From recession to growth
Recovery in the labor market

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GDP growth

[Bar chart showing GDP growth from 2000 to 2012]
Unemployment rate
Iceland vs Finland (in the 90’s)

- Iceland (2008-2010)
  - GDP -10.4%
  - Unemployment from 3.0% to 7.6%
  - up by 4.6 percentage points
- Finland (1990-1992)
  - GDP -9.3%
  - Unemployment from 6.6% to 16.3%
  - up by 9.7 percentage points
Iceland vs Ireland

- Iceland (2008-2010)
  - GDP -10.4%
  - Unemployment from 3.0% to 7.6%
    - up by 4.6 percentage points
- Ireland (2008-2010)
  - GDP -7.4%
  - Unemployment from 6.3% to 13.7%
    - up by 7.4 percentage points
- (2007-2009) GDP -9.8%. Unemployment up by 7.3
Labor market flexibility

Definition of flexibility

Labor market institutions
• Few laws – mostly in bargaining agreements
• Easy to hire and fire – in the private labor market, harder in the public labor market.

Bargaining structure
• Centralized and coordinated bargaining

General situation in the labor market
• Unemployment historically low

Various indicators
• High labor force participation rates, long work hours, retire late
• After crisis: shorter work hours, fallen LFP and more part time work.
Downsizing

• Downsizing research focuses on layoffs and impact on performance and employees.

• A set of activities that has the objective to realign and improve organizational efficiency and performance affecting size of the workforce, cost and work processes of organizations (Cameron, 1994; DeWitt, 1993).
Conceptual framework

Downsizing

Soft
1
Hiring freeze
Transfers
Age related exit agreement
Unpaid study leaves/vacations
Management pay-cut
Short term contracts not renewed

Moderate
2
Reduction in overtime
Wage freeze
Reduced job proportions
Job sharing
Reduced benefits
Prohibiting overtime
Individual layoffs (1-4%)

Hard
3
Mass layoffs (≥5%)
Employee pay-cut
Data

• Collected from February – May 2012
• HR managers in companies with over 70 employees
• The whole population – not a sample
• 151 out of 304 answered (50%)
<table>
<thead>
<tr>
<th>Method</th>
<th>Total (145)</th>
<th>Private (77)</th>
<th>Public (68)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Soft</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hiring freeze</td>
<td>36%</td>
<td>38%</td>
<td>34%</td>
</tr>
<tr>
<td>Transfers</td>
<td>42%</td>
<td>47%</td>
<td>37%</td>
</tr>
<tr>
<td>Age related exit agreements</td>
<td>10%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Unpaid study leaves/vacations</td>
<td>15%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Management pay-cut (direct and/or indirect)</td>
<td>54%</td>
<td>40%</td>
<td>69%*</td>
</tr>
<tr>
<td>Short-term contracts not renewed</td>
<td>24%</td>
<td>20%</td>
<td>29%</td>
</tr>
<tr>
<td><strong>Moderate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in overtime (ban or on purpose)</td>
<td>60%</td>
<td>52%</td>
<td>69%*</td>
</tr>
<tr>
<td>Wage freeze</td>
<td>39%</td>
<td>47%</td>
<td>31%</td>
</tr>
<tr>
<td>Reduced job proportion</td>
<td>30%</td>
<td>27%</td>
<td>34%</td>
</tr>
<tr>
<td>Job sharing</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Reduced benefits</td>
<td>25%</td>
<td>18%</td>
<td>32%*</td>
</tr>
<tr>
<td>Individual layoffs (1-4%)</td>
<td>35%</td>
<td>42%</td>
<td>27%</td>
</tr>
<tr>
<td><strong>Hard</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mass layoffs (≥5%)</td>
<td>17%</td>
<td>22%</td>
<td>12%</td>
</tr>
<tr>
<td>Employee pay-cut (direct and/or indirect)</td>
<td>32%</td>
<td>23%</td>
<td>41%*</td>
</tr>
</tbody>
</table>
Layoffs from October 2008 to end of year 2011

N = 151
Wage cuts - Management

• 54% of organizations lowered the wages of management.

<table>
<thead>
<tr>
<th>Wage cut</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;20 (Max 40%)</td>
<td>6</td>
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<tr>
<td>11-20</td>
<td>17</td>
</tr>
<tr>
<td>10</td>
<td>37</td>
</tr>
<tr>
<td>6-9</td>
<td>17</td>
</tr>
<tr>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>3-4</td>
<td>8</td>
</tr>
</tbody>
</table>
Wage cuts - employees

- 32% of organizations lowered the wages of employees.

