

Short-Time Compensation
as a Policy to Stabilize Employment:

by

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Introduction

Most of the world's economies are experiencing a recession in 2009 and, for many, the recession is the most serious downturn in recent decades. Of the 182 economies in the International Monetary Fund's World Economic Outlook database, 165 are projected to experience lower real gross domestic product (GDP) in 2009 compared with 2008.¹ Since the demand for labor is a derived demand, a decrease in real output leads to a reduction in the number of hours worked and the level of employment. In the current global recession, large increases in unemployment and underemployment are occurring in many economies. Even if growth in GDP resumes in 2010, labor markets will only fully recover with a substantial lag extending over several years.²

One policy to influence labor use by employers is work-sharing short-time compensation (STC). This policy has the potential to preserve existing jobs and reduce employment losses in the current global crisis. The societal gains that flow from increased employment retention include enhanced income stability of affected persons and families, reduced open unemployment, and reduced training costs. Furthermore, STC shares the economic hardship of a recession among workers, employers, and governments.

Short-time compensation involves a specific form of downward adjustment in labor input. Under STC, labor hours are reduced in line with the change in output, but the decrease in hours worked is spread among a larger pool of employees than under layoffs. As a simple example, consider the following two options: place all workers on a four-day work week (down from a standard five-day week) or terminate (lay off) 20 percent of the workforce. Both actions will reduce labor input by 20 percent. Work sharing widens the pool of persons affected by a downward adjustment, but the affected individuals experience a smaller economic loss under work sharing than under layoffs.

The present report examines STC as an intervention in the labor market and provides observations about the design features that may make it more effective in preserving employment during an economic downturn.

¹ See the World Economic Outlook database of the International Monetary Fund (IMF) at <http://www.imf.org/external/pubs/ft/weo/2009/01/weodata/weorept.aspx>.

² In the United States, the labor market is not likely to fully recover until mid-2010 or later. See "How long would a job market recovery take?" January 7, 2009 Economic Snapshot. Economic Policy Institute. http://www.epi.org/economic_snapshot/entry/webfeatures_snapshots_20091007/

An Overview of Work Sharing

Short-time compensation work-sharing programs, now present in many developed economies, reduce the volume of layoffs during a period of slack labor demand.³ Rather than reducing staff hours through layoffs (nonprejudicial separations) of some workers, a wider pool is selected and all members of that pool are retained. Those retained, however, work reduced weekly hours. For example, to reduce hours by 20 percent in a company that employs 100 persons working 40-hour weeks, there are two possible strategies. First, there would need to be 20 layoffs. Alternatively, all 100 people in the company could be placed on 32-hour schedules. Both measures would reduce hours by 20 percent.

Short-time compensation programs provide partial unemployment compensation (UC) benefits to workers placed on short schedules. If, for example, UC benefits replace half of previous weekly wages, someone on a 32-hour schedule would receive 80 percent of their full weekly wages and partial UC benefits equal to 10 percent of weekly wages. Thus part of the reduction in income occasioned by the reduction in hours is offset by partial UC benefits. In this simple example, the take-home pay of participants in STC work-sharing would be equal to 90 percent of their full weekly wages.⁴

In the present worldwide economic crisis, several countries are promoting STC with the objective of increasing its availability, generosity, and/or duration. In addition, some countries have modified their current STC programs. The following paragraphs describe how STC plans are established and identify some analytic questions about their economic effects.

While the programs vary across countries there are several common elements in all STC programs. First, after securing agreement from employees, a participating employer needs to prepare and submit a STC plan to the cognizant agency, most typically an office in the UC administrative apparatus. Second, STC plans usually include four important details about hours of work and compensation: (i) a projection of the aggregate reduction in work hours (which must exceed a predetermined threshold, say 20 percent (Canada) or 10 or 20 percent (individual states in the United States)); (ii) identification of

³ The term work sharing as used here means reducing hours for the purpose of preserving overall employment. It does not refer to, say, two people sharing a single full-time job by each working part-time.

