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Work Sharing in **Solving the Reemployment Puzzle: From Research to Policy**

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Work Sharing

with David E. Balducchi

INTRODUCTION

Work sharing—also called short-time compensation (STC)—was the experiment that did not happen.[1] As work sharing emerged as a U.S. public policy issue in the 1970s, the Carter administration announced a 1977 plan to have the federal government take a leadership role by launching a rigorous demonstration project using experimental methods. Soon after it was launched the plan fizzled. The demonstration was canceled, and it was left to the states to pursue and lead this program. Since then, both the states and the federal government have wielded leadership at different times in work sharing policy, and while the USDOL conducted two program evaluations, it has not pursued a rigorously evaluated demonstration.

Work sharing attempts to reduce layoffs by compensating a larger number of workers with partial unemployment insurance (UI) benefits in place of a total layoff for a smaller number of workers. For example, an employer can place 50 workers on a 20 percent hours reduction—to a four-day week—instead of achieving the same hourly reduction by temporarily laying off 10 workers. In 17 states, individual firms, with the support of their employees, can file work sharing plans with a state UI agency. If the state agency approves the plan, work sharing can be used for a period of time, generally up to one year. During that time, workers can receive work sharing benefits for weekly work reductions of 10 percent or more, usually a one-day reduction. Work sharing benefits are calculated as a prorated share of a worker's weekly UI benefit amount. Work sharing benefits are deducted from the total normal entitlement workers have for UI benefits, and work sharing plus UI benefits cannot exceed that entitlement during a one-year period. The benefits paid are charged to the employer in accordance with normal state UI experience-rating provisions.

Work sharing has been advocated by some policy analysts as a program that could improve the behavioral impact on workers in relation to the UI program. The American UI program has been found by some analysts to have a pro-layoff bias. Factors mentioned as contributing to this bias include incomplete UI experience rating, which encourages additional layoffs once firms reach maximum tax levels, and a UI partial benefit formula that permits only very limited hours of work per week. The effect of these disincentives sits heavily with the UI program, so it is not surprising that reforming the UI program has been seen as part of the solution. One proposal has been for greater adoption and utilization of work sharing (Abraham and Houseman 1993, pp. 132–147).

For a state to adopt a work sharing program, the state legislature must enact work sharing provisions as part of the state UI statute. In the absence of special legislation, workers who experience a modest reduction in their weekly hours of work would not receive UI benefits under regular state UI partial benefit formulas. These normal partial benefit formulas are designed to pay benefits to workers whose hours are so sharply reduced that they are in need of income support, so they are usually only available to workers who work no more than one or two days a week. Work sharing has the effect of suspending and superseding these normal UI partial-benefit payment provisions.

Work sharing is available in a number of European countries and in Canada. It was first implemented in the United States in 1978 in California. Today, it is an optional UI program that states can adopt as part of their UI system. The program was authorized by Congress through legislation enacted in 1982 and again in 1992. Nationally the program is small and infrequently used, but it is more important in a small number of states, and it represents an additional, targeted program used by employers to ease the problems associated with unemployment.

WORK SHARING IN OTHER COUNTRIES

Work sharing was first developed in Germany in 1927, and it operated briefly under the Weimar Republic. After World War II, Germany reestablished work sharing, and work sharing spread throughout Western Europe and to Canada. It was a popular program in Europe for several decades, but prior to the Great Recession of 2007–2009 it had declined in usage as Europe became more concerned with labor market flexibility and less concerned with job security. Given work sharing's long history in Europe, European work sharing programs can shed light on work sharing policy options for the United States.

Work Sharing in Germany since World War II

Work sharing in Germany has been modified and adapted in the post–World War II period. Its procedures were adopted as part of the Employment Promotion Act of 1969. It has been supported by the tripartite employment policy participants: government, labor, and management, working as partners. Work sharing attempted to support the stabilization of employment, labor-management relations, and society in general (Jensen 1995, pp. 7–10)

Work sharing ("short-term working allowance") is popular in Germany, particularly in times of economic downturn. When the economy weakens and employers have reduced orders, as a first step employers generally lay off temporary or contract workers. If that reduction is not sufficient, employers' second step frequently is to apply to participate in work sharing with the Federal Employment Agency. As part of the request, a firm must demonstrate that it faces a cyclical problem and that the prospects for recovery are good. If the request is approved, working hours may be reduced substantially, even by up to 100 percent.[2]

The German work sharing program is generous and highly flexible. For employees, work sharing replaces a larger share of lost income—60 percent for single workers and 67 percent for workers with families—than in the United States. At the same time, work sharing benefits do not reduce workers' entitlement to regular UI benefits. Workers who face a subsequent layoff can receive full entitlement to their UI benefits. Work sharing is attractive to employers because it reduces the cost of wages in a time of crisis. Work sharing benefits are not an additional cost to the employer: UI taxes are funded by a flat payroll tax on employers and employees, and the benefits are not experience-rated, as they are in the United States. Thus, use of work sharing by employers reduces wage and salary costs but imposes no additional UI contribution. On the other hand, employers must maintain their contributions to pension and national health insurance funds at the same rate as if the workers were working full time.[3]

As laws restricting worker dismissals tightened over time in Germany, the rules for work sharing were loosened. Work sharing plans were limited to six months before 1969. Since then, the normal six-month plan has been subject to extension, first to 12 and later to 24 months. Today, work sharing can be drawn for six months, but can be extended for up to 24. Work sharing program oversight attempts to assure that layoffs would have occurred if an employer's work sharing plans had not gone into effect (MaCoy and Morand 1984, pp. 53–58; Vroman 1992).[4]

Use of the German program has been highly cyclical. Use has been greatest early in a recession and then has declined as the recession advances. During past major recessionary years, work sharing recipients have numbered half or more of the workers receiving UI benefits. Although there was a downtrend in the utilization rate through the 1980s, the percentage reduction in the work week for participating workers increased (Vroman 1992, pp. 22–27).

Work sharing use increased to more than 200,000 participants in 2002, in response to the 2001 recession, but declined sharply thereafter. The cost of the program reached almost 700 million euros. The average cost per participant has been 3,000 to 4,000 euros. In late 2008, the financial and economic crisis in Germany led to a sharp increase in the number of applications to the Federal Employment Agency, particularly in the auto industry. The number of applications for work sharing is viewed by Germans as one indicator of the economic situation in the country, and the 2008 economic downturn was reflected in the increased use of the work sharing program (Table 9.1).[5]

Several critical differences exist between the German and U.S. work sharing programs. U.S. employees are less inclined to use a program that provides less wage replacement and reduces future eligibility for regular UI benefits. U.S. employers are less likely to use a program that is experience-rated and results in increased direct cost to themselves. By contrast, work sharing is particularly attractive to German employers facing stringently enforced advance notice provisions, because it provides greater short-run flexibility and wage bill reductions. The U.S. work-sharing program suffers lower participation from being more closely tied to this country's UI program, which has less generous UI benefit payment levels and a financing system that assigns employers direct responsibility for the benefit costs of their former employees.

Table 9.1 Expenditures for Participating Workers and Employers in Short-Time Work in Germany, 2000–2007

Year	2000	2001	2002	2003	2004	2005	2006	2007
Participants	86,052	122,942	206,767	195,371	150,593	114,607	66,482	68,317
Employers	—	—	—	—	—	10,718	6,561	8,333
Expenditures (euros, in millions)	—	—	607	687	637	416	150	—
Expenditures per participant (euros)	—	—	2,900	3,500	4,200	3,600	2,300	—

NOTE: — = not available.

SOURCE: Eichhorst and Zimmermann (2007) for expenditures and for participants 2000–2004; e-mail message from Markus Franz on November 22, 2008, for participants and employers 2005–2007.

The U.S. institutional structure encourages adjustments of employment, while the German system encourages adjustment of hours. According to Abraham and Houseman (1994a, p. 32), the difference in "labor adjustment lies not in the adjustment of total labor input, but rather in its division between adjustments to the number of workers employed and adjustment to hours per worker. German companies rely much more on adjustment of average hours, including the use of short-time work, to reduce labor input during downturns; American companies make greater use of employment adjustment, and by implication layoffs."

Much of this difference in employment adjustment is in timing. In a recession, U.S. employment adjusts downward very quickly, while in Germany adjustment takes place with a lag. In Germany, work sharing tends to be used during the first year of a cyclical downturn, as employers substitute a decline in hours for a decline in employment. German employment declines tend to take place after this delay of about one year. Thus, work sharing acts to stabilize employment in the short run, although it does not prevent long-term downward adjustments (Abraham and Houseman 1994b, pp. 86–94; Vroman 1992, pp. 27–30).

Work Sharing in Europe

By the mid-1990s, work sharing programs had been adopted by a dozen nations: Austria, Belgium, Denmark, France, Germany, Great Britain, Italy, Luxembourg, the Netherlands, Norway, Sweden, and Canada (Cook, Brinsko, and Tan 1995). All had the same goal: that of retaining jobs during a cyclical downturn by substituting hours reductions for reductions in employment. But the programs varied among themselves as well as differing in some critical ways from the U.S. program.

A comparison of programs in Belgium, Canada, France, and Germany as they existed in the mid-1990s shows a variety of program designs. For most programs, the government required both employer and worker approval of submitted work-sharing plans. Plans could stay in effect for widely varying periods, with the maximum program length ranging from 6 to 24 months. Canada had minimum and maximum weekly reductions in hours, but Belgium and Germany had no such limits: the reductions could run from 0 to 100 percent. Replacement rates generally varied between 50 and 60 percent in Belgium, Canada, and France, but could be as much as 68 percent in Germany. Work sharing benefits were generally paid at the same level as regular UI benefits. Employers needed to retain full fringe benefits. Benefits did not count against UI eligibility. Funding was either from a nonexperience-rated, flat payroll tax or from general revenue (Cook, Brinsko, and Tan 1995).

The European Union (EU) collects data on work sharing programs through its statistical agency, Eurostat. Its 2004 data (European Commission 2006) shows short-time working allowances and partial unemployment benefits programs operating in six countries: Austria, Belgium, Finland, Germany, Luxembourg, and Spain (Table 9.2). The programs in Austria, Germany, Portugal, and Spain were listed as short-time working allowances. Work sharing participants varied from being less than 1 percent of the country's basic UI program participants up to nearly 15 percent. The programs in Finland and Germany were bigger than those in participating U.S. states, but the programs in Austria, Belgium, Finland, Luxembourg, and Spain were roughly similar in size. In the six countries that have short-time work or partial unemployment benefit programs, half have short-time work programs that are smaller than business start-up incentive (self-employment assistance) programs.

The pre–Great Recession decline in European use of work sharing was related to a shift in the overall labor market policy toward "flexicurity." Beginning in the mid-1990s, Denmark became one of the innovators of the flexicurity movement. Flexicurity tries to balance flexibility in the labor market with high levels of workforce security. Employers are more free to lay off workers. Employees are not guaranteed job security in their current jobs (labor contracts become flexible), but a combination of active labor market policies, lifelong learning strategies, and "modern social security systems" (including broad coverage of UI, pensions, and health care) is designed to create greater workforce security as workers move between jobs. Adoption of flexicurity spread throughout Europe, and by 2005 the European Union had adopted flexicurity as a central principle of its European Employment Strategy (European Commission 2005, 2007).

