively high share. In Austria the proportions of evening work (13.3%), Sunday work (10.4%) and shift work (18.0%) are close to the EU average, while the fig-

Chart 1



ures for night work (9.1%) and Saturday work (19.9%) are significantly higher. These figures, for example, are also considerably higher than in Switzerland and, apart from evening work, are quite comparable with those of the United Kingdom.

This assessment is confirmed by figures of the Main Association of Austrian Social Security Institutions and the Austrian Public Employment Service, which show that about 1.4 million job entrants and leavers (with 3.2 million persons in paid employment) a year seems very high. Moreover, there are 450,000 “atypical” jobs, which include marginal employment, employee leasing and contract self-employment. This raises the principal question of whether Austrian economy policymakers need to act, considering that the Austrian labor market is time and again credited with considerable flexibility – e.g. real wage flexibility – in an international comparison.

Erhard Fürst (Federation of Austrian Industry and Austria *perspektiv*) cited the increasingly intense competitive pressure on businesses as a reason for the need to discuss working time arrangements. This pressure has risen

above all because of the creation of the EU single market and EU enlargement. New regulations and taxes (e.g. increased energy taxes, the truck toll and the EU chemicals directive) further compounded cost pressures. Furthermore, Mr. Fürst pointed to international stock market pressures on companies to make high profits designed to keep investors from withdrawing their holdings. The Basel II rules are also likely to augment the cost of raising capital.

According to Erhard Fürst, changing the current working time arrangements is a possible tool to provide more flexibility and reduce costs for enterprises. Principally, however, Austria does not require action as urgently as Germany. Mr. Fürst pleaded for more flexible working time arrangements within a year, which would bring down labor cost by reducing overtime. More flexible working times should be negotiated at the enterprise level, because not all enterprises utilize the current legal possibilities or options laid out in collective agreements in the same way: Some businesses are content with the current possibilities, while others prefer more flexible work models.

Very few enterprises would prefer an extension of working hours without adjusting wages. Mr. Fürst advocated working hour arrangements that meet the individual needs of enterprises within the given framework of the social partnership.

Mr. Fürst saw no immediate reason for extending the current weekly or annual working hours. (However, it should be possible to increase working hours in single cases in order to protect Austrian industries and jobs in the long term.) However, surveys conducted by the Federation of Austrian Industry of industrial enterprises show that there is an urgent need to increase the maximum standard working hours to 10 hours a day and the maximum permissible working hours to 12 hours a day. It is also necessary to generally increase the averaging period to one year. According to Mr. Fürst it is not possible to conclusively assess the macroeconomic impact of longer and more flexible working hours, because the result depends on overall economic capacity utilization and on demand. In the long term, improved international competitiveness will feed through to higher growth and employment. Mr. Fürst emphasized that an extension of working hours (above all over the duration of a lifetime) will become necessary for demographic reasons.

In his introduction, *Sepp Zuckerstätter* (Chamber of Labor) gave thought to work demand. Considering empirical estimates of labor demand elasticities, it is not plausible that an extension of working hours would raise employment. The first effect of an extension of working hours will be to increase labor supply; to boost employment, labor demand elasticity figures would have to be higher than 1. However, no study has found such

high figures. In *Sepp Zuckerstätter's* opinion it is much more likely that employment will decrease while working hours will increase. An extension of working hours results in decreasing income and demand owing to lower overtime pay and wage reductions for part-time workers. Furthermore, it is not very likely that production costs decreased in such a way that they will enhance competitiveness, as other countries will also apply similar strategies. This would trigger a rat race, after which all countries will be in a worse position than before. In addition, all available analyses of the reasons for the current slow growth show that weak domestic demand rather than low exports are at cause. The impact on employment of more flexible working hours is not clear. The profits gained from improved capital utilization need to be allocated Pareto improving to employers and employees.

According to Mr. *Zuckerstätter* it is necessary to remember the reasons for working time arrangements. These include the protection of health, social interests (achieving a work-life balance, volunteer work), protection from arbitrary acts and the regulation of competition between enterprises. As it is easily possible to deviate from the standard 40-hour workweek (with 8-hour workdays) under the existent regulations, the current regime is flexible enough. Flextime regulations and many collective agreements allow employees to work up to 10 hours a day or 50 hours a week without obligatory overtime pay. Also, the arrangements for total working hours (including overtime) allow employees to work up to 60 hours a week, provided the company has put in place such an agreement. In addition, there are special regula-

tions for many industries (e.g. in retailing, hospitals and shiftwork). Moreover, employers can easily adapt standard working hours to their needs, if they provide an objective justification and announce the change in time. In any case, Mr. Zuckerstätter considers the current scope of flexibility high and sufficient, above all when the interests of employees are taken into account.

Mr. Zuckerstätter asserted that the present discussion did not take into account labor supply aspects and the position of employees. More flexible working time entails monetary and nonmonetary costs for employees. These have to be offset by the gains of more flexible working hours. In principle, according to Mr. Zuckerstätter, the shorter the (core) working hours are, the easier it is to be flexible. In comparisons with Eastern Europe, it is predictable that working hours in these countries will also decrease, because the demand for leisure increases with income. The latest OECD Employment Outlook shows that employees who have a say in their working hours report significantly fewer work-life balance conflicts than other employees.