⁴ Personal taxes are not considered in this example. Taxes could be important in specific situations.

the work unit(s) involved and the extent of the hours reduction (often between 20 and 50 percent); (iii) an estimate of the duration of the STC plan and the potential duration of partial UC benefits; and (iv) the treatment of employer-provided fringe benefits such as employer contributions to pensions and health insurance. If the plan is approved, revised work schedules can be implemented quickly.⁵

Economic Effects of Short-Time Compensation

Burden on Workers

The salient feature of STC is a change in the distribution of the economic burden caused by the reduction in hours worked. Under layoffs, the burden falls specifically on the terminated individuals while with STC there is a smaller per-worker burden because of the wider sharing involved. In the preceding stylized example, the 20 persons on layoff would experience a 50 percent reduction in income (assuming that they received UC benefits with a 50 percent replacement rate) while the other 80 would not experience any reduction. Under work-sharing, in contrast, all 100 workers would experience a 10 percent reduction in income (80 percent of full-time pay plus half of the other 20 percent received as partial UC benefits). At base, STC is a solidaristic program, an alternative to seniority-base layoffs.

Use of STC can help to preserve the diversity of a company's workforce. To the extent that young workers, women or minority workers have less seniority, they would be disproportionately affected by layoffs as opposed to broadly based reductions in weekly hours. Alternatively, in Europe, older workers might be targeted for layoff when they have UC benefit entitlements through to retirement. Under STC low-wage workers would also experience a smaller burden. Avoiding layoffs seems desirable in these situations.

Effect on Employer Costs

Four elements of employer costs can be identified. First, hourly labor productivity could be affected but the differential effect of STC is not obvious. Second, the average hourly

⁵ Annex A and Annex B provide details of work-sharing STC programs in Germany and the United States, respectively.

wage rate would probably be lower under STC than under layoffs since a larger number of senior and highly paid workers would participate in reduced hours worked. Third, the hourly cost of fringe benefits would probably increase under STC, particularly if employers were required to maintain full fringe benefits (as opposed to a proportionate decrease in line with the reduction in hours). Fourth, training and other costs of labor turnover would be reduced as fewer workers would need to be hired during an ensuing economic upturn. The net effect of these four factors is not certain, with the greatest degree of uncertainty surrounding the change in labor productivity. The reduction in hourly wage costs and the costs of turnover would probably exceed the increase in fringe benefit costs, causing hourly compensation to decrease.

Effects on UC Benefit Costs

Unemployment compensation benefit costs would be expected to increase with greater use of STC. At least two considerations are relevant here. When more senior workers are paid partial UC benefits average daily payments would exceed the average under layoffs. Second, many who participate in a STC experience layoffs after the STC plans end. Unless their duration under full unemployment is shorter than for persons who originally would have been laid off, their STC benefits plus full-UC benefits would be higher. This effect would be increased to the extent that short work-hours would extend their earnings and related eligibility for UC benefits while on layoff. Evidence from Canada suggests that half of STC participants move to full unemployment in the 26 weeks after the STC plan ends, and their duration on full UC is the same as among persons who were initially laid off. Finally, there could be cost increases in a country like Canada where regular UI has a two week waiting period but STC does not.

The question of the effect on UC benefit costs has a different outcome in the United States. The initiation of STC payments establishes a benefit year for claimants just as for regular full-week claimants. Thus someone who participates in STC but then is laid off would have a shorter potential entitlement because the earlier STC payments would reduce the remaining UI entitlement on a dollar-for-dollar basis.

Short-time compensation may also cause other costs for employers and/or the government budget. For instance, if the required social insurance contributions for hours

not worked are made by employers and/or government, the effect would be to increase labor costs and/or expenditure.

Other Issues

Payments Administration

Since workers placed on short hours remain employed, STC payments can be made by the employer using the existing payroll system that makes wage-and-salary disbursements. Moreover, there is no need for the worker to file for UC benefits. Because the worker does not have to file a formal application for partial UC benefits, this employer-administered payment would probably yield higher participation in STC than if the worker had to initiate a claim with the UC agency. Since the employer is merely a disbursement agent for partial UC benefits, the employer then secures reimbursement from the UC agency.