The movement toward flexicurity has had a negative impact on work sharing in Europe. Flexicurity is the antithesis of contractual labor arrangements, "which discourage or delay transfers" (European Commission 2007). Work sharing in Europe came to be seen as a tool that delays necessary adjustment, especially in cases such as Germany,

Table 9.2 Participants in UI, Short-Time Compensation (work sharing), and Start-Up Incentives in European Countries, 2004

Country	Unemployment Insurance	STC	STC/UI %	Start-up	Start-up/ UI %
Austria	591,498	480	0.08	3,952	0.67
Belgium	575,093	34,158	5.94	517	0.09
Bulgaria	—			—	—
Czech Rep.	169,109			6,002	3.55
Estonia	51,052			287	0.56
Finland	126,098	18,837	14.94	2,643	2.10
France	2,261,436			51,146	2.26
Germany	1,842,405	150,593	8.17	237,253	12.88
Greece	—			—	—
Hungary	109,654			5,203	4.74
Ireland	71,884			6,855	9.54
Italy	277,319			13,584	4.90
Lithuania	—			—	—
Luxembourg	7,744	484	6.25	15	0.19
Norway	112,918			262	0.23
Portugal	184,859			1,686	0.91
Romania	—			—	
Slovakia	74,750			2,958	3.96
Sweden	206,116			5,601	2.72
Spain	2,358,392	48,385	2.05	93,033	3.94
United Kingdom	2,458,030			3,492	0.14

NOTE: blank = data not applicable; — = data not available.

Participants. The measure of participants' use above is dependent on the availability of data. The "stock" (S) was generally used since it is more frequently available; it is a measure of participants as an annual average stock. In some cases, the stock measure was not available (or unreasonably small) so the number of "entrants" (E) was used; "entrants are participants joining the measure during the year (inflow)."

Unemployment insurance. This consists of "Full unemployment benefits" that are considered to be unemployment insurance rather than unemployment assistance programs or other means-tested programs.

Short-time compensation (STC). Called short-time work or partial unemployment benefits. Includes compensation for formal short-time working arrangements and/or intermittent work schedules, irrespective of their cause, where the employer/employee relationship continues.

Start-up incentives. Include loans or grants to individuals.

Work sharing and start-up incentives. Include only transfers to individuals, not to employers.

SOURCE: European Commission (2006).

where it was used on a large scale to address the problem of structural unemployment in East Germany after reunification. Flexicurity encouraged greater use of active labor market policies (ALMPs) and less use of UI-related programs such as work sharing.

By contrast, the self-employment assistance (SEA) programs are seen as a key component of European active labor market policies. Eighteen EU countries have "start-up incentive" programs, far more than the number that have work sharing programs. None of the newer members of the EU have a work sharing program, whereas five of the new countries (Bulgaria, the Czech Republic, Lithuania, Romania, and Slovakia) have start-up incentive programs. Thus, work sharing is a program for a small number of Western European countries with higher per capita incomes.

Despite the retreat from work sharing during much of the 2000s in Europe, work sharing returned as a preferred public policy during the Great Recession in many European Union countries. Germany was the greatest user of work sharing. Assessing the European response to the Great Recession, the European Commission considered work sharing to be one of the key public policy responses to weakening demand for labor (European Commission 2009).

DEVELOPMENT OF SHORT-TIME COMPENSATION PROGRAMS IN THE UNITED STATES

Origins of Work Sharing in the United States

Work sharing is not new to the United States. It was used somewhat as a voluntary, private, uncompensated program during both the Hoover and Roosevelt administrations without government involvement.[6] However, it declined and largely disappeared when three things happened: 1) economic conditions worsened as the Depression dragged on, 2) a federal-state UI program was enacted that compensated total layoffs but did not compensate work sharing arrangements, and 3) large-scale reemployment occurred at the end of the 1930s as production increased for national defense. During the 1950s and 1960s, the availability of UI benefits made layoffs more acceptable to employers (Abraham and

Houseman 1993, p. 134; MaCoy and Morand 1984, pp. 158–164; Platt 1956).

As restructuring of the U.S. economy began in the 1970s, the concept of government-based work sharing was first introduced in New York in response to employment problems and civil rights concerns. It was considered by the New York state legislature in 1975 but not enacted. In 1978, California was the first state to enact a work sharing program. Enactment was prompted by concerns about potential state government layoffs that might result from adoption of Proposition 13, a tax-cutting referendum that imposed state spending limits. Without work sharing, state budget cuts were expected to result in permanent layoffs of state employees. The work sharing program was enacted but never used for this purpose. Instead it was used by the private sector and became a small but popular program. The California state government strongly supported and promoted the program in its first few years of operation. In May 1981, California sponsored a national work sharing conference in San Francisco to promote the adoption and use of work sharing (Best 1981, pp. 87–89). Fourteen other states followed California's lead between 1982 and 1988, but the pace of expansion since then has slowed: only four states have adopted work sharing since 1988 (Table 9.3).

Six Phases of Work Sharing Policy

In the United States, work sharing policy has gone through six distinct phases. In the first phase, states developed work sharing policy with little federal policy or involvement. This phase lasted until 1982. The second phase overlapped with the first phase and began in 1980 when Congress seized upon the state policy innovations, resulting in the enactment of a temporary federal work sharing law in 1982. The third phase—the single period of active federal stewardship—lasted from 1982 until expiration of the temporary federal law in 1985, during which time eight states enacted work sharing laws. The fourth phase was a seven-year period of federal laissez-faire. State work sharing programs continued to operate, and the prior period of federal activism helped encourage seven additional states to enact work sharing laws. In the fifth phase, the recession of 1990–1991 prompted renewed congressional attention, resulting in enactment in 1992 of the permanent federal work sharing law. In the sixth phase, from 1992 through the present, the

Table 9.3 Summary of State Work Sharing/Short-Time Compensation Laws, 2008

State	Initial year of program	Limit on number of weeks	Reduction in hours worked (%)	Require full or health fringe benefits	Special STC tax, maximum rate (%)
Arizona	1982	26	10 to 40	Optional	Yes[a]
Arkansas	1985	26	10 to 40	Full	No
California	1978	[b]	10 or more	Optional	No
Connecticut	1992	26	20 to 40	Full	No
Florida	1984	26	10 to 40	Optional	Yes, 1.0
Iowa	1991	26	20 to 50	Optional	No
Kansas	1988	26	20 to 40	Optional	[c]
Louisiana	1986	26	20 to 40	Full	No
Maryland	1984	26	10 to 50	Optional	No
Massachusetts	1986	26	10 to 60	Health	[d]
Minnesota	1994	52	20 to 40	Full	No
Missouri	1987	26	20 to 40	Optional	No
New York	1986	20	20 to 60	Full	No
Oregon	1982	26	20 to 40	Optional	[e]
Rhode Island	1991	26	10 to 50	Optional	[f]
Texas	1986	52	10 to 40	Optional	No
Vermont	1986	26	20 to 50	Optional	No
Washington	1983	26	10 to 50	Health	No

NOTE: Illinois enacted work sharing in 1983, but the law expired in 1988. Louisiana enacted work sharing in 1986 but no longer operates the program.

[a] 1.0% if negative reserve ratio is less than 15%; 2% if 15% or more.

[b] California: no limit, but total paid cannot exceed 26 times the weekly benefit amount (WBA).

[c] Excludes negative-balance employers.

[d] Negative-balance employers are treated as reimbursers.

[e] If benefit ratio is greater than tax rate, reimburse excess at end of quarter.

[f] All short-time compensation (STC) benefits are charged to STC employer regardless of base-period charging rule.

SOURCE: USDOL (2008b).

U.S. Department of Labor has failed to implement most aspects of the federal work sharing law and policy, while 17 states continue to operate existing work sharing programs, and one additional state enacted a work sharing law.

Phase I—State initiation of work sharing (1975–1982)

Prior to 1982, states were on their own in developing compensated work sharing policies. Early in this period, coalitions of labor and business began promoting work sharing schemes as an outgrowth of the severe recession of 1974–1975. Until the "Great Recession," the 1974–1975 recession caused the greatest job loss since the Great Depression. The federal government enacted, and states implemented, a string of UI benefit extensions that allowed claimants to draw up to 65 weeks of benefits. Twenty-four states had to borrow from the federal UI trust fund to be able to afford to pay UI benefits and then qualified for generous repayment schedules. These activities made state government officials and business and labor organizations familiar with the UI programs and may have made states more amenable to trying modifications to their state UI programs—one such approach being work sharing.

New York State was the first to consider enacting state work sharing legislation. Initially the program was thought of as a social program to protect employment gains of minorities and women. Support for work sharing initially arose from the New York City Commission on Human Rights. Subsequently, Lillian Poses, a member of the Governor's Task Force on Unemployment for the state of New York, became the chief sponsor of a work sharing proposal that bore her name. The Poses Plan became part of a broader bill designed to improve the employment situation in general and the labor market position of women and minorities in particular. The legislation was introduced in the New York State Assembly in June 1975 but died in committee (Ittner 1984, pp. 121–122).

In 1978, when California became the first state to enact a work sharing program, State Senator Bill Greene of East Los Angeles, chair of the senate labor committee, championed the program and secured its passage. Business and organized labor were initially skeptical of the program but soon came to support and promote it (Lammers and Lockwood 1984, p. 62). While anticipated state employee layoffs never occurred, California's work sharing program was instead used by the private sector, and it soon became a small but popular program, supported by Governor Jerry Brown and the state's Employment Development Department (EDD). The program grew rapidly, as yearly enrollment of employers increased from 474 in 1979—the first full year of program operation—to 2,567 in 1982.[7] In May 1981, the EDD hosted a national work sharing conference in San Francisco. Business and labor groups, as well as the Council of State Governments, the National Governors Association, and state officials from New York and Pennsylvania, cosponsored the conference.[8] Featuring Congressman Pete Stark (D-CA), who supported federal work sharing, the conference provided national exposure for California's policy, and it stimulated other states to adopt programs (Best 1981, pp. 87–89; Ittner 1984, p. 128).

California's implementation was followed by legislation in Arizona in 1981 and Oregon in 1982. Importantly, the champion of the Arizona program was the Motorola Corporation. In the 1970s, Motorola was trying to implement a no-layoff policy for its employees, and at the time believed that the best way to achieve this goal was to utilize a UI-based work sharing program.[9] Motorola, whose largest production facility was in Phoenix, first approached the Arizona Department of Employment Security in 1977, asking for that department's support for an Arizona work sharing program. The Arizona workforce agency was initially skeptical, but it was won over to the program (St. Louis 1984). Motorola continued to support work sharing for a number of years and was instrumental in gaining enactment of work sharing programs in other states where it had operations—Florida, Illinois, and Texas. Motorola also encouraged work sharing by supporting a detailed case study of the implementation of the Arizona program (Morand 1990, pp. 314–315).

