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Employment Research

SPRING 1994

In This Issue . . .

Job Security v. Labor
Market Flexibility

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New Books

Vol. 1, No. 1

Employment Research is a publication of the W. E. Upjohn Institute for Employment Research, a nonprofit research organization devoted to finding and promoting solutions to employment-related problems at the national, state, and local level. The Institute is an activity of the W. E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by the late Dr. W. E. Upjohn, founder of the Upjohn Company, to seek ways to counteract the loss of employment income during economic downturns.

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Randall W. Eberts
Executive Director

Susan N. Houseman

Job Security v. Labor Market Flexibility Is There a Tradeoff?

American workers, on average, have less job security than European workers. When faced with a need to reduce their workforce, U.S. companies typically resort to layoffs much more than do their European counterparts. European companies rely more on alternatives to layoff, including work sharing and attrition.

Many Americans believe that layoffs, and weak job security, are the price that must be paid for a healthy economy. Many also believe that strong job security in Europe reduces labor market flexibility, thereby obstructing change and inhibiting growth. However, my research with Katharine Abraham suggests that job security can be compatible with labor market flexibility.

Labor Adjustment in Europe and the United States

In statistical studies of labor adjustment in the manufacturing sectors of Germany, Belgium, France, and the United States, we find that, when faced with similar declines in sales, European manufacturers generally make labor reductions similar to those made by U.S. manufacturers. What differs is the way those cuts are achieved. U.S. companies tend to lay off many workers immediately, while European companies reduce workers' hours in the short term.

Work sharing is an important mechanism for adjusting to downturns in all of the European countries we study. In German manufacturing, for example, we find that work sharing accounts for over half of the initial drop in labor input when sales fall. By combining work sharing in the short term and attrition over the longer term, European companies can make similar cuts in labor hours with fewer layoffs than their U.S. counterparts.

Labor Market Policies in Europe and the United States

Differences in labor adjustment strategies of American and European companies are partly attributable to differences in labor policies. European countries discourage the use of layoffs by regulating them. All European countries require that employers notify workers prior to dismissal, and many require that

Many Americans believe that layoffs, and weak job security, are the price that must be paid for a healthy economy.

employers compensate laid-off workers under certain circumstances. Most European countries also require that

(continued on p. 3)

From the Executive Director

I am very pleased to introduce the first issue of *Employment Research*. This semiannual publication is intended to highlight some of the research carried out by the Institute staff, as well as research supported by our Grant Program. The Institute conducts and sponsors research on a wide range of employment-related issues. While our work is widely disseminated in many forms, including Institute books, academic journals, and technical reports, we believe our readers would be interested in and benefit from a publication that regularly offers an overview of the Institute's diverse mission and program.

Each issue of *Employment Research* will contain two articles highlighting current research on employment policy issues, program evaluations, and labor market developments. In this issue, Susan Houseman provides a European-United States perspective on the possible tradeoff between job security and labor market flexibility. Kevin Hollenbeck reports on his assessment of workplace literacy programs. The articles are designed to be informative to policy makers, practitioners, and academics alike. Each article is based on a body of rigorous research conducted by the authors, which can be found in Institute working papers, monographs, or forthcoming journal articles.

Employment Research also gives us an opportunity to share information about the activities of the Institute. Subsequent issues will include research grant announcements, new program developments, Institute staff activities, announcements of new

publications, and other information of interest to those of you who follow the Institute's activities.

Next year, the Institute will celebrate its 50th anniversary. During the half century of researching practical solutions to employment issues, we have been involved in some of the most important employment policy issues of the time. Today, our eight senior staff economists continue to focus on policy-relevant employment issues that span national and local concerns.

Our current research of national interest includes numerous projects related to unemployment insurance, disadvantaged workers, workforce training, multiple job holding, reemployment incentives, family labor issues, and employee benefits. More specifically, our senior staff is evaluating the benefits to employers of actively intervening to prevent workplace accidents and managing disabilities, estimating the effects of employment growth on black economic success, examining the cost of child care on the employment behavior of married and single mothers, assessing the effectiveness of reemployment incentives, and looking at the role of employee benefits in the labor market.

The Institute also looks at issues of national importance from an international perspective. We have underway several joint projects with colleagues in Germany and Japan on issues such as the rising trend in temporary and part-time employment, increased income inequality, and labor market adjustment strategies. In addition, we are using our labor market expertise to develop and implement

active labor market programs in Hungary and provide technical assistance to improve the effectiveness of employment programs in Poland.

