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*David E. Balducchi and Stephen A. Wandner*

## Putting Short-Time Compensation to Work How Employers Can Avert Layoffs and Reduce Training Costs

*This article summarizes findings from "Employer Views about the Short-Time Compensation Program: A Survey and Analysis in Four States," a recently completed study sponsored by the U.S. Department of Labor. To read the study, visit [http://wdr.doleta.gov/research/FullText\\_Documents/ETAOP-2016-01\\_Final-Report-Acc.pdf](http://wdr.doleta.gov/research/FullText_Documents/ETAOP-2016-01_Final-Report-Acc.pdf).*

**T**wenty-eight states have adopted a program that gives employers an alternative to laying off workers.<sup>1</sup> Instead of reducing head count when facing slack economic conditions, employers in those states can retain workers by reducing their work hours, with unemployment benefits picking up a portion of the loss in hourly earnings. The program takes on several names across the states providing it, such as work sharing or shared work, but the federal law refers to it as short-time compensation (STC). It is an option under the Unemployment Insurance (UI) program that enables employers to retain their workforces during business slumps and avoid losing skilled employees. Employers experiencing sales declines can spread the reduction of work hours across a larger pool of employees in lieu of totally laying off a smaller number of employees. Unlike regular UI, the STC program provides a percentage of weekly unemployment benefits to employees whose workweeks have been reduced. Employees receive wages for the reduced hours that they actually work that are supplemented by a percentage of the

weekly unemployment benefits for which they would be eligible if they were laid off.

The program has advantages for both employers and employees. Employers can retain valuable workers during sales declines and can avoid hefty recruiting costs when demand turns around and additional workers are needed. Moreover, unlike the alternative of layoffs, employees receiving STC can retain company-sponsored benefits, such as health insurance coverage, and do not have to undergo the onerous task of finding a new job.

Participation in STC is voluntary, and despite the benefits of participating in STC, relatively few employers in the states offering the program actually take advantage of it. To understand what employers thought about the program, the U.S. Department of Labor (USDOL) sponsored a study on STC in four states. This article highlights the findings of the recently released study (Balducchi et al. 2015), which was conducted by Impaq International Inc.

The study's chief objectives were to gauge employers' satisfaction with STC and understand the possible barriers to employer participation. The study surveyed employers in four states (Kansas, Minnesota, Rhode Island, and Washington) regarding their experiences during and after the Great Recession (2008–2013). Employers who participated in STC

were asked about their knowledge of and experience with the program, and those who did not participate were asked about their awareness of the program. The study found that employers who used STC were pleased with how the program helped them weather declines in demand during and after the Great Recession, and they had positive feedback about how state workforce agencies administered the program.

**OBJECTIVES AND METHODOLOGY**

The survey was conducted in four states with a long and robust history—more than 20 years each—of administering the STC program. It asked employers about their STC involvement, along with their assessment of how well state workforce agencies administered the program. Employers also were asked about their employees’ impressions of the program. The survey used a mixed-mode methodology, consisting of computer-assisted web interviewing and telephone interviewing, with multiple follow-ups.

The sample of STC employers included in the survey was drawn from employers with at least one STC-approved plan during 2008–2013 and an industry-stratified sample of employers, without an STC plan during the same period.<sup>2</sup>

Three broad industry sectors were included in the survey: 1) manufacturing, 2) transportation, warehousing, trade, and professional services, and 3) all others. The first two of these industry sectors were those with the most STC employers. The survey analyses were based on 2,415 total employer responses, which included responses from 1,869 STC employer respondents and 546 non-STC employer respondents. The study focused mostly on STC employers, given their much higher response rate and the opportunity for subgroup analysis. Because their numbers were smaller, non-STC employer respondents were studied only in the aggregate for a few key issues.

**STUDY FINDINGS**

**Workloads and Procedures**

Relative to the regular UI program, STC has been used very little in the United

States, especially during nonrecessionary times. Nonetheless, STC first payments increased sharply during the Great Recession (see Figure 1). Rhode Island’s high usage of STC can be explained by high levels of unemployment in manufacturing and program promotion; similarly, Washington also heavily promoted program usage. High utilization in Minnesota and Kansas was due to state-specific economic conditions, with particularly high usage by the aircraft industry in Kansas.