Interest in work sharing by the federal government stirred in 1977. The impetus for action came from civil rights concerns and studies of the work sharing program experience in Europe. Policy analysts were considering the possibility of adapting the program to the U.S. environment (Henle 1976; Levitan and Belous 1977). One of those analysts, Peter Henle, became the assistant secretary for policy, evaluation, and research at the department in 1977. Under his leadership, the USDOL conducted research and analysis, followed the progress of the California program, and decided to conduct an experiment that would test the efficacy of work sharing in major metropolitan labor markets. The department made the decision to conduct the project, selected a research contractor, and began the design for the demonstration and its evaluation.[10] Sites were considered and visited, and preparations for the experiment began. The AFL-CIO, however, expressed strong disapproval of work sharing and of the experiment, and the business community did not support the program. The Carter administration canceled plans for the experiment (MaCoy and Morand 1984, pp. 120–134).

The period 1975–1982 was one of work sharing innovation in New York, California, Arizona, and Oregon. Those states developed policy and programs without the guidance of the federal government. The USDOL became interested in the program, but ultimately it did little during this period. The department was more noteworthy for what it failed to do: it did not challenge state work sharing programs as contrary to federal UI law, although federal law provided no explicit authority to implement work sharing programs.

Phase II—Enacting temporary federal legislation (1980–1982)

That states led the way in initially implementing work sharing is not surprising, considering the history of social legislation in the United States. As compared to other industrial nations, the United States came late to the social-insurance policy table. For example, the United States enacted public old age pensions and UI as part of the Social Security Act of 1935. Germany had led the way with a national old age pension in 1889, and it was followed by 28 other, mostly industrial, nations through 1929. The United States only enacted social insurance programs after the concepts and operational details of such programs had been worked out by other nations, and after the economic collapse of the Great Depression had revealed the exposure of its workers to unemployment and poverty (Sass and Munnell 2006). In a similar manner, the United States ignored the development of work sharing among industrial nations until the 1970s.

In 1982, the federal government enacted a temporary work sharing law, following the lead of California, Arizona, and Oregon. The AFL-CIO had opposed work sharing for many years, but it reversed its policy in August 1981, when its executive council issued a resolution supporting compensated work sharing, provided that employee safeguards were incorporated into any legislation. Work sharing had strong support from the Committee on Economic Development and Motorola's Washington, D.C., lobbyists. The combination of state, business, and labor backing ultimately was sufficient to gain political support to enact a federal work sharing law (Ittner 1984, p. 128).

Rep. Patricia Schroeder (D-CO) introduced work sharing legislation in June 1980, a recession year. Her purpose was to ease recessionary job losses (Schroeder 1984, pp. ix–xi). The Reagan administration initially opposed federal work sharing, asserting that a federal law was not needed, since three states had already implemented work sharing provisions without federal work sharing authority. Two years later, when the United States faced another recession, federal work sharing legislation was enacted as part of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 (P.L. 97–248). The law passed with support from business, organized labor, and state employment security agencies.[11] Before enactment, the legislation was amended to address concerns held by employers and organized labor regarding potential abuses of the program. The concerns included three points of worry: 1) initiation of work sharing without the permission of the other party; 2) employers conducting layoffs first and then instituting work sharing later, instead of using work sharing as a substitute for layoffs; and 3) excessive use or duration of work sharing programs (Ittner 1984, pp. 129–134). TEFRA provided for a three-year experimental work sharing program and required the department to develop a model for state work sharing legislation, establish deadlines, and conduct research.

The federal law was complex; it consisted of three components with a total of 11 different elements. The three components were 1) a statutory definition of work sharing, 2) provisions for employer work sharing plans that would be developed prior to program implementation, and 3) the method of taxation to pay for work sharing benefits. Four elements defined what an authorized work sharing program would be and how it could operate as part of the regular UI program. The definition described the nature of a work sharing program. Six other elements enumerated the requirements of a qualified employer plan. These elements mostly reflected the concerns of business and organized labor about potential program misuse. One final element specified that the tax provisions for work sharing had to be charged to employers in a manner similar to the way they are charged under state UI laws—as a safeguard to ensure that the cost of work sharing would be borne by the participating employer and not passed on to other employers. Thus, the final bill fulfilled Schroeder's basic interest in offering a simple, voluntary approach to work sharing, while allaying the fears of business and organized labor about what might go wrong in a largely untested program (Ittner 1984, pp. 126–132).

During this second phase, state work sharing policy and programs got the attention of Congress. Congress considered temporary work sharing legislation and, with the impetus of a recession, enacted it.

Phase III—Policy under the temporary federal legislation (1982–1985)

While the temporary law was in effect, the department developed model state legislative language and administrative guidelines. The language was published and distributed to the states in July 1983. The department's model legislation authorized states to enact companion laws, as long as they addressed the three components of the federal law. Thus, the model state laws contained 1) definitional elements, 2) qualified employer plan requirements (i.e., administrative components and eligibility provisions, including maintenance of health and retirement benefits), and 3) UI tax-charging provisions for employers participating in work sharing. In addition, the model legislation contained administrative provisions relating to the scope and identification of affected employer units and participants, as well as a requirement that participating employers report their work sharing activities to the state workforce agencies (USDOL 1983, pp. 5–21).

With enactment of a temporary work sharing law and the distribution of federal guidance, states began to consider whether to adopt work sharing as part of their employment policy strategy. The authority for states to operate work sharing programs under federal law commenced on September 4, 1982, and lasted until September 3, 1985, although states would continue to operate their work sharing programs without express legislative authority until that authority resumed with new federal work sharing legislation, enacted in 1992. During this phase, the states of Arkansas, Florida, Illinois, Maryland, New York, Texas, Vermont, and Washington enacted work sharing laws.[12]

The majority of state work sharing programs were implemented during the 1980s. The states that initiated programs back then envisioned work sharing as a component of their active labor market policy. Efforts to enact work sharing legislation generally began with discussions between progressive lawmakers, employers, governors, and the state employment security agency administrators. The USDOL provided technical assistance to the states. For example, in 1984, then–Arkansas governor Bill Clinton developed an economic initiative in response to continuing high levels of unemployment. Clinton's goal was "to accelerate job and income growth," and work sharing was conceived as a small human-capital component of a broader initiative.[13] Clinton's staff contacted the USDOL, requesting information about work sharing, which staff members then used to develop the work sharing portion of the state legislative package.[14] Clinton's economic package was presented to the state legislature in 1985 and enacted the same year (Clinton 2004, pp. 317–318).

Congress, however, wanted further information about the effects of work sharing before making the program permanent. Section 194 of TEFRA therefore required the department to report to Congress on state work sharing programs. Between 1982 and 1983, Mathematica Policy Research, under a contract with the USDOL, evaluated the work sharing experience of California, Arizona, and Oregon (Kerachsky et al. 1986). The evaluation found the following:

- Work sharing participation reduced the number of layoff events;
- Although total hours of regular UI collection were lower for employers participating in work sharing, the average total compensated unemployment (including both regular UI and work sharing benefits) was more expensive for those firms;
- Work sharing participation helped firms save on the hiring and training costs that would have been associated with layoffs; and
- The administration of work sharing benefit payment activities on a per-layoff equivalent basis was more expensive to the state than the administration of regular UI.

The evaluation failed to find the administrative and behavioral problems feared by interest groups. For example, organized labor had been concerned that work sharing would negatively impact the receipt of fringe benefits, particularly private and public pensions and health insurance, as well as provoke other potential employer program misuse. Also, the Labor Department and business were concerned that administrative costs might be excessive and might shift the tax burden to nonparticipating employers. The evaluation report minimized concerns about these potential adverse impacts.[15] At the same time, the study did not find that work sharing provided net benefits to the government because of the associated higher total costs to the Unemployment Trust Fund.

The 1982 legislation called for the appointment of an advisory committee composed of business, labor, and public members to oversee the work sharing evaluation. The department selected the members of this committee from groups and individuals who were interested in and supportive of the program.[16] The advisory group reviewed the plan for the evaluation and supported the comparison group methodology for the study. When the final evaluation was completed, however, the group objected to the results, which they believed inaccurately portrayed the work sharing programs. They requested an outside review of the evaluation by a Congressional Research Service economist, who challenged the selection method of the comparison group.[17] The Mathematica evaluation was completed and submitted to the department in late 1985 and published in 1986. The report was submitted to Congress along with comments from the advisory committee. In its comments, the committee was highly supportive of work sharing, criticized the Mathematica evaluation, expressed its conviction that there were no barriers to making work sharing permanent, and endorsed making the program permanent (Morand 1990, pp. 317–320).

Phase IV—Federal laissez-faire (1985–1992)

From September 1985 to July 1992, federal work sharing legislative authority lapsed. Yet state work sharing programs continued, and seven new states—Connecticut, Iowa, Louisiana, Missouri, Kansas, Massachusetts, and Rhode Island—enacted and implemented programs. As in Phase I, during Phase IV states enacted and operated work sharing programs without express federal authority.

The policy distinction between Phases I and IV is that, while in both phases states were left to themselves, in Phase IV state actions were informed by expired 1983 guidance to develop state legislation. At the same time, the department continued to collect and publish legislative and reporting data on state work sharing programs, and it conspicuously raised no issues of conformity with federal UI law, which no longer included a federal work sharing provision.

With the end of the temporary federal law, the department did not actively pursue work sharing policy or promote and support work sharing programs. The states with existing programs continued to operate them as if the federal law were still in place, and new states adopted work sharing using the expired guidelines. Stakeholder groups closely followed state work sharing programs, and the work sharing evaluation required under the temporary federal law produced mixed results. Congress, however, neither reacted to these findings nor reconsidered work sharing policy until unemployment rose substantially in the final two years of this phase.

Phase V—Enacting permanent federal legislation (1990–1992)

The 1990–1991 recession provoked further legislative efforts to help the long-term unemployed. In the fall of 1991, Rep. Stark, an early supporter of work sharing, developed a bill to revive a federal work sharing law. In November 1991, President George H.W. Bush signed the Emergency Unemployment Compensation Act (P.L. 102–164) to provide emergency unemployment benefits to long-term unemployed workers who ran out of regular unemployment benefits.

In January 1992, Stark introduced H.R. 4115 to make work sharing a permanent part of the UI program. During this period, Senator Harris Wofford (D-PA) developed a similar bill for Senate consideration. Wofford introduced S. 2614 in April 1992.[18] That bill sought to make work sharing permanent and provide for other UI reforms. Both bills included the detailed work sharing elements contained in the temporary work sharing law. In addition, Wofford's bill added a new provision to allow workers to receive employer-sponsored training to enhance job skills on their nonwork days while receiving work sharing benefits.

The Emergency Unemployment Benefits program was to expire in June 1992. Unemployed workers and interest groups seeking to continue the program deluged Congress with phone calls and letters. On June 9 the House passed H.R. 5260 to extend the emergency benefits program. A section of H.R. 5260 contained a limited version of the Stark bill, which allowed states to pay work sharing benefits. On June 19 the Senate passed its version of H.R. 5260, which contained similar work sharing language. Wofford urged the House and Senate conference committee to expand the work sharing program elements to include the maintenance of health and pension benefits and employer-sponsored training. On July 2, the conference committee adopted the stripped-down House bill, adding the Wofford provision to permit employees to participate in employer-sponsored training programs.

Congress enacted this bill. There is no legislative history as to why the House and Senate conference committee did not incorporate the more detailed work sharing elements contained in the 1982 temporary federal law (U.S. Congress 1992). One possible explanation is that, after a decade of work-sharing experience in the United States, any impetus for added benefit, tax, and administrative requirements had dissipated, especially as work sharing evaluation results had not borne out the initial fears of either employers or organized labor. Another is that Congress did not think the more detailed protections were necessary, as the secretary of labor retained general authority to promulgate regulations necessary to carry out the purposes of the act. In any case, Congress was anxious to complete action on an extension of unemployment benefits before departing for the July 4 recess.