The Institute also focuses on local issues, which often have national significance. Local projects include an in-depth study of employment barriers to disadvantaged workers in Kalamazoo, an evaluation of a public school program that provides mentoring and tuition incentives to maintain academic achievement and increase high school graduation rates, and participation in a citizen-based economic development strategy for Kalamazoo County. A regional economic outlook group monitors the West Michigan economy, conducts economic impact analyses, and examines a variety of economic development issues, including economic development strategies and linkages between regional economies.

In addition, a separate division within the Institute manages employment and training programs for local government agencies. This division annually serves more than 2,000 displaced and disadvantaged job seekers by providing job development, job search skills, and training under state and federal guidelines and funding.

We believe that the Institute has used its unique position to play an important role in furthering our understanding of a wide range of employment issues and in designing and evaluating employment-related policies. The vision and commitment of the Institute's founder, Dr. W.E. Upjohn, to find ways of combating unemployment have provided us the resources, independence, and ideological neutrality to look for the best solutions to labor market problems. We hope this publication proves useful in informing you of relevant findings from our research that may be helpful to you in your own work.

Randall W. Eberts

Job Security v. Labor Market Flexibility (continued from p. 1)

employers notify public authorities and notify and consult with worker representatives before implementing a mass layoff.

Although the U.S. Congress passed legislation in 1988 requiring that employers notify workers sixty days prior to a mass layoff, this legislation is quite weak by European standards. A company need give no advance notice if the layoff is due to unforeseen business circumstances or if the company has been seeking capital to avoid or postpone a shutdown. And U.S. law does not require companies to compensate laid-off workers or consult with worker representatives. A recent study by the General Accounting Office found that three quarters of all companies that appeared to meet the criteria requiring advance notice either failed to file notice or gave less than sixty days' notice. In most cases, then, companies either slip through the law's large loopholes or simply violate the law.

... the U.S. unemployment insurance system features a pro-layoff basis.

Although Europe's dismissal laws make layoffs more costly, other policies lower the costs of using alternatives such as work sharing. For example, European unemployment insurance systems allow workers whose hours have been cut because of slack work to collect prorated benefits. The availability of short-time compensation encourages the use of work sharing in lieu of layoffs.

While European unemployment insurance systems encourage work sharing, the U.S. unemployment insurance system features a pro-layoff bias. Because under our unemployment insurance system some of the cost of a layoff is passed on to the government, U.S. employers are encouraged to lay off

too many workers. Moreover, while unemployment insurance benefits are available for workers who are laid off, they generally are not available for workers whose hours have been cut for economic reasons, further encouraging layoffs over work sharing. Only 17 states have introduced short-time compensation. Interestingly, work sharing was used widely in the United States during downturns early in this century. Labor historians attribute its decline—and the increase in layoffs—to the introduction of the current system of unemployment insurance in the 1930s.

Alternatives such as work sharing help spread the costs of economic change across workers.

Policies in many European countries also provide incentives for companies to invest in workplace training. Workplace training increases job security in several ways. Employers are more reluctant to lay off workers in whom they have heavily invested, particularly during a temporary downturn. Employers may avoid laying off excess workers by transferring them into positions vacated by those who quit or retire. In Europe, this process of internal transfers is facilitated by the fact that the workforce possesses a broad set of skills. Finally, if workers are laid off, their training helps them find new work more quickly.

Although few statistics on workplace training exist, it is widely believed that American companies invest far less in their workers than do their European counterparts. A study by the U.S. Office of Technology Assessment, for example, estimated that German companies invest twice as much as U.S. companies in training their workers.

Implications for U.S. Policy

Although many fear that strong job security inhibits workforce reduction and slows economic adjustment, our research

suggests that, with appropriate policies to facilitate adjustment through alternatives to layoff, it is possible to have both job security and labor market flexibility. Given this finding, is there reason to support policies—such as stronger advance notice requirements, short-time compensation, and workplace training incentives—that would encourage greater use of alternatives to layoff in the United States?

Reducing layoffs would be more equitable. Laid-off workers, who often suffer large income losses, loss of health insurance, and other personal problems, bear the brunt of economic adjustment. Alternatives such as work sharing help spread the costs of economic change across workers.