The Uncertain Economic Environment

Because the economic environment is highly uncertain in a recession, the firm's initial estimate of the appropriate reduction in hours may be incorrect. This uncertainty argues for flexibility in the firm's ability to modify its STC plan. Rather than requiring a firm to submit a new plan, a more flexible approach allows the firm to make modifications while, at the same time, notifying the administrative agency of the change. If the agency is critical of the modification, it can intervene with the firm, but if it approves, the change is implemented with minimal delay and little disruption.

In practice, plan modifications that lessen the reduction in hours (even returning to full-work schedules) do not pose problems as the firm desires to operate at full or normal capacity. Increasing the reduction in hours or lengthening the duration of the plan can pose problems when the change calls into question the underlying viability of the firm or the work unit in question. Administrators of STC need to exercise judgment in approving such changes, weighing the macroeconomic environment (Is the recession becoming more severe?) and considerations specific to the industry and/or region where the firm operates. At a minimum, close monitoring of such situations is needed.

Short-Time Compensation Changes in the Current Recession

Short-time compensation programs are common in a number of developed economies. Table 1 presents changes that have been made to STC programs in a select number of these economies.

Table 1. Recent Modifications in STC Programs in Select Countries

| Country | New STC Program | Easier Entry Eligibility | Longer STC Duration | Higher Replacement Rate | STC Eligibility Linked to Training | Subsidize Employer Costs |
|------------------------|-----------------|--------------------------|---------------------|-------------------------|------------------------------------|--------------------------|
| Austria | | X | X | | Optional | |
| Belgium | | | X | X | | |
| Canada | | | X | | | |
| Czech Rep. | X | | | X | Required | |
| Denmark | | | X | | | |
| Finland | | | X | | | |
| France | | | X | X | Optional | X |
| Germany | | X | X | | Optional | X |
| Hungary | X | | | | Required | |
| Italy | | X | | | Optional | |
| Japan | | X | | | | X |
| Korea | | X | | | Optional | X |
| Mexico | X | | | | | |
| Slovak Rep. | X | | | | | X |
| Switzerland | | | X | | Optional | X |
| Countries with Changes | 4 | 5 | 8 | 3 | 8 | 6 |

Source: Preliminary estimates provided by the OECD in March 2009.

As table 1 shows, 15 countries made one or more changes to their STC programs and a total of 33 changes were made across these countries. The changes can be summarized as follows. Four countries were establishing STC programs. Twelve made one or more changes to facilitate the receipt of STC benefits; for example, easier entry eligibility, longer STC duration and/or a higher benefit replacement rate. Note also that six countries were providing increased subsidies to employers who participate in STC.

Several countries have initiated changes to establish a closer link between worker training and participation in STC. The Czech Republic and Hungary require participation in training as a condition for receiving STC benefits. Six other countries explicitly recognize the potential value of combining training with STC in a period when workers are not on full-time schedules. A Canadian study of STC, however, has made cautionary observations about this potential nexus. The physical arrangement of the work site may or may not be appropriate for training to occur while production is ongoing.⁶ On the other hand, off-site training may be difficult to coordinate with STC work schedules. Both worker and company representatives interviewed in the Canadian study expressed reservations about the advisability of closely linking STC eligibility with training. It is probably better to think of this combination as an option suitable for some situations rather than a required or priority activity for the majority of STC participants.

As the downturn has become more severe in 2009, other modifications in STC have been legislated. Both Canada and Germany have lengthened the potential duration of STC plans, from 38 to 52 weeks in Canada and from 18 to 24 months in Germany. Undoubtedly other changes in STC have occurred this year and are planned for implementation.⁷ In summary, several developed countries are relying on STC as an important measure to ease the economic hardship of the current recession. Recent legislative changes have been designed to increase the scope of STC coverage and to enhance financial support for STC participants.

⁶ Human Resources Development Canada, "Evaluation of the Work Sharing Program Final Report," Strategic Evaluations, Evaluation and Data Development Strategic Policy, SP-AH-212-02-04E, (February 2004).

⁷ For example, in the United States, Senator Reed has introduced a bill to encourage more states to establish STC programs using financial incentives to encourage state legislation.