On July 3, 1992, the first President Bush signed H.R. 5260 as the Unemployment Compensation Amendments (P.L. 102–318), which extended the benefits program and made work sharing a permanent part of the federal UI program. Similar to the temporary law, the Unemployment Compensation Amendments of 1992 required the department to develop model state work-sharing legislative language, establish guidelines and provide technical assistance to states, and conduct research. Dissimilar, however, was the elimination of the safeguards and restrictions on states, employers, workers, and unions. Section 401(d) of the act simply authorizes the use of the UI trust fund to pay work sharing benefits and provides a definition of work sharing that contains five elements:

1) Individuals whose work weeks are reduced by at least 10 percent are eligible for work sharing unemployment compensation;
2) The amount of unemployment compensation payable to any individual is calculated as a pro rata portion of the unemployment compensation that is payable to the individual if the individual is totally unemployed;
3) Eligible employees are not required to meet the availability for work or work search requirements while collecting work sharing benefits, but are required to be available for their normal work week;

4) Eligible employees may participate in an employer-sponsored training program to enhance job skills if such program is approved by the state workforce agency; and
5) The employer reduces the number of hours worked by employees in lieu of imposing temporary layoffs.

The elements are straightforward and are essentially definitional. The first three items repeat the definitional elements contained in the 1982 legislation. Item Five—requiring that work sharing be used when reducing the number of hours in lieu of layoffs—became part of the definition, whereas in the temporary legislation it was a requirement of a temporary employer plan. The fourth item was new and is not definitional; it embodies the Wofford provision to permit but not require employees to receive employer-sponsored training while engaging in work sharing. All earlier safeguards for business and organized labor that had been added to the temporary law were eliminated, reflecting the lack of political pressure to retain them. With the substance of the qualified employer plan removed, all references to such a plan—and to the requirement that work sharing benefits be taxed to employers like other UI benefits—were eliminated.

The effect of the federal work sharing legislation was to authorize the payment of work sharing benefits from the Unemployment Trust Fund under section 303(a)(5) of the Social Security Act and section 3304(4)(E) of the Federal Unemployment Tax Act (FUTA). Each state has an account within the Unemployment Trust Fund from which it pays UI benefits, and over the history of the UI program the fund has been carefully protected by federal policymakers to prevent its use for any purpose other than the payment of UI benefits. Under the permanent legislation, work sharing was defined as a UI program, and states were authorized to use funds in their Unemployment Trust Fund accounts to pay for work sharing benefits.

Phase VI—Work sharing policy under permanent legislation (1992–present)

Since the enactment of the permanent work sharing law, the department has neither distributed model state language nor provided guidance to states for implementing and operating work sharing programs. This inactivity reflects a controversy within the department about whether the new federal law was potentially defective. The crux of the dispute was whether the narrow provisions of the permanent law preclude the secretary from interpreting the law and exercising his or her discretion in administering it. While officials at the department were sorting through their policy options, the 1992 presidential election ceded the issue to the new Clinton administration.

Clinton political officials determined that the 1992 legislation required corrective action. They concluded that it limited the enforceable work sharing provisions to the five that were contained in section 401(d) of P.L. 02–318. Because the section did not include expansive language, such as that "the program meets such other requirements as the Secretary of Labor determines are appropriate," they opined that the secretary was constrained by the provisions as enumerated. If true, the secretary could not, for example, permit a state provision relating to maintenance of health and retirement benefits. Departmental officials also questioned whether states that had work sharing laws with greater protections than the federal permanent law (e.g., a requirement that labor agree to a work sharing plan) would be out of conformity with federal law. The department proposed corrective language in the House (H.R. 4040) and Senate (S. 1964) versions of the new administration's omnibus bill to update and restructure the nation's workforce development system—the Reemployment Act (REA) of 1994.

Section 251 of the proposed Reemployment Act of 1994 included language to correct the apparent technical deficiencies in the federal work sharing law by "clarify(ing) certain provisions of current law" and by adding several additional elements (USDOL 1994a).[19] The work sharing definition included in the REA bill contained nine elements, retaining the five elements of the 1992 Act and adding four additional elements. Two elements were adopted from the 1982 temporary law requiring the employer to produce a plan and permitting the maintenance of health and pension benefits. The state could require such a plan or the retention of such benefits, but only if it expressly chose to do so. The eighth element made employer participation voluntary—as it was under the 1982 act for organized labor and state workforce agencies. Finally, the ninth element gave the secretary discretion to impose "such other requirements as the Secretary of Labor determines are appropriate." It was this last provision that was considered key to allowing the secretary to provide guidelines and flexibility to the state work sharing programs.

The proposed Reemployment Act did not pass in 1994, and it was not reintroduced in 1995, when the Republicans had gained control of both houses of Congress. With the bill's demise, hope of resolving the work sharing policy dispute also faded. Further efforts at workforce development reform during the rest of the Clinton administration did not include revisions to federal work sharing policy.

In 1995, Representatives Ron Wyden (D-OR) and Amo Houghton Jr. (R-NY) introduced H.R. 1789 to make permanent the SEA programs and make technical changes to federal work sharing law. Subsequently, Rep. Sander Levin (D-MI) introduced technical amendments to work sharing in the 105th Congress (H.R. 3597) and in the 106th Congress (H.R. 1830). Representative Jim McClery (R-LA) introduced similar legislation in both sessions of the 107th Congress. Again, the work sharing provisions were not enacted. During this period, Congress did enact other workforce development bills, including the Workforce Investment Act (WIA) of 1998 and the Temporary Extended Unemployment Compensation Act of 2002, without fixing the work sharing program. In the absence of congressional action, the department has remained silent about whether the state work sharing laws are consistent with federal UI law. The department has not issued work sharing guidance, encouraged state participation in the program, or provided any technical assistance. Nevertheless, states have continued to use the program, and the department recognizes work sharing as an integral part of some state UI programs. Indeed, the department collects and publishes statistics on state work sharing programs and summarizes work sharing legislative provisions in its annual report comparing state UI laws.

Between 1985 and 2007, the number of beneficiaries under the program grew by more than a factor of 10, from 4,387 to 48,924. Similarly, work sharing beneficiaries as a percentage of regular UI program beneficiaries also grew by more than a factor of 10, from an insignificant 0.05 percent to 0.64 percent (Table 9.4).

In 2008, with unemployment increasing, interest in work sharing increased as well. Participation increased sharply in 2008 and exploded in 2009. Articles began appearing in newspapers about the increasing use of work sharing in some work sharing states, and policy interest increased.[20] On August 28, 2008, Barack Obama spoke approvingly of

Table 9.4 Work Sharing/Short-Time Compensation (STC) and Regular UI First Payments, 1982–2009

Date	STC first payments	Regular UI first payments	STC/regular UI first payments (%)
1982	2,649	11,648,448	0.02
1983	1,593	8,907,190	0.02
1984	3,189	7,742,547	0.04
1985	4,387	8,363,411	0.05
1986	12,956	8,360,752	0.15
1987	23,019	7,203,357	0.32
1988	25,588	6,860,662	0.37
1989	32,474	7,368,766	0.44
1990	44,922	8,628,557	0.52
1991	94,813	10,074,550	0.94
1992	97,619	9,243,338	1.06
1993	65,557	7,884,326	0.83
1994	53,410	7,959,281	0.67
1995	45,942	8,035,229	0.57
1996	41,567	7,995,135	0.52
1997	32,498	7,325,093	0.44
1998	47,728	7,341,903	0.65
1999	36,666	6,967,840	0.53
2000	32,916	7,035,783	0.47
2001	111,202	9,868,193	1.13
2002	93,797	10,092,569	0.93
2003	83,783	9,935,108	0.84
2004	42,209	8,368,623	0.50
2005	40,238	7,917,294	0.51
2006	39,854	7,350,734	0.54
2007	48,924	7,652,634	0.64
2008	96,388	10,052,694	0.96
2009	288,618	13,986,381	2.06

NOTE: The data for work sharing is incomplete: Connecticut and Maryland report other work sharing activity, but they generally do not report first payments; Arkansas has a work sharing program but has stopped reporting on it.

SOURCE: USDOL, Office of Workforce Security, required reports relating to the Unemployment Insurance Program, ETA 5159 reports for the regular UI program and for work sharing.

work sharing in his acceptance speech at the Democratic convention in Denver. Talking about what he believed are positive changes in behavior by Americans, the soon-to-be-elected president said, “I’ve seen it in the workers who would rather cut their hours back a day than see their friends lose their jobs.” On a national stage, the Democratic candidate for president appeared to support work sharing in its most common form—a 20 percent reduction in the work week.

OPERATION OF U.S. WORK SHARING PROGRAMS

Program Provisions of the States

As experience has revealed few employer or labor abuses of the programs, states adopting work sharing have frequently, like California, relaxed their statutory provisions. California, for example, has an open-ended limit on the duration of work sharing plans and on the range of hours reduction, no requirement for maintenance of fringe benefits, and no special tax over and above its normal UI tax schedule (Table 9.2). Other states limit the duration of work sharing plans; all but two have durations of 26 weeks. All states allow a reduction of hours of between 20 and 40 percent during use of work sharing, but some states reduce the minimum percentage of hours to 10 percent. One state (Massachusetts) allows a maximum hours reduction of up to 50 percent. The hours reduction limits are prompted out of a concern that reductions should be modest and appropriate to the goals of work sharing. Thus, it has become accepted that reductions should be at least one-half day per week (10 percent), but generally should not be the majority of the week. Operationally, however, there has been no need for this concern. Work sharing has effectively become a program that reduces the work week from five days to four days—a 20 percent reduction.[21]

Even though employers tended to maintain fringe benefits during the use of work sharing, unions remained concerned about the potential reduction that could be imposed by employers. As a result, seven states have mandated that employers continue to provide either full fringe benefits or at least health insurance benefits. In most states, work sharing benefits, like other UI benefits, are charged to the employers. The first states that enacted work sharing programs—California, Arizona, and Oregon —were concerned about large-scale misuse of the program, particularly by firms that experienced great layoff activity, e.g., firms with negative balances in reserve ratio states. Over time this concern has diminished, and protective provisions are used less. Today seven states—including Arizona and Oregon, but no longer California—impose supplemental taxes or reimbursable provisions on some employers using work sharing. Without these additional tax charges, some employers could make use of work sharing at no additional cost if they already paid the maximum state UI tax rate. Some employer interest groups, thus, have been concerned that their members would end up picking up the tab for the negative-balance firms using work sharing. Nonetheless, 12 of the work sharing states have no special tax provisions.

Other work sharing provisions are not controversial. Work sharing benefits are calculated in several different ways, but all approaches tend to pay a percentage share of the weekly UI benefit amount, relating to the percentage reduction in the work week. State laws determine how many weeks of work sharing can be collected and what the total payment amount can be for individual participants. Each employer plan must be submitted to the state workforce agency for approval.

