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Short-Time Compensation is a Missing Safety Net for U.S. Economy in Recessions

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Short-Time Compensation Is a Missing Safety Net for U.S. Economy in Recessions

At the G20 meeting in London in March, President Obama urged other countries to follow the United States' lead in pursuing aggressive federal stimulus policies. Continental Europeans—most notably the Germans and French—balked, arguing that their generous systems of social insurance already perform as automatic stabilizers during recessionary times such as the present.

An important part of the social safety net in Germany, France, and a number of other European countries is short-time compensation, which provides pro-rated unemployment benefits to workers whose hours have been reduced and thereby helps companies avoid layoffs. Short-time compensation—also known as work-sharing benefits—is available in only 17 U.S. states and is little used in the majority of states with such programs. The absence of STC benefits is a significant gap in U.S. social insurance policy that should be plugged.

By fostering work-sharing in lieu of layoffs, STC benefits can help firms make needed workforce adjustments in a more efficient and equitable way. Companies that implement work-sharing arrangements can avoid the loss of valued employees during a temporary downturn. Work-sharing is more equitable because the burden of a recession is spread across workers rather than being concentrated among a few. Loss of a job often leads to the loss not only of income but also of key benefits, such as health insurance. A substantial body of research shows that many workers who lose their jobs during recessions experience significant economic setbacks that persist long after the economy has recovered. In addition, by mitigating layoffs, STC benefits may reduce adverse spillover effects on local communities.

Interestingly, work-sharing was common during the Great Depression and earlier recessions in our country's history. Labor historians attribute the decline in the use of work-sharing during recessions—and companies' increased use of layoffs—to the introduction of our current system of unemployment insurance in the 1930s. In contrast, work-sharing has been institutionalized in other Western developed countries. In Germany, for example, STC was incorporated into the unemployment insurance system in the 1920s. During recessions, German companies have been much more likely than U.S. companies to adjust workers' hours rather than engage in layoffs. Studies of cross-country differences in adjustment practices have documented the important role STC can play in supporting work-sharing arrangements during recessions (Abraham and Houseman 1993, 1994).

Between 1975 and 1992, 19 states implemented STC programs as part of their unemployment insurance systems, though two states subsequently rescinded these policies and no state has added a permanent STC program since the early 1990s. Balducci and Wandner (2008) attribute this policy stalemate to the "administrative muddle" created by a lack of leadership in the federal government. In 1992, questions were raised about the federal law that enables states to adopt STC programs, creating uncertainty about what states are allowed to do. This uncertainty has never been resolved. Absent clear guidance, states with STC programs have operated them in a legal limbo, and other states that might be interested in adopting programs have been discouraged from doing so. Even where programs exist, they typically are not widely advertised, and the procedures employers must follow to

put workers on short-time benefits tend to be cumbersome, potentially discouraging use.

Despite these barriers, there is considerable anecdotal evidence that in recent months employers have been making greater use of STC in states where it is available. In Connecticut, for example, the number of employers using STC increased from about 70 a year ago to 330 in June, while in Oregon the number of employers using STC spiked from about 40 to 600 over the same time period, according to the states' UI program administrators. With greater public support, work-sharing could be considerably more prevalent, benefiting both employers and working Americans.

In his inaugural address, President Obama praised workers who "would rather cut their hours than see a friend lose their job." Yet, state and federal policy is biased in favor of layoffs over work-sharing. Now is an opportune time for the administration to implement policies to facilitate the adoption of STC in state unemployment insurance systems and correct this bias.

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