STC Program Design

Certain features of STC programs can either encourage or discourage the use of this work-sharing initiative. Moreover, several features of STC programs vary from one country to the next and the differences illustrate the contrasts in the various program designs. Jon C. Messenger (2009) describes some recent country experiences of STC implementation in several developed economies.⁸ Annexes A and B, respectively, provide details about the STC program in Germany, currently the largest STC program in the world, and the United States, where 17 individual states have active STC programs.

The following list identifies five features that are generally associated with higher use of STC.

1. Have the employer administer STC payments to workers. This feature will enhance worker participation since the payment of partial benefits is part of the periodic payroll disbursement from the employer. There is no need for the individual to file a claim for benefits with the UC administrative agency as in situations of full unemployment.
2. Allow flexibility in determining the reductions in hours for individual employees in the affected work unit. Rather than impose a uniform percentage reduction across all affected workers, allow the reductions to be individual-specific. Two considerations underlie this suggestion. First, it allows the reductions to be influenced by worker preferences. Second, employers can tailor individual reductions in light of potential exits by more mobile and/or more skilled workers. Both considerations argue against using a one-size-fits-all approach in determining the reduction in hours.
3. Allow flexibility in changing the overall percentage reduction in scheduled hours within the work unit. Operating an initial STC plan does not end uncertainty for participating employers and workers. As experience under a plan accumulates, there may be a need to make a further modification in the overall reduction. If workers are consulted and both parties agree on the need for a further modification, they should have the authority to make the adjustment. More than

⁸ Jon C. Messenger. "Work sharing: A strategy to preserve jobs during the global jobs crisis." Travail Policy Brief No. 1 (Geneva: International Labour Office), June 2009.

likely, it would be sufficient to inform the administrative agency of the change rather than have to wait for administrative approval for the modification. On the other hand, first-users of STC may require more stringent guidelines for the program until sufficient institutional experience is accumulated in order to minimize administrative errors and/or misuse.

4. Separate the entitlement for full-unemployment benefits from past usage of STC by individual workers. In effect, workers in STC should be treated like other employed workers, that is, work experience under STC would count like other work experience in determining future eligibility for full UC benefits. Given the uncertainty about a possible future layoff, an STC participant might be reluctant to participate if the future UC entitlement were reduced by STC use. This feature of STC in the United States likely contributes to low STC use among eligible workers.
5. Consider combining STC with training. Because of likely differences in training duration, the type of training to be offered and the physical arrangement of the work environment, training may or may not be appropriate for combining with STC for a particular company. This decision should be made with input from management and labor representatives and not promulgated for all situations.

An additional design feature could be included: a return-to-full-production plan as part of new STC applications. This feature is present in the Canadian STC program. The requirement for a return-to-full-production plan, however, may tighten the targeting of the program since it provides a basis for rejecting applicants. While the usefulness of Business Recovery Plans in Canada's STC program can be questioned, the fact that the employer is required to look at the longer run situation and describe how full production will be achieved in the future can be useful. Factors that can influence the likelihood of full recovery could include an assessment of the underlying product market (including long run product demand), the competitive situation vis-à-vis producers in other countries, industry cyclicity and past industry experiences. While many descriptions of the future recovery may not eventuate, they would provide the administrative entity with a basis for rejecting applications that seem strongly at variance with likely future reality.

Summary

When people lose jobs during a recession, they often experience severe economic hardships. Fostering employment retention can reduce the volume of hardships. As a labor market intervention during an economic downturn, STC is appropriate as a policy of fostering employment retention. For the effective implementation of STC, negotiation at a number of levels is required. Not only do governments need to take an active role in promoting STC but also collective bargaining at the industry level and in the work place can promote the use of STC.

Several aspects of an STC program can be structured to increase its effectiveness as a job retention tool. Worker participation will be enhanced if the employer administers STC payments to workers. Flexibility is essential, both in determining the reductions in hours for individual employees and in changing the overall percentage reduction in scheduled hours within the work unit. Managers will need to make the necessary changes in the work unit by redesigning work practices and supporting adequate training. In the interest of equity, STC needs to include both standard and non-standard workers. Finally, it is important to separate the entitlement for full-unemployment benefits from past usage of STC by individual workers.