Many states with work sharing programs have been satisfied with them. In fact, in many cases state workforce agency officials have been the programs' champions. For example, the Kansas work sharing program received enthusiastic support from the Kansas officials, one of whom perceived it as an employer service, stating, "Now I've got something to offer employers rather than talking to them only about their taxes."[22] Other state administrators have been less enthusiastic. Some see work sharing as diluting the insurance features of the UI program, often increasing UI employer taxes and sometimes merely delaying instead of averting layoffs (Walsh et al. 1997).

One indication of satisfaction with existing work sharing programs is that the work sharing provisions, other than those dealing with taxes, have remained unchanged for over a decade. Since 1996, only three changes to work sharing laws have been made. Two states, Kansas and Rhode Island, have added a special tax provision, while Missouri removed its special tax.

States without Work Sharing Programs

Of the 53 state UI programs in the United States—the District of Columbia, Puerto Rico, and the Virgin Islands are "states" under federal UI law—only 18 have work-sharing laws. Louisiana adopted work sharing in 1986 but does not operate the program. The other 35 have not enacted such programs. A 1997 survey of all states (Walsh et al. 1997) revealed that the three main reasons for not adopting work sharing have been 1) lack of understanding about the program, 2) lack of support by key stakeholders, and 3) perceived disadvantages of the program. Lack of understanding included simple lack of information, but it also included a lack of understanding of the difference between work sharing and the basic UI partial benefit formula. Not only UI claimants but also some UI directors and state agency administrators lack this information. The current work sharing program has not been publicized by the department since the early 1980s, and there have been no recent private or public policy efforts to provide information or encourage its adoption.

The lack of support by stakeholders reflects a wide variety of groups who either have not provided active support or who have actively opposed the work sharing program. These groups might include the state workforce agency or its advisory council, state legislators, business, and labor. From the analysis of the reasons for the adoption of work sharing by 18 states (Walsh et al. 1997), it is clear that adoption requires strong support and initiative from one or more key stakeholders, with other stakeholders acquiescing. Work sharing is not a program that supporters can push through over active resistance.

According to the survey results, nonparticipating states perceived the disadvantages of work sharing to include an additional burden on the Unemployment Trust Fund (eight states) and additional administrative burdens and costs (six states). Some of these states also thought that the program was inappropriate because of the state's industrial composition—i.e., not enough manufacturing firms, not enough large firms, or too many agricultural and seasonal firms. Behind this perception seemed to be the belief that work sharing is best suited to large manufacturing firms. Thirteen states also believed that their existing UI programs were sufficient without work sharing, but some of the respondents erroneously thought that work sharing was similar to partial UI benefits.

In 2006, North Dakota enacted a one-year work sharing demonstration project but did not implement it. Thus, there has been no expansion of the work sharing program since Minnesota enacted the program in 1994.[23] The Walsh et al. (1997) survey found that 27 of the 34 non-work-sharing states either definitely or probably would not adopt work sharing. Only five states said they would consider adoption.

Scope and Operation of the U.S. Program

Work sharing programs are small, but states and employers have experienced wide variations in their use of the program. State goals for their work sharing have also varied, but it has worked best when the programs have been used to bridge temporary declines in the demand for the services of workers.

Size of the program

There is a separate work sharing report (the ETA 5159 work sharing report) that participating states submit to the department. These reports show that work sharing is a small program (Table 9.4). Between 1990 and 2008, work sharing benefits have been paid annually to between 32,000 and 111,000 U.S. workers who are covered by the UI system. These beneficiaries are a very small percentage of the 8–10 million workers who have been beneficiaries of the regular UI program in recent years. In fact, these beneficiaries have represented between 0.4 and 1.1 percent of regular UI beneficiaries through 2008.

While the work sharing program is very small nationally, it is highly countercyclical. In recessions, overall work sharing first payments have risen sharply as a percentage of regular UI first payments. From a norm of between 0.4 and 0.7 percent in the late 1980s, the percentage rose to 0.9 percent in 1991 and 1.1 percent in 1992. It returned to the norm, but again rose to 1.1 percent in 2001, declining to 0.9 percent in 2002 and 0.8 percent in 2003. Nationally, these figures are small compared to those of some European nations with work sharing programs.[24]

Work sharing, however, has been a much more important component of the UI program in the few states that keep the program fully operational. Table 9.5 shows that while work sharing claims were 1.1 percent of all beneficiaries in the United States in the recessionary year 2001, most states did not have work sharing programs. For the seven states that made greatest use of the program in that year, work sharing was much more important, amounting to over 3.0 percent of all beneficiaries. These states and their percentages are Rhode Island (6.2), Kansas (6.0), Missouri (6.0), Vermont (5.0), Arizona (4.9), New York (3.6), and California (3.2).

Coming out of the 2001 recession, six of the above seven states (Arizona being the exception) continued to have work sharing first payments at better than 1.5 percent of regular UI first payments. Thus, work sharing is popular among employers and employees alike in a small number of states. Today there is more persistent use of work sharing by employers in periods of both low and high unemployment in a half-dozen states with work sharing programs. The other work sharing states make only limited use of the program.

The first two work sharing states, California and Arizona, reached their highest levels of participation during the 1990–1991 recession. It should be noted, however, that Arizona's participation was heavily influenced in the 1980s and 1990s by the large-scale participation of one establishment, the Phoenix plant of Motorola (Kerachsky et al. 1986; Vroman 1992). Motorola was instrumental in getting work sharing enacted in Arizona, then made great use of the program for a number of years, but subsequently abandoned the program.[25]

Other states still have work sharing programs on their books, but they are either not supported or they are inactive. Louisiana's program is inactive. The Louisiana agency was initially interested in the program but then found that program administration was labor intensive for state government and for workers. The Louisiana program required that information be provided on a weekly basis about hours worked and whether workers were on vacation or not. The result was limited use, after initial interest. Louisiana firms now use temporary layoffs or a "skip week" option, whereby workers work for a week or two and then are laid off for a week or two, so that they collect full UI benefits on an intermittent basis. Louisiana no longer dedicates any staff to the work sharing program and does not encourage participation.[26]

The work sharing program in the United States has significant barriers to participation in states with work sharing programs. As the state survey indicates, the most immediate barrier is a lack of information. State UI central offices administer the program, but few of them provide much information or outreach. Local UI call centers and One-Stop

Table 9.5 Work Sharing First Payments as a Percentage of Regular First Payments, 1982–2008

State	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
AR[a]					—	0.3	0.2	0.4	1.5	0.6	8.2	0.1	—	—
AZ	2.5	0.3	0.6	—	6.7	2.4	2.7	0.7	2.4	2.4	4.1	2.6	1.6	1.7
CA	—	0.1	0.3	0.4	0.7	1.4	1.9	0.3	2.2	3.5	3.3	3.4	2.5	1.9
CT[b]											0.1	0.6	—	—
FL			—	—	—	0.5	0.8	0.5	0.5	1.6	1.3	0.6	0.7	0.6
IA										0.8	—	0.1	—	0.1
KS								0.8	1.4	5.0	3.9	2.5	1.8	3.9
LA[c]					0.0	0.1								
MA								—	—	—	0.3	0.3	0.1	0.1
MD[b]				—	—	0.3	0.3	0.1	—	—	0.5	—	—	—
MN													0.1	0.5
MO						0.1	0.2	0.4	1.2	2.6	2.1	1.7	3.0	2.1
NY						0.1	0.3	0.2	1.0	2.1	2.4	1.2	1.0	1.1
OR		—	—	—	—	0.1	0.1	0.3	0.2	0.6	0.7	0.4	1.7	0.5
RI										0.0	2.9	1.4	1.9	1.4
TX					—	0.7	0.3	0.2	0.6	1.0	0.6	0.5	0.4	0.4
VT					—	0.0	—	—	—	—	0.6	1.1	0.7	1.3
WA			—	—	—	0.1	0.7	0.8	0.9	1.8	2.0	1.6	1.5	1.6
US	0.0	0.0	0.0	0.0	0.2	0.2	0.4	0.4	0.5	0.9	1.1	0.8	0.7	0.6

State	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
AR[a]	—	—	—	—	—	—	—	—	—	—	—	0.2	1.3
AZ	2.9	1.7	3.1	2.2	1.1	4.9	2.4	1.5	0.7	0.4	0.0	1.9	1.7
CA	1.8	1.6	2.6	1.7	1.2	3.2	2.6	2.3	1.4	1.5	1.3	1.8	2.2
CT[b]	—	0.0	—	—	—	—	—	—	—	—	—	—	—
FL	0.5	0.5	0.2	0.5	0.3	1.0	0.6	0.4	0.1	0.1	0.1	0.1	0.3
IA	0.0	0.0	0.1	0.5	0.0	0.0	0.1	0.4	0.0	0.0	0.0	—	—
KS	3.7	3.8	2.9	3.7	3.0	6.0	4.0	3.2	1.8	2.1	2.4	3.2	—
LA[c]													
MA	0.1	0.2	0.2	0.1	0.0	1.1	2.8	2.3	0.6	0.4	1.0	0.9	1.1
MD[b]	—	—	0.1	—	—	—	—	—	—	—	—	—	—
MN	0.2	0.1	0.2	0.3	3.0	2.1	2.3	2.1	0.7	0.8	1.0	1.5	2.2
MO	1.4	2.5	3.9	2.2	3.5	6.0	4.1	4.3	3.5	3.8	5.3	4.9	6.2
NY	1.2	0.8	1.0	1.1	1.2	3.6	2.5	2.2	1.2	1.5	1.2	1.3	1.3
OR	0.4	0.1	0.3	0.4	0.2	1.5	1.3	1.5	0.6	1.3	2.0	0.9	1.6
RI	1.6	1.0	2.3	2.7	1.3	6.2	3.7	5.6	3.6	3.9	4.4	4.5	8.1
TX	0.2	0.2	0.3	0.3	0.6	1.1	0.7	0.7	1.3	1.1	1.1	1.7	2.2
VT	1.9	0.9	2.3	4.9	1.6	5.5	5.5	4.0	3.5	5.0	2.0	2.9	5.0
WA	1.4	1.0	0.8	0.9	1.2	2.0	1.7	1.5	0.8	0.5	0.6	1.0	2.8
US	0.5	0.4	0.7	0.5	0.5	1.1	0.9	0.8	0.5	0.5	0.5	0.6	1.0

NOTE: Required reports submitted to USDOL as the ETA 5159 (work share) report, for the years 1982 through 2005. Data erroneously submitted by Puerto Rico and the Virgin Islands have been removed; they have never enacted work sharing programs. — = no data is available for years after state work sharing legislation was enacted. Blank = not applicable.

[a]Arkansas has a work sharing program but stopped reporting on it.

[b]Connecticut and Maryland report other work sharing activity but generally not first payments.

[c]Louisiana's program expired in 1986. Illinois enacted a program in 1983 but allowed it to expire in 1988; no benefits were ever paid under the program.

SOURCE: USDOL, ETA 5159 reports.

centers have little information about the program because they do not have an operational role to play. As a result, most employers indicate that they learn about the program by word of mouth. In the states where work sharing usage is highest, publicity appears to be the most important reason for its high usage. In the last U.S. evaluation, the five states with the greatest work sharing participation rates were found to have used publicity and outreach campaigns, and some of them also had involved local offices to provide information about the program (Best 1988, p. 62, cited in Jensen 1995, p. 27; Walsh et al. 1997, Chap. 4, pp. 1–45). Such publicity, however, could only be expected to raise state participation modestly.