Reducing layoffs also could increase economic efficiency. Current U.S. policy encourages companies to lay off too many workers and these excessive layoffs waste investments in worker training and lower productivity in the economy.

Susan N. Houseman is a senior economist at the Upjohn Institute

Suggested Readings

Katharine G. Abraham and Susan N. Houseman. *Job Security in America: Lessons from Germany*. Washington: Brookings Institution, 1993.

Katharine G. Abraham and Susan N. Houseman. "Does Employment Protection Inhibit Labor Market Flexibility? Lessons from Germany, France, and Belgium." In *Social Protection versus Economic Flexibility*, edited by Rebecca Blank. Chicago: University of Chicago Press, 1994, pp. 59-93.

Susan N. Houseman and Katharine G. Abraham, "Labor Adjustment under Different Institutional Structures: A Case Study of Germany and the United States," Upjohn Institute for Employment Research Working Paper, SWP 94-26, April 1994.

Kevin Hollenbeck

Workplace Literacy Programs

Why the Mismatch Between Availability and Need?

A remarkable phenomenon is occurring in a small share of workplaces. It is possible to walk into these firms and find, on premises, classrooms—complete with chalkboards, audio-visual equipment, textbooks, and reference libraries. Furthermore, if you happen to visit one of these classrooms during an instructional period, you are likely to observe a class in reading, writing, or arithmetic. In most cases, employees are earning wages while they participate.

The fact that some companies offer training in basic academic skills does not seem so remarkable when you consider the need. Studies of workforce quality consistently find that basic communication and mathematics skills are necessary for workers to be productive (one of the most prominent of these is the Secretary's Commission on Achieving Necessary Skills (SCANS), 1992). Yet, as reported in my recent book, *Classrooms in the Workplace*, 25 to 40 percent of workers in small and medium-sized businesses have low enough levels of basic skills to impede their job performance.

Despite the magnitude of this problem, only a small minority of firms offers formal training programs for basic academic skills. My research suggests that only 1 to 3 percent of small businesses have such a program. Professor Laurie Bassi of Georgetown University estimated a higher percentage—perhaps 8 to 10 percent. From either estimate, it can be concluded that a significant share of the workforce has some basic skills deficiency, but only a small proportion has an opportunity to redress their deficiencies in on- or off-site

workplace programs. Why is there such a mismatch between the need for workplace literacy programs and their availability?

What Are Workplace Literacy Programs?

Table 1 presents a summary of program characteristics from a survey conducted as part of my study. The

preponderance of programs—over 80 percent—provided release time to permit employee attendance (excused absence with pay from normal work duties). Some employers provided release time for part of the activity and expected employees to use their own time for the remainder. The employers perceived this arrangement as a way for employees to invest in the programs themselves.

Table 1
Characteristics of Workplace Literacy Programs in Michigan Firms

Characteristic	Percentage ^a
Voluntary participation	56.9
Taught at worksite	82.4
Release time provided	80.8
Skills taught: ^b	
Mathematics	58.8
ESL	3.9
Reading and writing	38.0
Standard GED curriculum	19.6
Problem solving	82.4
Interpersonal skills	66.7
Type of instructor: ^c	
In-house paid teacher	44.1
Contracted teacher	20.6
Company volunteer	11.8
Other	22.3
Sample size	53

a. Percentages are based on respondents to the item and not on total with a program.

b. Percentages sum to greater than 100 because of multiple responses.

c. Percentages do not sum to 100 because of rounding.

A similar percentage of programs—82 percent—were offered at the worksite.

The primary advantages of this arrangement are that its convenience reduces the cost of participation to the worker and allows the employer to monitor the program. On the other hand, off-site arrangements minimize disturbances and thus promote attendance and concentration.

Slightly over half of the programs were voluntary; the remainder were either mandatory for certain workers or a combination of mandatory and voluntary. A plurality of programs were not regularly scheduled (met as needed or as could be arranged), but among those scheduled on a regular basis, the median frequency was about twice per week.

The responses were almost perfectly split between using an employee as the instructor and bringing in an external party as the instructor. In the latter cases, instructors were either independent consultants or taught at a community

college or adult education department of a public school system.