The most significant issue, however, is widespread continuance of wage compensation. It is essential to provide employees with partial replacement of lost earnings to offset the reduction caused by the reduction in hours of work. This is particularly important for low-wage workers.

Annex A. Short-Time Compensation in Germany

Short-time compensation (*kurzarbeit*) is widely used in Germany as a way to reduce working hours during cyclical downturns. The STC program was established in the 1950s and has operated continuously for more than 50 years. During 1990 and 1991 a special form of STC was used in areas of the former German Democratic Republic (GDR), but since 1992, the West German program has been used in all areas of the unified Germany. The present description will focus primarily on this program.⁹

German STC is flexible in application with features that are attractive to both employers and workers. To implement STC, the initiative can originate either with the employer or with the works council (or individual workers in establishments with no worker representation). Under German law of codetermination it is necessary to have worker approval of a change in the employment contract. Worker representatives may negotiate regarding the need to reduce hours¹⁰ and the overall scope of the reduction. In some instances, the initiative for implementing STC may come from worker representatives. Because worker representatives can examine company financial records, labor-management disagreements over the need to reduce hours rarely arise.

After an STC plan has been prepared, it is submitted to the local office of the Bundesagentur für Arbeit (BA, the agency that administers UI and active labor market programs) for approval. The application describes the economic conditions that underlie the proposed plan, and estimates the anticipated overall reduction in hour of work. To be acceptable, the STC plan must satisfy a number of requirements. Total hours at the plant must be reduced substantially, often interpreted as 10 percent, and a substantial number of workers must have their hours reduced by 10 percent or more. Individual workers in the affected unit of the plant may experience a reduction in hours of up to 100 percent. Aggregate annual data show that the average reduction is typically between 25 and 50 percent with higher average reductions observed in more recent years. While STC plans are proposed to last for six months in non-recession periods, extensions to 12 months are common. In late 2008 to early 2009, STC plans could have a maximum duration of up to

⁹ There is also an STC program for seasonal situations, but it has been consistently small and will not be included in the present discussion.

¹⁰ For example, in a multiplant company, worker representatives might propose alternatives such as shifting work to a plant operating at high capacity utilization to a plant where reducing hours was under consideration.

18 months, but in May 2009 this was increased to 24 months.¹¹ A decision on the suitability of the STC plan must be made by the BA within eight days of receipt of the employer application.

Besides approving new plan applications, the BA also monitors active STC plans. It verifies that appropriate STC accounting records are maintained. The employer also provides to the BA monthly information on STC participation and payments.

While the plan is active, employers add to the paycheck the STC payment for reduced hours and are later reimbursed by the BA. In effect, the employers act as the administrative agent for the BA. Short time compensation payments have the same replacement rate as regular UI payments in Germany: 60 percent for single workers and 67 percent for workers with dependents, up to a monthly maximum. Thus a family head placed on STC one day per week and eligible for less than the maximum would experience only a 6.7 percent reduction in take-home pay.¹² The reduction would be even smaller if the collective bargaining agreement (or employer compensation policy) stipulates an added payment to “top up” STC.

German STC includes several features that make it very flexible in application. The economic unit to which STC is applied does not have to conform to organizational divisions within the firm. Reductions in the hours of affected workers need not be uniform. If a firm fears that certain workers are more mobile than others, it may decide to give them below-average reductions. The form of the reduction in hours is flexible. Workers may work fewer days per week, fewer hours per day and/or be subject to rotating weeks on layoff. Since the most common time unit for German payrolls is monthly, all these forms of reductions can be easily accomplished.

A key feature of German STC is the ability to change the size of the reduction in hours without the need for BA approval. If actual sales and production turn out to be weaker than initially anticipated, the requirement remains for the employer to negotiate with the works council in establishing the added reduction, but the added reduction can proceed. If sales and production are stronger than anticipated, the employer can reduce STC unilaterally. If an employer restores workers to full-time schedules (making no STC

¹¹ Similar progressions of the maximum duration occurred in earlier recessions.

¹² A worker would receive 80 percent of the salary for the four days of work plus 67 percent of the remaining 20 percent (or 13.3 percent of salary) as the STC payment for the fifth day.

payments), a plan will remain in effect for up to three months. Thus short-run adjustments to both positive and negative surprises can be made without the need to terminate an existing plan and initiate a new one.