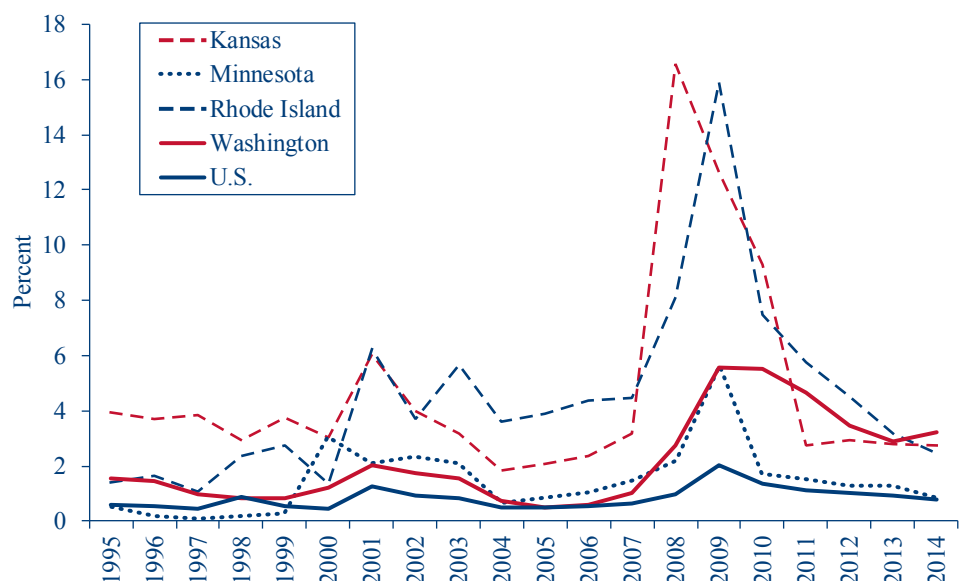
The administration of the STC program in these four states differed in the employer application process and in the apportionment of responsibility between employers and employees in claiming benefits. Online applications for the program could be downloaded from the state workforce agency websites in Kansas, Minnesota, and Washington. While each state workforce agency helped employers prepare applications, and employers were able to transmit them through mail, fax, or electronically, only Washington enabled employers to upload applications online. Claims-filing procedures also varied. In two states, Minnesota and Washington, employees submitted STC initial and continued weekly claims for benefits to state workforce agencies in accordance

with regular UI claims-filing procedures. In Kansas, employers electronically submitted the STC initial and continued weekly claims on behalf of employees directly to the agency. And in Rhode Island, the STC initial claim was submitted by the employee, while STC weekly continued claims were submitted by the employer. According to state workforce agencies, more front-end collaboration with employers during the STC application process is often required when compared to overall UI claims filing. Employers seemed to be satisfied with their ongoing STC duties. While all four states ranked high for employer satisfaction, Kansas employers ranked it highest.

**Employer Characteristics**

The STC employers in Kansas, Rhode Island, and Minnesota were more highly concentrated in manufacturing than Washington, where they were fairly balanced across the three industry sectors. The vast majority of STC employers in the study states were for-profit employers. STC employers had been in business longer than non-STC employers. Sixty-two percent of STC employers had been in business at least 20 years, compared to 38 percent of non-STC employers.

**Figure 1 Trends in STC First Payments as a Percentage of UI First Payments in Study States, 1995–2014**



SOURCE: ETA 5159. (Balducchi et al. 2015, p. 128)

Further, over 81 percent of STC employers in all industries reported that more than 75 percent of their employees were medium- or highly-skilled. Microenterprises (with 1–9 employees) were substantially underrepresented among STC respondents except in Washington; however, employers with 10–249 employees (e.g., Kansas and Minnesota) typically used the STC program. Rhode Island and Washington greatly increased STC participation by microenterprises, which have historically had lower participation rates, by having state workforce agencies aggressively promote the program.