The skills taught matched the areas of greatest need, according to survey data. Problem solving was taught in almost 85 percent of the programs, interpersonal skills in about 70 percent of the programs, mathematics in over half of the programs, and reading and writing or other English skills in a minority of programs.

Do High Program Costs or Low Returns Inhibit Availability?

Employers offering workplace literacy programs are investing in the human capital of their employees. As with any investment, they must weigh the costs and likely returns. While the evidence is sketchy, it appears that costs of workplace literacy programs are modest. My case study and survey research shows an average program cost for 20 workers of about \$14,500. These data come from a limited sample of small businesses, but

they suggest that the annual out-of-pocket cost (materials, provider cost, and employee release time) per employee is under \$1,000. These amounts may reflect an underestimation of the total cost, since most firms operate their programs in partnership with an educational institution that bears fixed costs such as curriculum development and often receive Adult Education Act subsidies for basic skills instruction.

On the other hand, in a recent working paper, I found substantial productivity payoffs to workplace literacy programs. Analyses of data from two large, nationally representative surveys of individuals resulted in estimates of marginal impacts of 11 to 17 percent increases in earnings, and by assumption, productivity. The evidence thus suggests that neither prohibitively high costs nor low payoffs are likely to be responsible for the low incidence of programs.

What Do Employers Say?

During the course of my study, I surveyed employers without programs about their reasons for not having them. Table 2 summarizes the responses to this question.

Many employers said that low basic skills were not a problem because they hired workers with high levels of educational attainment or because they carefully screened new hires for basic skill levels. Of the remaining employers, the major reasons cited were resources required (i.e., program costs, staff time, or worker release time), fear of employee turnover, lack of information (i.e., how to assess workers, how to start a program), and companies never having considered the issue.

Can Public Policy Reduce the Mismatch?

The main economic justification for public involvement in worker training is that it provides positive benefits to society. Trained, literate workers earn higher wages and thus pay higher taxes, have more stable attachment to the labor

Table 2
Responses of Firms as to Why Workplace Literacy Programs Were Not Started

Reason	Percent
Basic skills not serious problem	57.4
Need more information about need	33.8
Need more information about how to set up	35.3
Never considered doing so	42.6
Not employer's responsibility	33.8
Not enough staff to manage	51.5
Too expensive	36.8
Too much worker release time	41.2
Workers quit after training	16.2
Workplace education not effective	11.8

NOTE: Question of why program was not started asked of all respondents to Survey of Workplace Literacy Program Characteristics (see Hollenbeck 1993a) who did not offer a program. Entries to this table are based on the 68 responses to this question (out of 68). Sum of percentages exceeds 100 percent because respondents were allowed to give multiple responses.

force and are less likely to receive income support payments, have higher levels of skills that will improve U.S. competitiveness, have less turnover and thus reduce total fixed employment costs, and are more informed citizens. These benefits are inversely related to how specific the training is. The benefits of highly job-specific training are captured by the worker and firm. However, more general training, such as workplace literacy training, has benefits that spill over to all of society.

Accepting the premise that workplace literacy programs warrant public support, what should be the form of that involvement? Survey and case study data from my research suggest that employers *perceive* the fixed costs of program implementation to be prohibitive. Two remedies are suggested; one involves money and the other involves information.

Government subsidies might be enough to encourage employers who are deterred by the perception that the costs of programs exceed the benefits. And, if program costs are as modest as suggested, then a relatively small governmental program may be able to serve many businesses.

Given the fiscal constraints at all levels of government, perhaps a more realistic role for government would be to provide information or technical assistance to employers. An accessible, credible source of technical assistance could be targeted at (small) businesses that lack the resources to investigate thoroughly issues such as assessing workers, identifying providers, developing curricula, and solving logistical problems such as scheduling and facilities.

In summary, there appears to be a significant mismatch between the need to upgrade workers' basic academic skills and the opportunity to do so at the workplace. Despite modest costs and potentially large productivity payoffs, only a small minority of firms now offer formal workplace literacy programs. Increased levels of public support and information are likely to pay off in the

form of a more productive workforce. If such public support were forthcoming, there could come a time when it is no longer remarkable to see a classroom when you enter a worksite or to learn of employees getting release time to attend an adult education program.

Kevin Hollenbeck is a senior economist at the Upjohn Institute

Suggested Readings

Laurie J. Bassi. *Smart Workers, Smart Work: A Survey of Small Businesses on Workplace Education and Reorganization of Work*. Washington, DC: Southport Institute for Policy Analysis, 1992.