Employers are required to make added payroll tax contributions (for pensions and health insurance) on the forgone earnings of STC workers, but payments depend upon several factors. Worker participation in training lessens the employer's financial responsibility as does receipt of STC for more than six months.¹³ Employer payments can amount to more than 20 percent of the forgone earnings.

The flexibility of STC in application has at least three features that are attractive from the worker's perspective. First, because the reduction in hours does not have to be uniform across the affected unit, individual worker preferences can influence the distribution of the reductions. Second, because the payment of STC is administered by the employer, the worker does not need to individually apply for STC benefits as he or she does for full unemployment benefits. Since the employer's payroll office is already making the wage payments, it is simple to administer the STC payment within the existing payroll system. Third, the receipt of STC does not reduce the worker's entitlement for regular UI benefits. Thus the worker does not have to weigh the advisability of saving the full UI entitlement for a more serious situation; that is, not participating in STC in order to have benefits fully available for a possible future period of full unemployment.¹⁴ In fact, the time in which STC is received is treated like other work-time in calculating the potential duration of future UI benefit eligibility.¹⁵

Between July 1990 and December 1991 a variant of STC was available to workers in the former GDR. Three features stood in contrast with the STC program in the West. First, the statutory replacement rate was 90 percent, not the 63 or 68 percent paid to recipients in the early 1990s. Second, BA covered all extra health insurance and pension costs (payroll taxes) associated with the earnings losses, not just the employer part of pension costs. Third, extensive use was made of zero hours STC; that is, zero hours of work per week. In effect, this variant of STC acted as a generous income

¹³ The BA makes a contribution for the worker's share of old age payroll taxes.

¹⁴ This is the situation in the United States where each day on STC during a given benefit year reduces the entitlement for regular UI benefits by one day.

¹⁵ Maximum potential benefit duration in Germany depends on the worker's age and employment history.

maintenance device for workers in factories where production had declined precipitously or ceased. At its height in April 1991, 2.0 million participated in this program. By December 1991, the number had fallen to 1.03 million and then to 0.23 million at the end of 1992 and 0.12 million at the end of 1993. In all years between 1994 and 2008 STC monthly use in the former GDR averaged less than 100,000.

German policymakers decided that zero hours STC with a 90 percent replacement rate impeded labor reallocation. Workers were waiting for their former jobs to reappear and were interpreting the STC payments as a signal that their former jobs would eventually return. Authorities severely restricted zero hours STC when they realized it was sending an inappropriate signal regarding reemployment prospects at former jobs.

Between the early 1990s and 2007, STC use trended downward in all parts of Germany but with increases occurring during periods of high unemployment (e.g., 2002). Since late 2008, utilization has again increased. The monthly number of STC recipients increased from 49,000 in September 2008 to 270,000 in December 2008. Data from 2009 indicate that more than 1.0 million were participating in STC each month starting in February. Participation in recent months is at levels comparable to participation in earlier recession years like 1975, 1982 and 1983, e.g., between 2.0 and 3.0 percent of the labor force and about 30 percent of open unemployment.

The presence of STC has had macro consequences in the German labor market during the current recession. For several months in 2009 the number on STC was some 1.3–1.5 million. Under a 30 to 40 percent average reduction in weekly hours, these participant totals would be equivalent to an increase of some 0.4–0.6 million persons unemployed had the adjustments been accomplished through layoffs. Reliance upon STC provides much of the explanation for the small increase in German unemployment in 2009 despite large decreases in real output and total hours worked.