Countercyclical versus structural unemployment

Work sharing is a highly countercyclical program. Since it is primarily designed to deal with temporary downturns in the demand for labor, it is expected to be little used during periods of economic expansion, when employers' demand for labor is increasing. Employer interest and use in it is generated by the onset of recessions. As a result, the work sharing program can be thought of as a work stabilization program used by employers during recessions when they expect to have only temporary declines in their need for labor.

Work sharing also has been used to address structural unemployment. Such use was much greater in Germany than in the United States. Germany has used work sharing extensively for structural adjustment; this occurred first in the coal and steel industries, allowing more time for adjustments to be made by natural turnover and retirements. Later it was used to assist in the absorption of East German workers in the 1990s.

In the United States, work sharing has only been considered as a method to ease structural adjustments for particular firms or industries. In the late 1980s and early 1990s, for example, the USDOL's Bureau of Labor-Management Relations and Cooperative Programs advocated work sharing as a tool to be used by labor management committees in individual firms to deal with impending structural unemployment.[27] Work sharing was one of a number of tools that the department recommended to employers and employees dealing with structural unemployment problems through labor-management committees. For example, in the early 1980s, the department recommended the use of work sharing to deal with structural problems in the steel industry (USDOL 1985).

The increasing importance of structural unemployment in the United States, however, has also reduced interest in work sharing. Firms are frequently more desirous of downsizing than they are concerned about retaining their current workforce. The early champion of work sharing, Motorola, abandoned that concept as it began its own structural adjustments. Its competitor, Hewlett-Packard, began using temporary workers, not work sharing, to address variations in the demand for labor, and Motorola determined that if it wanted to remain competitive in its industry, it could no longer engage in work sharing. Unions still support work sharing, but they also have responded to employers' changing employment policies. John Zalusky of the AFL-CIO said, "Since it is not very high on employers' agenda, it isn't very high on ours either" (Jensen 1995, p. 6).[28]

Employer and worker use of work sharing in the United States

Work sharing was expected to be used by a wide variety of firms, varying by industry, size, and financial status. However, in practice, program use in the United States has been limited. To the extent that firms use work sharing, those firms have been concentrated among large firms in the durable manufacturing industry. These firms tend to experience high levels of unemployment. Rather than simply substituting work sharing for layoffs, they have tended to continue to use layoffs as their primary means of reducing their labor force, while using work sharing as an additional reduction tool (Walsh et al. 1997). Work sharing primarily has been used by firms to retain their most highly skilled workers. Thus, rather than being a general-purpose, countercyclical work sharing program, the U.S. program seems to be a narrow-niche program.

Although interest in work sharing declined during the late 1990s, it increased again with the recession of 2001. As unemployment rose, some economists became concerned about the shortcomings of America's UI system, in which large numbers of workers were ineligible for or had exhausted unemployment benefits. The National Employment Law Project, the Economic Policy Institute, and the Center on Budget and Policy Priorities issued a report, *Failing the Unemployed* (Emsellem et al. 2002), that characterized state UI systems as beset with inequities and strict requirements, which shut too many workers out of benefits. The report urged state lawmakers to enact UI reforms, including work sharing in states where the programs were not up and running (Cadrain 2002).

An analysis of the program as it existed in California in 2002 (MaCurdy, Pearce, and Kihlthau 2004) is quite revealing. It shows that work sharing was used by a small number of employers (0.9 percent of firms that paid UI benefits), and that their use was limited; e.g., work sharing weeks compensated generally have been less than 1.5 percent of UI weeks compensated except in periods of recession. Employers who used work sharing in California in 2002 were usually larger, higher-wage, more likely unionized, and more likely to be in the manufacturing sector than non–work sharing, UI-paying firms. Work sharing firms had an average employment of 239 workers, compared to 40 workers for non–work sharing firms. They paid average wages of $39,200 per year, compared to $34,400 for non–work sharing firms. Seventy-three percent of work sharing firms had been paying UI taxes for 11 years or more, compared to 48 percent for non–work sharing firms. Nineteen percent of the work sharing firms were unionized, compared to 9 percent of the non–work sharing firms. Whereas manufacturing accounted for 11 percent of the firms paying UI benefits, such firms constituted 62 percent of firms that used work sharing. While only 0.9 percent of UI-paying firms used work sharing, for manufacturing firms the figure rose to 5.5 percent. Among manufacturing firms, work sharing was concentrated in firms in two-digit Standard Industrial Classification codes; in these categories, the firms wanted to retain high-skilled workers who tended to be trained on the job: electronics producers, industrial machinery producers, fabricated metal producers, instrument manufacturers, and furniture manufacturers (MaCurdy, Pearce, and Kihlthau 2004).

Employees using work sharing in California in 2002 tended to be older and better paid than workers collecting regular UI, indicating that they were more skilled than other workers. Seventy-one percent of work sharing participants were 35 years of age or older, compared to 63 percent for non–work sharing claimants, and their 2002 earnings were 40 percent higher than those of non–work sharing claimants. They were mostly in the manufacturing sector. They also collected fewer weeks of benefits (MaCurdy, Pearce, and Kihlthau 2004).

Rhode Island is one of the largest users of work sharing. The state workforce agency believes strongly in the program as a method of reducing unemployment. Agency staff members believe that the program benefits greatly from extensive agency marketing of the program to employer and worker organizations, resulting in statewide support for the program. The state promotes work sharing in many ways: directly contacting employers after layoffs, placing stories in newspapers, prominently offering work sharing as part of the Rhode Island employer services package, describing it in the monthly bulletin sent to employers, making presentations to employer groups and labor unions, and marketing it on the agency Web site. The result of all of these efforts is strong support from the governor and labor unions, and awareness of the program by the state chamber of commerce. Support from employers has spread by communication among employers. Employers learn about the program from employers who have used the program. Employers and workers have responded strongly, with a very high rate of use since 2001 (Table 9.5) and a doubling of use in the two years ending in October 2008.[29]

Rhode Island's administrative costs for work sharing are greater than those for regular UI and greater than the UI administrators would like. Rhode Island would like to emulate its neighbor Massachusetts, which has completely automated the work sharing payment process, including employers' weekly reporting of claims through the Internet. By contrast, while Rhode Island has automated the application process for employers, work sharing payments are still made manually. If the Rhode Island agency had the funding it would fully automate the work sharing payment process, using the Massachusetts approach. Nonetheless, the agency is strongly in favor of work sharing, and it believes that it is good for the Rhode Island economy as well as for employers and workers.[30]

In 2001 and 2002, Massachusetts automated its work sharing program during the surge in work sharing activity in response to the 2001 recession. Massachusetts had to administer between 200 and 300 employer plans during 2003. It went from a fully manual to a fully automated system. Deloitte and Touche built the Massachusetts system, using USDOL administrative funds. Internet-based, the three-step system allows employers to 1) apply to participate, 2) submit their work sharing plans and have them approved, and 3) submit their weekly work sharing payment transactions. As a result, the process is fully automated for the state workforce agency, employers, and participating workers.

Massachusetts is happy with the software, which it has made available to other states such as Vermont, since it is in the public domain. The Massachusetts UI director has also sent the program and its documentation to the USDOL and to the National Association of State Workforce Agencies for use by all state workforce agencies.[31]

The level of work sharing participation is lower in Massachusetts than in Rhode Island. This is due in part to Massachusetts's lower unemployment rate, but it is also because Massachusetts has done considerably less outreach than Rhode Island. Information about work sharing is available on the agency Web site and was promoted in a 2008 mailing to employers, but agency staff have not met with employer and labor groups to promote the program. With sharply increasing unemployment in 2008, the news media became more interested in work sharing, and the Massachusetts program received increased media coverage. However, only 88 employers were participating in the program in October 2008.[32] In January 2009, as the recession worsened, Massachusetts had 92 businesses enrolled in the program, with 1,300 workers receiving work sharing benefits. By that time applications had surged, with another 100 firms and another 1,700 workers waiting to participate (Crimaldi 2009).

During the Great Recession of 2008–2009, state work sharing programs experienced the highest usage by employers in the history of the federal-state UI system. In January 2008, as the recession began, a study on the stalemate in federal work sharing policy was published in *Publius* (Balducchi and Wandner 2008). As stakeholders, policymakers, and the press looked for public policy options to counter the recession, the article was widely read.

During 2009, a number of organizations began to advocate legislative action and increased use of work sharing during the recession. Neil Ridley (2009) of the Center for Law and Social Policy and Jon Messenger (2009) of the International Labour Organization provoked additional stakeholder interest in separate policy briefs describing the attributes of work sharing as an alternative to layoffs. In October, the National Association of State Workforce Agencies approved a new policy urging Congress and the U.S. Department of Labor to support enactment of work sharing in all states. In December, Sara Rix of the AARP hosted a national forum on work sharing policy to educate members and stakeholders in how to create successful work sharing initiatives

(AARP 2009). During the same period, work sharing received praise from economists such as Katharine Abraham, Susan Houseman, Mark Zandi, and Dean Baker.

The Congressional Research Service issued a report on work sharing to Congress by Alison Shelton (2009), and several bills were introduced in the House and Senate to correct the deficiency in the federal work sharing law and expand state participation through incentive grants. Given the unprecedented usage of work sharing during the Great Recession in the 17 states that operate programs, favorable testimonials from employers and workers contained in news stories from Steven Greenhouse (2009) of the *New York Times* and others, and endorsements from opinion makers and interest groups, it appeared possible that national work sharing policy might be revisited.

WORK SHARING IMPACTS AND COST-EFFECTIVENESS

Evaluations of work sharing programs in the United States and abroad have revealed mixed results. California conducted an early evaluation to determine whether to make permanent its initial, temporary program (Best 1988). The U.S. government conducted two evaluations, both mandated by the 1982 and 1992 federal work sharing legislation (Kerachsky et al. 1986; Walsh et al. 1997). The 1986 study was conducted in three states: Arizona, California, and Oregon. The 1997 study was conducted in five states: California, Florida, Kansas, New York, and Washington. There have been two large-scale evaluations of the Canadian program (Employment and Immigration Canada 1984; Ekos Research Associates 1993) and many smaller analyses of the program.

Because of the small size of the work sharing program and the high cost of running random assignment experiments, U.S. work sharing evaluations made use of comparison group methodologies. While analysis of the program evaluations that used random assignment experiments and comparison group methodology indicates that comparison groups cannot replicate experimental results (LaLonde 1986), comparison group studies are the best available guide to how work sharing programs work.[33] Nonetheless, the U.S. evaluations (Kerachsky et al. 1986; Walsh et al. 1997) have been limited in scope—in part because of a lack of data and limited funding for the evaluations. There were no benefit-cost analyses in the two national evaluations.

The Canadian evaluations, conducted in 1984, 1993, and 2005, are more comprehensive. They estimate program costs and benefits to society, even though sometimes the sources of data have been indirect. The Ekos 1993 study determined that work sharing is highly cost-effective, estimating the benefit-cost ratio of work sharing to be 2.6 to 1. The estimated cost of the program was incurred by the government in the form of increased total (UI plus work sharing) benefit costs of $52 million. This sum was composed of the costs of deferral of the UI waiting period, of filing for work sharing by those who would not file for regular UI benefits, and of paying UI benefits for post–work sharing layoffs. The estimated benefits ($137 million), however, were far less rigorously calculated. The benefits included $92 million in reduced stress from layoff avoidance (i.e., improved health and reduction in the use of social work and counseling services, police, and courts), $27 million in improved attitudes toward work (i.e., reduced future unemployment and UI costs), and $18 million in reduced hiring and training costs. The first two benefits were deemed to accrue to society, while the third accrued to employers. The study notes, but does not estimate, the cost of delayed adjustment to structural economic change in the form of labor hoarding.