<table>
<thead>
<tr>
<th>Wage cut</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;10 (Max 23%)</td>
<td>12</td>
</tr>
<tr>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td>6-9</td>
<td>22</td>
</tr>
<tr>
<td>5</td>
<td>28</td>
</tr>
<tr>
<td>2-4</td>
<td>17</td>
</tr>
</tbody>
</table>

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Who was consulted when wage cuts were being decided?

- Board of organization: 63%
- Union/shop steward: 46%
- Employee representative/staff org: 25%
- Ministry/Employer organization: 1%
Lower job proportions

• 30% of organizations lowered job proportions.

<table>
<thead>
<tr>
<th>Share</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>19</td>
</tr>
<tr>
<td>10%</td>
<td>19</td>
</tr>
<tr>
<td>15%</td>
<td>13</td>
</tr>
<tr>
<td>20%</td>
<td>38</td>
</tr>
<tr>
<td>30%</td>
<td>6</td>
</tr>
<tr>
<td>50%</td>
<td>6</td>
</tr>
</tbody>
</table>
If reduced job proportion, which method was used?

- All employees (not a choice): 7%
- Certain groups (not a choice): 61%
- Only those that agreed: 20%
- Other: 11%
Reaction within organizations

- A new policy statement was made for the organization
  - Private sector: 21%
  - Public sector: 21%

- A new vision statement was made for the organization
  - Private sector: 7%
  - Public sector: 25%

- Reorganization
  - Private sector: 18%
  - Public sector: 25%

- Certain activities/jobs were redefined
  - Private sector: 31%
  - Public sector: 38%

- All or almost all activities/jobs were redefined
  - Private sector: 3%
  - Public sector: 3%

- Employees who were assigned new projects and/or got new jobs received appropriate training
  - Private sector: 7%
  - Public sector: 10%

- Job descriptions were revised
  - Private sector: 13%
  - Public sector: 31%
Changes in employment and hours worked
Q1/2004 - Q4/2012

Year-on-year change (%)

-15 -10 -5 0 5 10


Number of employed persons
Average hours worked
Total hours worked

Source: Statistics Iceland.
Private consumption and real disposable income 2000-2015\(^1\)

Year-on-year change (%)

- Real disposable income
- Private consumption

Sources: Statistics Iceland, Central Bank of Iceland.
Labor force participation rate
Working hours
Turnaround?
Have the wage cuts been recalled?

- Yes, above the previous level: 13% (Employees), 9% (Management)
- Yes, to where they were: 31% (Employees), 43% (Management)
- No: 48% (Employees), 56% (Management)
Most of the new hires were to replace other employees
New hires 2011 by industry

- Industry
- Services
- Public services

<table>
<thead>
<tr>
<th>Industry</th>
<th>Services</th>
<th>Public services</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>1-9</td>
<td>54%</td>
<td>31%</td>
</tr>
<tr>
<td>10-19</td>
<td>14%</td>
<td>17%</td>
</tr>
<tr>
<td>20-49</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>&gt; 50</td>
<td>7%</td>
<td>19%</td>
</tr>
</tbody>
</table>
Re-hiring

- About 50% of organizations have laid off employees.
- Of those, 30% have rehired one or more of their former employees.
- In very few incidences were they offered special incentives.
Chances of layoffs for the next 6 months

- Concentrated layoffs: 42% (No probability), 11% (Low probability), 5% (Neither/nor), 0% (High probability)
- Group layoffs: 63% (No probability), 32% (Low probability), 4% (Neither/nor), 1% (High probability)
Do you anticipate a hiring freeze for the next 6 months?

- Yes: 18%
- No: 68%
- Don't know/Not decided: 14%

Private sector:
- Yes: 16%
- No: 61%
- Don't know/Not decided: 9%

Public sector:
- Yes: 20%
- No: 75%
- Don't know/Not decided: 20%
Hiring for the next 6 months
Is there a ban on wage increases?

- Yes: 3%
- No: 53%
- Wages only raised according to collective bargaining agreements: 42%

Private sector:
- Yes: 4%
- No: 67%
- Wages only raised according to collective bargaining agreements: 28%

Public sector:
- Yes: 2%
- No: 41%
- Wages only raised according to collective bargaining agreements: 57%
How will you meet changes in demand during the next 6 months?

- Increased job prop. where previously lowered: Public sector 11%, Private sector 9%
- Increased overtime - current employees: Public sector 25%, Private sector 47%
- Outsourcing: Public sector 22%, Private sector 29%
- Fixed term or project based hiring: Public sector 65%, Private sector 38%
Unemployment
Percent of labor force, %