Annex B. Short-Time Compensation in the United States

Short-time compensation, also called work sharing, is administered by state unemployment insurance (UI) agencies. Work sharing was first used in California during the late 1970s. In 1982, a temporary national program was enacted and permanent changes to federal laws were made in 1992 that allowed states to adopt short-time compensation programs.¹⁶

At the start of 2009, 19 states had STC programs, mostly adopted during the 1980s. The only adoptions since 1994 were in North Dakota, a temporary program, and this year in New Jersey. The programs have been consistently small in all 19 states. Of 404 annual state-year data points generated by STC states between 1982 and 2008, equivalent weeks claimed exceeded 1.0 percent of weeks claimed under the states' regular UI programs in just 12 instances.¹⁷ Two instances were from Arizona in the early 1980s, a period when a major employer (Motorola) was strongly advocating a no-layoff policy. Six were from Rhode Island, a state where STC usage has been consistently "high" since its adoption in 1991 and averaging 1.17 percent of regular weeks compensated during the first nine years of the present decade. Two were from Vermont in 2001 and 2002 and the remaining two were from Kansas and Texas in 2008.

In some states, the STC program can be described as effectively moribund, with equivalent weeks of less than 0.10 percent of regular weeks for most or nearly all years since the establishment of the program. One of these states (Iowa) paid STC benefits in 2009 for the first time in six years.

One reason for the low utilization of the program is that many companies are unaware of the program's existence and few states advertise STC.¹⁸ Despite the low average use of STC, the program has been very responsive to the business cycle. For instance, beneficiaries under STC increased from 32,498 in 1997 to 111,200 in 2001 before decreasing to 40,238 in 2005.¹⁹

¹⁶ Neil Ridley. "Work Sharing – An Alternative to Layoffs for Tough Times." (Washington, DC, Center for Law and Social Policy), March 26, 2009.

¹⁷ An equivalent week is measured as five days of STC benefits, equivalent to a full week in benefit status.

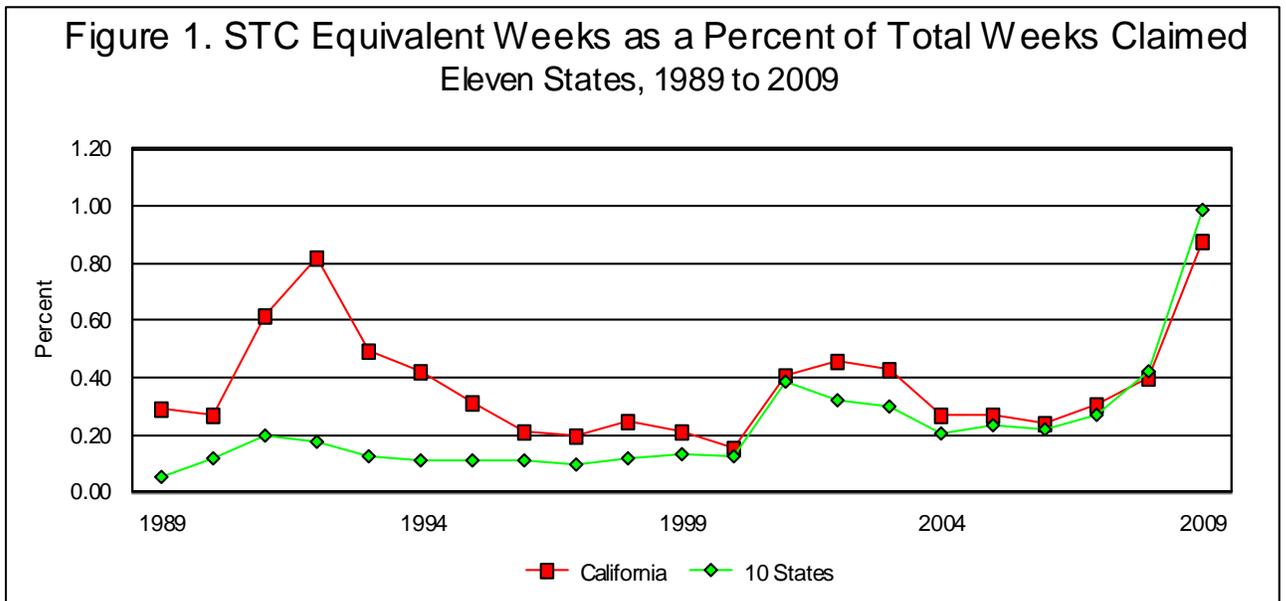
¹⁸ David E. Balducchi. "Work-Sharing May Help Companies Avoid Layoffs." *New York Times* June 16, 2009.