Forrest P. Chisman. *The Missing Link: Workplace Education in Small Business*. Washington, DC: Southport Institute for Policy Analysis, 1992.

Kevin M. Hollenbeck. *Classrooms in the Workplace*. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1993a.

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Larry Mikulecky and Paul Lloyd. "Evaluating the Impact of Workplace Literacy Programs." Research project funded by the National Center on Adult Literacy, University of Pennsylvania, Philadelphia. July 1992.

Secretary's Commission on Achieving Necessary Skills. *Learning a Living: A Blueprint for High Performance*. Washington, DC: Secretary's Commission on Achieving Necessary Skills, U.S. Department of Labor. (ERIC Document Reproduction Service No. ED 346-348), 1992.

Classrooms in the Workplace

Kevin Hollenbeck
Upjohn Institute

Since as many as 25-40 percent of the workforce lack the basic skills to understand written or verbal communications, it is little wonder they have problems adapting to changes in the workplace.

Enter Kevin Hollenbeck's new book, *Classrooms in the Workplace*, an important study of literacy programs instituted by employers to help workers

achieve greater productivity.

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including:

- The direct link between literacy programs in the workplace and increased productivity
- Why (or why not) firms choose to implement literacy programs
- The programs' curricula
- Costs and benefits
- Characteristics of firms with or without literacy programs
- The number of firms implementing programs.

This book is an important source of information for anyone involved with or interested in literacy programs in the workplace. It also includes several important public policy recommendations and a thorough compilation of resource organizations.

"This is one of a few pieces to consider the topic of workplace education from an economic perspective."

—Susan Imel, Director, ERIC Clearinghouse on Adult, Career, and Vocational Education.

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More Books from the Upjohn Institute

Unemployment Insurance in the United States

The First Half Century

Saul J. Blaustein

This book offers a definitive history of the unemployment insurance system and its responses to the ever-changing

economic climate. It is an excellent reference source for anyone researching, administering, legislating or evaluating unemployment insurance programs.

"An enormous achievement. For anyone with an interest in unemployment insurance anywhere in the world this book is a must."

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"(Blaustein) has succeeded—as Haber and Murray did in 1966—in producing a volume that gives an understandable, precise and contemporary overview of unemployment insurance in the United States. It is clear, detailed, well-written, and well organized. It is easily accessible to undergraduates, and should prove to be a durable guide to the unemployment insurance system. This book is a must."

—Eastern Economic Journal

1993. 367 pp. \$20 paper ISBN 0-88099-135-6
\$30 cloth ISBN 0-88099-136-4

Job Accessibility and the Employment and School Enrollment of Teenagers

Keith R. Ihlanfeldt

Georgia State University

The author presents data that strongly support the "spatial mismatch theory" for the high unemployment rate of black teenagers. He also demonstrates empirically that job access is related to the high school

dropout problem, and concludes by offering convincing evidence that poor access to jobs is meaningful in explaining the relatively low economic welfare of urban blacks.

"This is a well-constructed, careful book on an important national issue. Ihlanfeldt redirects our attention to a type of government policy that not only is feasible but also holds promise of having an impact."

—Industrial and Labor Relations Review

"This book fills an important gap by providing an in-depth look at the impacts of job accessibility on employment and school enrollment among teenagers. The findings are significant both for policymakers concerned with reducing youth unemployment and for geographers and other social scientists concerned with the roots of minority unemployment."

—Economic Geography

"Ihlanfeldt has crafted a superb and highly relevant analysis."

—John F. Kain, Harvard University

1992. 200 pp. \$15 paper ISBN 0-88099-126-7
\$25 cloth ISBN 0-88099-125-0

Profit Sharing Does It Make A Difference?

Douglas L. Kruse

Rutgers University

Profit sharing is a long-standing practice which has gained favor among an increasing number of productivity-conscious businesses. Currently, between one-sixth and one-fourth of the U.S. firms and employees participate in some form of profit sharing and this number is growing.

But is there a link between profit sharing and productivity? Is it a

profitable alternative to fixed compensation? Does it lead to employees who are more committed to their jobs?

This book is an essential guide to

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For researchers, this book serves as an important handbook for the theoretical and empirical issues related to profit sharing.

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