The Canadian evaluations may provide some guidance about provision of training to workers while they are collecting work sharing. U.S. federal work sharing legislation permits states to allow workers to engage in training during the hours they are receiving work sharing so that they can increase their work skills. The three Canadian evaluations found that the offer of training resulted in low levels of take-up. In fact, in the evaluation of "Work Sharing while Learning," a program that was part of a larger initiative to support workers and communities in regions of high unemployment and operated between 2002 and 2004, Canadian researchers found no take-up of the program—no one participated. Firms did not participate in WSWL because of three factors: 1) the high cost of formal training, 2) heavy reliance on cheaper on-the-job training, and 3) difficulty in scheduling formal training on specific days of the week, since firms needed flexibility in production. The study also found that employees, particularly senior employees, were willing to participate in work sharing only if they could engage in leisure activities during their days off (HRSDC 2005).

Impacts on Employees

When surveyed, employees taking part in work sharing believe they are better off, and they support its use. Work sharing helps workers retain more of their prior earnings than layoffs do. There are also a number of nonpecuniary gains that worker surveys have consistently identified. Finally, the main distributional effect of work sharing appears to be a sharing of wage loss between more and less senior workers, so that less senior workers are better off with work sharing.

The California and Canadian studies found that between their earnings and their work sharing payments, participating workers maintained between 81 and 94 percent of their prior compensation. The studies found that workers on layoff received between 45 and 60 percent of their previous compensation.[34] These wide differences in income retention are reflected in workers' financial satisfaction during their work sharing and layoff experience. In the 1993 Canadian study, 15 percent of workers on work sharing were dissatisfied with their financial situation, while 41 percent of California workers on layoff were dissatisfied (EDD 1982; Ekos Research Associates 1993). Fringe benefits appeared to be nearly universally retained by workers during periods of reduced hours, whether states had rules requiring retention or not. In the U.S. evaluation, over 90 percent of employers in each state maintained full benefits, including the two states that did not have a fringe benefit retention provision in their work sharing law (Walsh et al. 1997, Chap. 5, p. 6).

The California and Canadian studies attempted to estimate some nonpecuniary effects of work sharing as well. Workplace improvements that were cited included skill maintenance, labor-management relations, and worker morale. Other personal factors included increased leisure, psychological and physical well-being, and quality of life (EDD 1982; Ekos Research Associates 1993).

The main distributional effects of work sharing relate to workers by level of seniority and demographics. Less senior workers were found to experience financial gains from the program since they avoided experiencing layoffs. The avoidance of layoffs and the improved financial position of these workers are paid for by the more senior workers who, in the absence of work sharing, would have experienced no wage loss. Thus, all of the U.S. and Canadian evaluations have found that there is a transfer of earnings from more senior to less senior workers.

Since the participants in work sharing consist largely of more senior employees who would have experienced no reduction in hours in the absence of work sharing, some resistance to work sharing might be expected from them. However, it appears that there was a good deal of solidarity among workers. In the California evaluation, only 6 percent of workers opposed the initial decision to use work sharing (Best 1988).

When work sharing was considered for adoption in the United States in the 1970s, it was expected that it would have a significant effect on helping women and minorities retain their jobs. Women and minorities were expected to be overrepresented among program participants. The California and first Canadian evaluations, however, did not find benefits to women and minorities, but they did find benefits to younger adults. The first U.S. study found that the demographic characteristics of workers on layoff were similar for the work sharing group and the comparison group.

The latest U.S. work sharing study (Walsh et al. 1997, Chap. 6, pp. 16–21) compares new work sharing claimants with new UI claimants and finds no statistically significant results. It does not show that women, youth, or minorities gain significantly from retaining their jobs because of work sharing. According to Walsh et al., women and youth made somewhat larger usage of work sharing, but these results were not significant. Older workers tended to use work sharing less than other age groups. This underrepresentation could be because of either firm-level decisions or worker preferences. No statistical difference was found among race and ethnic groups.

Impacts on Employers

Reducing layoffs

The 1997 U.S. study tried to estimate the number of layoffs work sharing firms would have had in the absence of work sharing, using a comparison group. The researchers found that they could not answer this question because the comparison group was not comparable. Work sharing–user firms were dissimilar to nonusers in a number of dimensions. Work sharing firms' total charges (UI plus work sharing) were much larger than those of the comparison group, and these results were significant for all states. Compared to non–work sharing users, work sharing–user firms' charges for the regular UI program were significantly greater in two states (Florida and Kansas) and approximately the same in two more states (New York and Washington). The Florida and Kansas charges were so much larger that they could not be reasonably attributed to the use of work sharing. The study also examined the states' mass layoff use. It found that a higher percentage of work sharing users also experience mass layoffs than in the comparison group.

Using work sharing instead of layoffs

The 1986 U.S. work sharing evaluation found that on average work sharing–user firms were approximately eight times as likely to use layoffs as work sharing, in terms of the hours their employees spent on work sharing and UI (Kerachsky et al. 1986, pp. 186–190). This high use of layoff utilization calls into question work sharing's role as an employment stabilization tool (Cook, Brinsko, and Tan 1995; Vroman 1992). The 1986 findings also call into question the comparability of the treatment and comparison groups.

The findings from the 1997 evaluation (Walsh et al. 1997, Chap. 6, pp. 4–5) are similar, although more modest. Expenditures on UI for layoffs varied between 1.6 and 3.6 times as much as expenditures on work sharing among the five states studied. The evaluation confirms the finding of the 1986 U.S. study that work sharing–user firms had high levels of UI charges, both in general and compared to work sharing charges. For the study year 1992, the average percentage of total charges to UI (UI plus work sharing) varied from 62 percent in Florida to 78 percent in Washington. At the same time firms were using work sharing, they also were making heavy use of the UI program. This suggests that work sharing was not so much a layoff reduction program for these firms as a part of their overall labor force reduction strategy.

Repeat use of work sharing

Some firms use work sharing repeatedly. The 1997 U.S. study found that some work sharing firms made use of work sharing in more than one year. For the five states that the study examined in 1991–1993, work sharing–user firms' use of the program was split into use in 1–4 quarters, 5–8 quarters, or 9–12 quarters. The range of use was from New York, where nearly half (45 percent) of firms used the program in 9–12 quarters, to Florida, where only 5 percent of firms did. The other states varied between 12 and 16 percent. High rates of repeaters resulted in enactment of a limitation on work sharing use in Washington State, where firms are required to be off work sharing for 12 months following three years of usage before they can renew a work sharing plan. California considered enacting such legislation in 1995 but took no action (Walsh et al. 1997, Chap. 6, pp. 1–34).

Repeat user firms were examined to see if they had also experienced high UI costs, since firms at the maximum UI tax rate had an incentive to use work sharing at no additional cost. High UI-cost firms were strongly represented in New York and Kansas, but not in California, Washington, or Florida (Walsh et al. 1997, Chap. 6). As noted above, Kansas was one of two states that later added special tax provisions to its work sharing law.

A key issue is whether usage of work sharing has an impact on firm productivity. To date, the U.S. studies have not made estimates of the effects on productivity for firms using work sharing. Analysis of the early effects of the Canadian program found no measurable effects (MaCoy and Morand 1984, p. 111). The later Ekos Research Associates (1993) study also did not find any increase in productivity for Canadian work sharing firms, but it found a tendency for work sharing firms to retain employees even in the face of structural problems. Such a delay of an adjustment by layoff is likely to decrease productivity. Work sharing firms were found to be more profitable in the short run, but with no long-term improvement in profitability.

Impacts on the Government

Effect on the UI trust fund

Analysis of the cost of work sharing to the UI trust fund is an issue that is unique to the United States, because work sharing in this country is funded by the UI program and both work sharing and UI costs are experience-rated. The work sharing evaluations that have considered the cost to the UI trust fund are the California evaluation (EDD 1982) and the two national evaluations. All three studies have found that the total cost to the UI trust fund of work sharing and UI costs is greater for work sharing–user firms than for a comparison group of firms. The California study found that total cost for work sharing–user firms was about 16 percent greater.

The 1986 national study found that employer participation in work sharing increased the total benefit charges paid to the firms' employees as well as the firms' UI payroll taxes. The net effect on the UI trust fund was less clear. The study made qualitative estimates showing that there would be significant negative impacts on the trust fund in the short run, as work sharing charges increase rapidly with the onset of a recession but the response by UI tax rates is much slower. In the long run, however, the study concluded that work sharing should not affect the UI trust fund adversely, because work sharing benefits are subject to both stronger experience rating and reduced noncharging (Kerachsky et al. 1986, pp. 169–184).

To determine the effect of work sharing on the Unemployment Trust Fund, the 1997 work sharing evaluation analyzed the UI tax charges of work sharing–user firms that had 9–12 quarters of use in a three-year period. In 1992, California and Washington high-use firms did not have higher levels of charges than low-use firms. However, in New York and Kansas UI charges for high users were more than double those of low users, indicating an adverse impact on the Unemployment Trust Fund in these states (Walsh et al. 1997, Chap. 6, pp. 11–13).

Administrative costs

Automation has a big impact on work sharing administrative costs. The California and 1986 national evaluations examined administrative costs to the UI program before the increased automation of UI benefit payments in the 1990s. Kerachsky et al. (1986, pp. 217–220) found that work sharing costs were much greater for regular benefits—more than twice as great—because of the expectation that there would be approximately five times as many claimants receiving benefits compared to the regular program, assuming a 20 percent work-week reduction. These costs do not include the costs associated with approving the plan and responding to inquiries about the program.

After a decade of increased UI automation in the 1990s, Walsh et al. (1997, Chap. 4, pp. 17–19) found that costs continued to be high for states that did not automate the work sharing component of their UI programs. States reduced their administrative costs by reducing the layers of approval for work sharing plan submissions. Texas automated its plan approval process and accelerated approval of work sharing plans. For the claims-taking process, similar streamlining took place, as over half of the states switched to employer-filed claims, and five of these states allowed employers to submit ongoing claims forms without claimant signatures. Of the other states, four states automated the claims-taking process and three states were building work sharing into their voice response systems for UI claims taking. As a result, all work sharing states reduced the administrative burden through employer filing and automated claimant filing. Even though the automation of work sharing claims was nearing completion by 1997, a state survey found that concern about administrative cost was nevertheless a reason that six states gave for not adopting work sharing (Walsh et al. 1997, Chap. 4, p. 8).

The cost of work sharing administration was a study in contrasts. The three work sharing states that were fully automated responded that their costs of administration were actually less per claim than the cost of regular UI, because work sharing claimants do not come into the local offices and are not subject to work search requirements. The other states found the program more expensive because its administration is labor intensive. The lesson to be learned was to automate the work sharing program, and states responded. In 1997, only three states were fully automated, one was partially automated, and four more were building work sharing into their new, automated telephone claims-taking processes (Walsh et al. 1997, Chap. 6, Table 4.9). Today, the UI program is highly automated, using telephone and Internet claims-taking. There is no reason to expect that administrative cost would be a barrier to work sharing adoption, especially if states adopt the most automated work sharing software available, as in Massachusetts.