### Repeat Usage

According to state administrative data, 43–65 percent of STC employers were repeat users. Compared to a previous STC study (Walsh et al. 1997) conducted in the 1990s, repeat use appeared to increase. Moreover, the STC employers said that they participated in the program because of difficult economic times, as well as a desire to retain valued employees and maintain their morale and health benefits.

Employer participation resulted in two other significant findings: 1) retaining valued employees saved on hiring and training costs, and 2) across all states, only 16–21 percent of STC employers reported that they eventually laid off some STC employees. This means that approximately 8 out of 10 STC employers responding to the survey retained their STC employees after participation in the program. While 60–70 percent of STC employers indicated that participating in the program increased their administrative duties, employers ranked the program favorably, indicating that these duties were not likely participation barriers. Most employers indicated that using STC enabled them to maintain productivity and retain skilled workers.

### Awareness, Opinions, and Perceptions

Across the country, STC is known by 10 different names, most commonly, shared work. While almost all STC employers knew the program by the

state's name (e.g., WorkShare in Rhode Island), less than 25 percent also knew the term *short-time compensation*. Non-STC employers were much less aware of the STC program, regardless of name. Approximately one-third of non-STC employers knew about the program by the name of the state's STC program, and less than 25 percent knew the term used in federal law, short-time compensation.

Lack of employer program awareness was likely a key reason the program was not used more frequently. STC employers obviously were the exception since they were small in number. Employers heard about the program most often from their state UI agencies, followed by other employers who had participated in the program. Applying for the program appeared to be easy: 65–82 percent of STC employers found the application process “very easy” or “easy,” and only 2–13 percent found it “difficult” or “very difficult.”

Notably, 86–99 percent of STC employers were “very satisfied” or “satisfied” with their interactions with state workforce agencies, and they were similarly satisfied with the administrative support they received from the agencies. STC employers tended to be uncertain about the UI tax implications of the program, though about one-third of STC employers said that STC was less expensive than a layoff of a similar magnitude. The study found that further research was needed to fully understand the program's long-term tax consequences. Still, the states' STC benefit and tax provisions appeared to have little impact on employer program usage, while procedures and outreach activities by state workforce agencies likely did.

### CONCLUSION AND RECOMMENDATIONS

The results of this study support encouraging increased employer use of STC in the United States, particularly during recessions. By using STC to retain employees during tough economic times, employers say that they were able to increase production more quickly and more efficiently. They were also able to avoid recruiting and training costs and

circumvent the economic and social problems associated with job loss. The findings should be of particular interest to business groups and policymakers in states without STC laws.

To accomplish increased employer awareness of the program, the study recommends assigning and promoting STC under a single national brand in a manner similar to USDOL's branding of public workforce offices as American Job Centers. The study also indicates that state workforce agencies are critical to employer outreach, and USDOL's continued provision of technical assistance and guidance to states is needed. To promote more effective administrative practices, the study recommends federal reviews of state STC programs.

The STC program has changed significantly since the end of the study period in 2013, with state implementation of federal STC provisions and incentives contained in the Middle Class Tax Relief and Job Creation Act of 2012, (MCTRJCA) which provided states with grants to help them implement, improve, and promote their state STC programs. According to a USDOL report (2016a) to President Obama and the U.S. Congress, STC states' efforts since the enactment of the MCTRJCA have resulted in improvements in some STC programs and increased state readiness to make use of STC during the next recession. Three chapters of the Report to Congress were based on Benicci and Wandner (2015)—a study of the implementation of the STC provisions of MCTRJCA—and one from Balducchi et al. (2015).

President Obama's 2017 budget request seeks to further encourage states and employers to use STC by renewing incentives to states, providing for a 50/50 federal cost share for STC benefits when state unemployment is high and allowing states to reduce their UI taxes for the portion of benefits that is paid by the federal government (USDOL 2016b). Based on findings from a large number of employers in the STC employer study, these policy proposals appear to recognize the strong support by employers for STC during and immediately after the Great Recession.

## Notes

1. In 2010, the District of Columbia also enacted STC, but the law has been neither implemented nor amended to conform to the Middle Class Tax Relief and Job Creation Act.