Herbert Walther (Vienna University of Economics and Business Administration) began his statement with a question of principle: Why are there any working time arrangements at all? Technical complementarities necessitate coordinated working hours for many but not for all occupations. Therefore, consistent working time arrangements are unavoidable. However, it results in winners and losers due to different preferences for income and leisure. It is easier for an employer to replace an employee than for an employee to change employers. This leads to a structural asymmetry

of power in favor of employers on working hour issues. Collective agreements and legislation create a balance and are suitable for creating trust between employees and employers, which is necessary for the long-term efficiency of contractual relationships. This is also useful for employers. Furthermore, the external effects of working time arrangements (free time for families, employee health) have to be considered as well. In increasing working-time flexibility, the question of who has the right to decide whether and how to make use of flexibility (the “directive right”) is relevant. Employers implement this right when they order employees to work overtime, stand-by employment, forced leave and the like; employees use this right e.g. when they take flextime or parental and nursing leave. It is not always possible to find a consensus when steps toward more flexibility are taken; there are conflicts of interest. In any case, the directive right determines the distributional effects of efficiency gains resulting from more flexible working hours.

Mr. Walther discussed two examples of how more flexible working hours can influence employment. First, he considered the case of ordered overtime combined with compensatory time off later. In this case, labor costs clearly decrease (no overtime pay) whereas for employees the benefit of leisure time declines. The substitution effect (increased use of cheaper labor) could raise employment. Under competition, lower costs cause a reduction in prices and an expansion of demand. However, at the industry level a negative effect on employment has to be expected when demand is inelastic (which is likely). Second, Mr. Walther analyzed the general case of total disconnection

of working and operating hours in a model of monopolistic competition with free entry and exit (Walther, 2000). This results in some contradictory effects on employment. The longer hours of operation and consequently lower capital costs cause a substitution effect to the disadvantage of labor. With respect to the number of enterprises there is a concentration effect (economies of scale) which also has a negative impact on employment. However, lower prices and more flexible supply exert a positive impact on demand and employment. Hence, the overall impact on employment at the industry level and at the macroeconomic level is not entirely clear.

Mr. Walther concluded that working time arrangements always are a question of various private and social costs and gains, which then result – inter alia – in employment effects. Even if an arrangement (such as the extension of standard work hours) seems desirable from an individual point of view, it does not necessarily result in positive effects if other firms of an industry or other countries follow the example. Working hours policy is not a sustainable employment policy tool (no matter whether working hours are extended, reduced or made more flexible). At best it is possible to achieve one-off effects with this instrument, but it is not suitable for solving the problem of slow economic growth in the long run. Furthermore, from the empirical point of view, no correlation between the degree of flexibility and labor market indicators such as the unemployment rate, employment growth, the participation rate and unit labor costs can be identified. In the 1990s, Austrian enterprises profited from the growth of unit labor costs, which at 0.3% was considerably lower than

in the EU (1.9%). Higher economic growth and higher employment growth have reasons other than a failed labor policy. The slow growth in Germany is above all caused by a failure of macropolicy as a consequence of the reunification and the lacking coordination of monetary, fiscal and wage policy. In addition, there is a general misuse of public resources. (Research should receive more aid than agriculture.) Finally, the macropolicy reaction to external shocks (creation of the single market, the introduction of the euro and EU enlargement) was inadequate.

After the three speakers had finished their statements, the audience participated in a lively discussion. *Peter Brandner* (Ministry of Finance) criticized Walther's empirical discussion, stating that mere correlations are not really meaningful. In addition, he questioned Walther's explanations of the causes of slow economic growth, as contradictory theoretical opinions have been stated on this issue. *Alfred Katterl* (Ministry of Finance) criticized the poor quality of labor market statistics and claimed that in view of the decreasing labor share, the cost problem of enterprises could not be very severe. Mr. Katterl proposed abolishing public holidays as the easiest way of extending working hours, if an extension of annual working hours was in fact the objective. *Helene Schubert* (OeNB) addressed the problem that a growing number of women face the risk of economic dependency and the danger of poverty because more women work part-time. *Martina Gerharter* (Staff Council Deputy Chair, OeNB) explained that more flexible working hours have two sides: On the one hand, they are positive for relatively privileged (well-educated) employees, as these employees have

a greater say in decision-making; on the other hand, they are negative for less qualified employees, as such employees are often less well-organized in trade unions. Mr. Walther confirmed that the likelihood of a positive outcome for both sides of industry of flexible working hours is much higher in sectors with a high degree of trade union organization (compare industry versus retailing).

Mr. Walther opposed Mr. Fürst's call for a stronger transfer of working time arrangements to the level of enterprises. In his opinion such issues have to be negotiated at the industry level. Mr. Fürst responded that this

was not effective because the firms covered by the same collective agreements are too heterogeneous. Mr. Zuckerstätter pointed out some special cases in retailing, where working hour regulations are currently violated on purpose. He identified a lack of clear statements from the employers on which measures exactly should be taken to increase working time flexibility. Mr. Mooslechner's concluding question of whether there was a need for action, as suggested in the title of the conference, was answered in the negative by the majority. Mr. Fürst again pointed to the increased cost pressure of enterprises.

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