LESSONS LEARNED

Small size and employer usage. Work sharing in the United States is a small program and is likely to remain small, but it could be a great deal larger than it is today. Only a third of the states have work sharing programs, and state participation could be increased. Moreover, within the work sharing states, most employers and workers make little use of the program. That could increase if state agencies provided more information about the program, and if business and labor supported the programs the way Rhode Island does.

Unemployment reduction. Work sharing reduces unemployment in cases where layoffs are temporary. Workers share the reduction in hours and are cushioned in their earnings loss by the receipt of work sharing benefits. However, work sharing does not necessarily eliminate unemployment in work sharing firms. When employers use the work sharing program, it frequently supplements rather than substitutes for layoffs. Over time, these firms use both employment reductions and hours reductions to achieve the labor force reductions they seek to achieve.

Skilled worker retention. Employers who use work sharing tend to be large employers, concentrated in durable manufacturing, with persistent unemployment problems. They tend to engage in large and persistent layoffs, making heavy use of the UI program. Similarly, workers who use the work sharing program tend to be skilled, experienced, high-wage manufacturing workers. Employers put these workers on work sharing so they have the opportunity to call them back to full-time work and reduce their risk of losing key workers (MaCurdy, Pearce, and Kihlthau 2004). Used in this manner, work sharing is a tool to retain skilled workers who are needed to maintain a productive U.S. manufacturing sector.

Federal policy. The USDOL has not actively supported the work sharing program. A more active public policy would require either a broader interpretation of the 1992 permanent work sharing federal law or enactment of a technical amendment to the law.

- Interpretation. The department could interpret the 1992 work sharing amendments to the Social Security Act and FUTA as permitting the provisions of the 1982 work sharing amendments and any other requirements that the department deems appropriate. This interpretation would be issued under the existing authority of the secretary of labor to interpret the UI provisions of the Social Security Act and FUTA – of which work sharing is one. Initially, an ETA policy letter could be issued expressing this interpretation. A subsequent regulation could codify this interpretation, if needed.

- Legislation. Following a legislative route, a work sharing amendment could adopt the language proposed in Section 251 of the proposed Reemployment Act of 1994. The key item in that language gives the department explicit authority to guide and interpret the program so that the "program meets such other requirements as the Secretary of Labor determines are appropriate."

Increasing state adoption and usage. Work sharing will not achieve its potential as a workforce development tool unless more states adopt work sharing. States that have adopted it would have to use it more extensively.

- The department should adopt a positive policy toward work sharing. It then needs to provide guidance and technical assistance regarding state enactment of work sharing legislation. The department also should promote the use of the program and provide forums for state-to-state exchange of information. States such as Rhode Island would be eager to provide support to other states.[35] In addition, the department should provide financial support for states that wish to fully automate their work sharing administration, reducing the cost of program administration.[36]
- For states, the barriers to participation are lack of knowledge, lack of interest, and political opposition. Furthermore, some states are concerned about the fact that introducing a work sharing program is likely to lead to a small increase in expenditures from their state UI trust fund accounts. Promotion of the program by the department and the work sharing states is likely to encourage adoption, especially in times of high unemployment.

Increasing employer and worker usage. Analysts have recognized a variety of barriers and disincentives to expansion of work sharing that affect employers and employees.

- For employers, barriers include lack of information, experience rating of work sharing charges, administrative complexity—at least for smaller firms—and a preference for reducing employment rather than hours.

- For employees, the main barriers are charging work sharing benefits against UI benefit entitlement and the low work sharing rate of replacement of lost wages compared to other countries.

It appears that the state workforce agencies could overcome the concerns of employers and workers and increase participation if they actively supported and marketed the work sharing program in a manner similar to Rhode Island's approach.

Work sharing and labor market flexibility. Work sharing should not interfere with labor market flexibility. Use should be encouraged to retain jobs during temporary layoffs, especially during cyclical economic downturns. It should not be encouraged for use to stop or slow structural adjustments.

Training and work sharing. Training during receipt of work sharing is not likely to have widespread use in the United States: the Canadian inability to encourage training use is apt to be repeated here. The inflexibility of production and workforce scheduling and the preference for on-the-job training is likely to have a negative effect on use of formal training during work sharing usage. The next work sharing evaluation in the United States should examine the use of training during work sharing periods.

Work sharing evaluations. The United States should conduct another national work sharing evaluation that includes a benefit-cost analysis. The evaluation would likely be a quasiexperimental impact analysis, despite problems of setting up valid comparison groups. While it would be preferable to conduct a rigorous work sharing evaluation using an experimental design, the small size of the program and the high cost of an experimental evaluation might argue against conducting such an evaluation.

Notes

1. This chapter uses the terms work sharing or short-time compensation (STC) for this program. Work sharing is a generic name and should more properly be called compensated work sharing, because of a history of uncompensated work sharing that was incorporated into some labor-management agreements. Some states (e.g., New York) have used the term "shared work" to describe the program. In Europe the program is most frequently called short-time work, and payments are called short-time working allowances.
2. Markus Franz, e-mail message to the author, November 22, 2008. Franz at the time was counselor for labor and social affairs at the German Embassy in Washington, D.C.
3. Ibid.
4. Ibid.
5. Ibid.
6. This section draws and expands upon Balducchi and Wandner (2008).
7. Similarly, the number of employees enrolled in the program also grew rapidly, from 8,245 in 1979 to 99,332 in 1982.
8. While the USDOL did not sponsor this event, I attended on behalf of the department and made a presentation at the conference.
9. Robert Galvin, CEO and chairman of Motorola, took a personal interest in work sharing and encouraged its adoption in all states in which Motorola had production facilities. He wanted the USDOL to take an active role in promoting work sharing, as he made very clear in a meeting with me and another department staff member, Robert Crosslin, at Motorola's headquarters in Schaumberg, Illinois.
10. I worked with the office of the assistant secretary for policy, evaluation, and research to design the experimental evaluation and visited states that were potential sites for study.
11. Business support was led by the Motorola Corporation and the Committee for Economic Development. At the national level, the AFL-CIO executive council supported work sharing, while California unions provided state support among organized labor. For the state workforce agencies, Therman Kaldahl, president-elect of the Interstate Conference of Employment Security Agencies (now called the National Association of State Workforce Agencies), testified in favor of work sharing legislation in 1980 (Ittner 1984).
12. Illinois enacted temporary work sharing legislation in 1983, and the state legislature allowed the program to expire in 1988.
13. Work sharing does not create human capital, but it may retard the depreciation of human capital for workers. It also may ensure access to human capital by employers when they decide to expand production.
14. I was one of the department staff providing technical assistance to Arkansas, New York, and other states.
15. Massachusetts eliminated the issue of higher administrative cost by completely automating the work sharing administrative process. Massachusetts is making its automated system available to other state workforce agencies at no cost.

16. The advisory committee included Frank W. Schiff, vice president and chief economist of the Committee for Economic Development; Casey F. Koziol, vice president and director of personnel administration for Motorola; and John Zalusky, an economist with the AFL-CIO. They were all strong advocates of the work sharing program.
17. As the organizer of the advisory group and project officer for the evaluation, I found the experience to be a difficult one. Trying to set up an objective and rigorous evaluation with a highly respected evaluator, Mathematica Policy Research, resulted in a quasiexperimental evaluation design that was challenged and was difficult to defend. An unrelated problem resulted from the insistence of one of the participating states, California, that it be allowed to draw samples of participants itself, assembling the evaluation database and then removing the personal identifiers. The result was a data set that appeared to be highly flawed. The final product yielded ambiguous results and sparked contention about how to assess the evaluation. The difficulty of coming to agreement about the design and results of a quasiexperimental evaluation won me over to the use of experimental methodology. The year after the completion of the work sharing evaluation, I proposed the initiation of the UI Experiments.
18. David Balducchi worked on Senator Wofford's staff and assisted in the drafting of S. 2614.
19. In developing specifications for the REA legislation, the department issued a series of consultation papers (see USDOL 1994a), each of which endorsed work sharing and proposed revisions to its definition through a technical amendment.
20. See Smith (2008); Nickisch (2008). Nancy Dunphy, deputy commissioner of the New York State Department of Labor, told a Washington, D.C., audience in November 2008 that New York was again experiencing an increase in work sharing and that, while only 18 states have this job-saving provision in their UI laws, other states should consider adopting it.
21. As the recession worsened in late 2008 and early 2009, greater work reductions occurred, with 40 percent reductions—to a three-day work week—becoming more prevalent.
22. William Clawson, UI chief, Kansas Department of Human Resources, interviewed by David E. Balducchi, March 22, 1993.
23. In early 2010, seven states introduced work sharing bills in their state legislatures, reflecting concern about high unemployment during the Great Recession.
24. The Advisory Council on Unemployment Compensation (1995, pp. 189–190) and Cook, Brinsko, and Tan (1995) reviewed the work sharing program and its evaluations. They are supportive of the work sharing program but express concern about its "minimal utilization," especially compared to the high German usage rates. They express the hope that some of the impediments to greater utilization can be overcome.
25. The representative of Motorola who promoted federal and state work sharing legislation, Casey Koziol, explained that Motorola sought to implement a no-layoff policy in the early 1980s. Work sharing was a tool for Motorola to use to reduce labor costs during periods of low labor demand. Motorola was forced to abandon

this no-layoff policy—and its use of work sharing—when its competitors adopted a policy of hiring contract employees and laying them off during periods of slack demand.

26. David Fitzgerald, chief of benefits, Louisiana UI Program, in an interview with the author, October 23, 2008.
27. William L. Batt Jr. was the bureau's advocate for work sharing. He later supported the program's adoption and use in Connecticut.
28. Casey Koziol, vice president and director of personnel administration for Motorola, in a telephone conversation with the author, 1995.
29. Ray Fillipone, assistant director of income support for the Rhode Island Department of Labor and Training, and Kathy Catanzaro, WorkShare program manager, interview with the author, October 3, 2008.
30. Ibid.
31. Edward Malmborg, Massachusetts UI director, interview with the author, October 28, 2008.
32. Ibid.
33. The first U.S. evaluation was criticized by both the labor and business members of an advisory committee that was legislatively established to review the evaluation (Morand 1990, pp. 317–334). The heart of their criticism was that the comparison group of firms was not selected correctly. The members could not, however, recommend criteria for comparison group selection that would answer their concerns. (The subsequent evaluations in the United States and Canada raise the issue of whether there are any criteria for drawing a valid comparison group.) Many of the advisory committee's other criticisms were based on case studies and the committee's hopes for the program. Unfortunately, one area where the committee members were clearly wrong was in their hopes that work sharing would emerge as a larger, more substantial program (Morand 1990, p. 334).
34. In the 1993 Canadian study, this measure of replacement during layoff is of wages rather than of compensation.
35. Fillipone and Catanzaro, interview.
36. Vroman (1992) and Cook, Brinsko, and Tan (1995) suggest that employers should administer work sharing as is done in Germany, but automation of work sharing administration in the United States obviates the need for this approach.