2. The sample did not include employers who participated in STC after the effective dates of state laws to comply with STC provisions in the Middle Class Tax Relief and Job Creation Act.

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## 2016 W.E. UPJOHN INSTITUTE DISSERTATION AWARD WINNERS

The W.E. Upjohn Institute for Employment Research is pleased to announce the winner of its annual Dissertation Award:

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Advisor: David Autor

The establishment of this award further pursues the mission of the Upjohn Institute: to support and conduct policy-oriented research on issues related to employment and unemployment. Dissertations were judged by a panel of economists on the basis of policy relevance, technical quality of research, and presentation.

### PRIZES

The winner of the W.E. Upjohn Institute Dissertation Award receives a prize of \$2,500. The honorable mention recipients each receive a \$1,000 prize.

### 2017 DEADLINE

The deadline for submission for the 2017 W.E. Upjohn Institute for Employment Research Dissertation Award is July 7, 2017. Any individual whose dissertation has been accepted during the 24-month period of July 1, 2015, to June 30, 2017, is eligible for the 2017 prize. Contact the Institute for more information.

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*Daniel MacDonald*

# New Research on the Price Pass-Through Effects of the Minimum Wage

**T**he effect of the minimum wage on prices—the so-called pass-through effect—has received much less attention than the effect on employment, even though the two are linked: when employment goes down, supply reduces and prices go up; if employment increases, supply increases and prices go down (Card and Krueger 1995). The few existing studies of price pass-through using U.S. data tend to find significant price increases after a minimum wage hike, as well as in the period leading up to the hike. This logic therefore supports the research that has found significant negative employment effects.

As we know from decades of research, however, the employment effects of the

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**In our most complete specification, we find that a 10 percent increase in the minimum wage leads to about a 0.46 percent increase in prices (equivalent to a \$5.00 hamburger becoming a \$5.02 hamburger).**

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minimum wage are a hotly debated issue, with some studies using cutting-edge causal analysis finding little to no impact on employment (Dube, Lester, and Reich 2010). With this in mind, a more careful review of the price pass-through-effect literature is certainly in order.

Upon review of the literature, however, a number of problems with it arise. One is that most existing studies confine their analyses to the period ending around 1997 (Aaronson 2001; Aaronson, French, and MacDonald 2008). Another issue is that the data were not sufficient to permit the kinds of conclusions many of the studies were making. Finally, minimum wage policy

has changed a lot since 1997—including the increasing use of state- and city-level laws as well as indexation. Since a price increase is still a price increase, one could argue that such policy nuances shouldn't matter, but the question is at least worth exploring.

In a recent working paper for the Upjohn Institute (funded by an Early Career Research Grant awarded in 2015), my coauthor Eric Nilsson and I address these problems in the existing literature and update the estimate of the pass-through effect with more recent data. We collected data from the Bureau of Labor Statistic's "Food Away from Home" CPI series (an index of prices in the restaurant industry) for 28 metropolitan areas between 1978 and 2015 and joined it with a large data set of all binding minimum wage changes affecting those areas between 1978 and 2015. We also took into account several weaknesses in these data that were not addressed before.

In our most complete specification (found in Table 7, Column 7 of the paper), we find that a 10 percent increase in the minimum wage leads to about a 0.46 percent increase in prices (equivalent to a \$5.00 hamburger becoming a \$5.02 hamburger). This estimate is about 50–75 percent smaller than what previous studies find, although there has been some evidence of variation in the effects between full- and limited-service restaurants (with the latter seeing even larger increases due to a higher concentration of minimum wage workers in those restaurants). We also find no evidence that restaurants raise prices in advance of a minimum wage increase, contrary to what previous studies have found (Aaronson 2001).

How were we able to obtain results so much at odds with existing research? One factor relates to the time period

that was covered. Even though these studies had about 20 years of data from which to draw, several of these years were considered "high inflation years"—between 1978 and 1982—and eliminating these years from the data does in fact lead to lower estimates of pass-through. Additionally, there has been much more variation in minimum wage policy since 1997, as more states have taken it upon themselves to raise their minimum wage, partly due to failure to raise the federal minimum wage. From a statistical perspective, more variation is always helpful for obtaining more accurate estimates of the pass-through effect.

A second factor explaining why our results varied so much from past research pertains to the kind of data used. Most

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**We find no evidence that restaurants raise prices in advance of a minimum wage increase, contrary to what previous studies have found.**

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metropolitan areas that publish Food Away from Home price index data only do so on a bimonthly basis (today, New York City, Los Angeles, and Chicago are the only cities that report this index monthly. Three others—Detroit, Philadelphia, and San Francisco—used to report monthly data but no longer do so). That makes it impossible to measure the impact of a minimum wage change in January if the particular metropolitan area did not have a price index reported in January. A way around this problem is to interpolate the series. So if the index is 100 in December and 103 in February, a number can be derived for January through an interpolation process that meets in the middle of those two (say, 101.5).

While a few of the existing studies appear to have used bimonthly data, none admitted to interpolation, even though interpolation was likely used to generate some of the major findings—a point that we demonstrate in the paper and illustrate below (in Table 1). The major problem is that interpolation changes how to interpret the findings. In other words, we can still use the bimonthly data as long as

**Table 1 Effects of a 10% Increase in the Minimum Wage on Food away from Home Prices**

Months before or after the minimum wage change (T = month of change)	(1) Noninterpolated data	(2) Interpolated data	(3) From Aaronson (2001, Table 4, col. 2)
1 month prior to change	-0.01	0.13***	0.22**
Month of change	0.39***	0.17***	0.28**
1 month after change	0.08	0.15***	0.14**
Cumulative (T - 1 through T + 1)	0.46***	0.45***	0.64**

NOTE: \* significant at the 90% level; \*\* significant at the 95% level; \*\*\* significant at the 99% level. Column 1 uses data from six cities for which monthly Food Away from Home data exist. Column 2 uses data from all other cities for which only bimonthly data exist. Column 3 reports results from Aaronson (2001) for comparison purposes, to illustrate the impact of interpolation. As can be seen, the effect of interpolating price indexes is to spread the effects of the minimum wage increase over a longer period.

SOURCE: MacDonald and Nilsson (2016, Tables 5 and 6).

the drawbacks of doing so are observed. Most importantly, interpolation raises the chances that a pass-through effect is detected in the months before and after a minimum wage change, instead of just on the month of the minimum wage change. When we estimate the pass-through effect on data that were not interpolated at all (the six metropolitan areas mentioned earlier), we find no evidence of pre- or post-effects. But when we include the interpolated data, the pre- and post-effects appear.

In the second part of the paper, we take advantage of the rich variation in minimum wage policy. Dividing all minimum wage increases into “large” and “small” (defined by the median

percentage increase in our data of 6.8 percent), we find that the pass-through effect is mostly concentrated on the “large” increases—increases of 6.8 percent or less had no statistically significant effect on prices (see Table 2). We also find evidence to support the claim that indexation of the minimum wage to inflation significantly lowers its effect on prices. For several years now, San Francisco has indexed its minimum wage to the city’s inflation rate, and Ohio (indexed to national inflation) and Florida (indexed to the regional South inflation rate) have done similarly. As more states and cities consider indexation, policymakers should note the fact that smaller, regular, and more predictable

**Table 2 Effects of a 10% Increase in the Minimum Wage on Food away from Home Prices, by Policy Context**

Time period	(1) Baseline estimate	(2) “Large” wage hike	(3) “Small” wage hike	(4) Indexed minimum wage
1 month prior to change	0.10***	0.11***	-0.11	0.08
Month of change	0.23***	0.23***	0.13	0.11**
1 month after change	0.13***	0.14***	-0.05	0.01

NOTE: \* significant at the 90% level; \*\* significant at the 95% level; \*\*\* significant at the 99% level. Column 1 reports baseline estimates from our fully specified model. Columns 2 and 3 report estimates from a regression in which the effects of “large” minimum wage increases (those greater than the median value of 6.8 percent in our sample) are considered separately from “small” minimum wage increases. Column 4 reports estimates from a regression in which metropolitan areas that have indexed their minimum wage to regional inflation are considered separately.

SOURCE: MacDonald and Nilsson (2016, Tables 7, 8, and 10).

changes in the minimum wage might make it easier for businesses to adjust.

Our results are of immense importance to policymakers seeking to improve workers’ standard of living without necessarily creating an environment where prices and employment respond dramatically. Our results also lend support to a growing consensus that minimum wages do not lead to substantially lower employment, because if the price effects were not large (or in some cases nonexistent), we would expect similarly for the employment effects, just as recent research has shown.

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*Daniel MacDonald is an assistant professor at California State University at San Bernardino.*

# New and Recent Books

## Sustaining Social Security in an Era of Population Aging

**NEW**

John A. Turner

Politicians on both sides of the aisle will agree on this—Social Security needs fixing. The system currently lacks the financing to pay for benefits already promised and maintaining the status quo is untenable; the Congressional Budget Office projects that insolvency will occur in 2031. While many proposals for fixing the system have been floated, most are little more than bandages that stem the bleeding but fail to address the underlying malady.

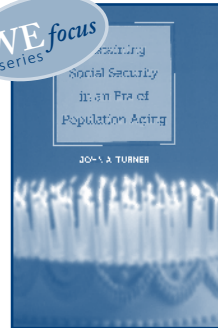
As John A. Turner points out in this new book, “[T]he fundamental problem is that the current demographic era where the old-age dependency ratio (the ratio of Social Security beneficiaries to covered workers) is increasing, the Social Security benefit formula causes benefits to grow faster than the tax revenues that finance them.” While seemingly a problem of demographics (which can’t be fixed), Turner argues that the solution to the long-term health of Social Security lies in politically acceptable periodic reforms of the formula used to determine benefits. Specifically, he endorses a set of reforms that address increased life expectancy, the growing relationship between income and life expectancy, the decline in the physical demands of jobs, the rise in income inequality, and the increasing poverty seen among the older population.

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The choices we make concerning our health have consequences that are felt both personally and economy-wide. On the personal level, good health allows us to function freely, earn a living, interact with family, friends, and co-workers, and to generally enjoy life. Each individual’s health-related decisions also play

a role in the nation’s health care economy, which now represents some 17 percent of the nation’s GDP with projections that it will reach nearly 20 percent by 2024. Therefore, policies and actions that encourage healthy living, along with a streamlined health care system, can have positive impacts on a large and growing portion of the nation’s economy.

In this timely collection, editor Donald J. Meyer leads a group of notable health economists who explore critical issues—and their economic impacts—facing health care today. These include lifestyle choices and their health impacts, decisions on medical care and self-care, the fee-for-service payment model, disability and workers’ compensation insurance claims, long-term care, and how various aspects of the Patient Protection and Affordable Care Act (ACA) impact the nation’s health care system.

Contributors include M. Kate Bundorf, Marcus Dillender, John H. Goddeeris, Donald J. Meyer, Edward C. Norton, and Charles E. Phelps.

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## Surviving Job Loss Papermakers in Maine and Minnesota

Kenneth A. Root and Rosemarie J. Park

Root and Park examine the plight of workers displaced from two paper mills and their paths to reemployment, retirement decisions, and the personal struggles they faced as a result of their dislocations. They provide insightful, personal portraits of workers that are representative of the hundreds who lost their jobs as a result of two mill closings—one in Sartell, Minnesota, and the other in Bucksport, Maine.

In addition, the authors describe the types of assistance that were offered to the workers displaced by the mill closings, dedicate a chapter each to the plights of female workers and of spouses who were both displaced by the closings, discuss the importance of community when economic displacement occurs, compare the experience of a mill closing in Canada with the Maine and Minnesota closings, and conclude with ways that society can be more proactive in assisting workers who suffer job displacement and the economic and psychological impacts that so often occur as a result.

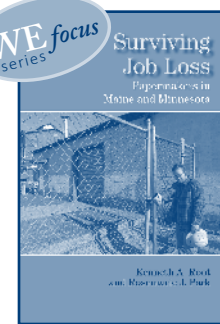
Overall, this book adds a human perspective to the problems facing dislocated workers, not only in the shrinking paper industry but also in other contracting industries in the United States.

251 pp. 2016

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