¹⁹ David E. Balducchi and Stephen A. Wander. "Work Sharing Policy." *Publius*. Volume 38, Number 1, Winter 2008, p.16.

Across 11 states with more active programs, equivalent weeks claimed as a percentage of regular weeks claimed have responded noticeably during each of the past three recessions. Between 1990 and 1991 the increase was from 0.17 percent of regular weeks to 0.36 percent while the increase between 2000 and 2001 was from 0.14 percent of regular weeks to 0.40 percent. During 2007 and 2008 the analogous percentages were 0.29 percent and 0.42 percent, respectively. In recessions, STC claims and payouts increase more rapidly than regular UI claims and payouts.

Figure 1 displays annual data showing STC equivalent weeks as a percentage of total weeks claimed in the regular UI programs for the 11 states. The data have been disaggregated to show California separately and the average for the other 10 states. Four things stand out in figure 1: (1) The cyclical responsiveness of STC equivalent weeks is clear. (2) Both percentages increase sharply in 2009.²⁰ (3) For the ten states, a secular uptrend in STC is observed. (4) Most important, note the small scale of STC. The highest percentage across the 42 data points is 0.99 percent. STC is small in the United States.

[[Q: Change to “Figure 1.”]]



Source: Office of Workforce Security, U.S. Department of Labor.

²⁰ The data refer to the first six months of 2009. Equivalent weeks as a ratio to total weeks claimed equaled or exceeded 1.0 percent in nine of 17 states with STC during the first half of 2009.

Because STC usage has been consistently low in the United States, it is instructive to describe the program and suggest reasons for the low usage. Individual states establish STC programs by revising their UI statutes. The UI agencies develop STC application procedures for employers who foresee the need to reduce hours of work and who wish to avoid (or minimize) layoffs. Usually there must be a minimum anticipated reduction in labor input, specified in terms of a threshold number of affected workers or a percentage reduction in hours of work at the plant. This minimum varies from state to state but it is either 10 or 20 percent in most states. There is a maximum allowable reduction with 40 or 50 percent being most common. Approval by the union must be secured if workers are covered by a collective bargaining agreement.

The STC plan indicates how much weekly hours will be reduced, which unit(s) will be affected and the anticipated duration of the need for short hours.²¹ As noted, a common situation is to place employees on a four-day week, reducing work hours by 20 percent. If affected workers are eligible and apply for UI benefits, they receive one-fifth of their weekly UI benefit for the day not at work. Plans allow affected workers to receive STC for a limited period; for example, 26 weeks or 52 weeks within a 52-week benefit year. Benefit payments are deducted from total entitlement for that benefit year. Thus, someone otherwise eligible for 26 weeks of UI benefits would only be eligible for 24 weeks if she or he had already been paid benefits for 10 weeks at one day per week under the STC plan.

Payments of STC benefits are financed in a similar way as regular UI benefits; that is, the payments are charged to the employer's account like other payments for which the employer is liable.²² In the early years of STC programs, there were concerns about inadequate financing of STC benefits, and special STC taxes for participating employers were established. After experiences showed that the costs of STC benefits were quite low, however, these special taxes were largely discontinued. To a first approximation, the tax treatment of STC benefits is similar to other UI benefits under each state's system of experience rating.

²¹ State requirements for STC plans submitted by employers are shown in table 4.6 of the U.S. Labor Department publication "Comparison of State Unemployment Insurance Laws 2009," (Washington, D.C.: Employment and Training Administration, 2009).

²² All programs in the states follow a method of experience rating where higher benefit payouts to current and former employees cause subsequent UI payroll taxes to be higher.

Some other STC benefit provisions should also be noted. Claimants are not required to look for work on days when they receive STC benefits. The one-week waiting period is served just one time for a person on STC. The entitlement to regular UI benefits is reduced to the extent that STC has been paid within an existing benefit year.

Three “facts” about STC in the United States are important. First, as noted above, STC programs have been consistently small in all states with programs. Second, STC payments have exhibited less seasonality than regular UI benefit payments.²³ Third, STC employers continue to make heavy reliance upon layoffs even when STC plans are active. This latter “fact” was reported in both evaluations of STC supported by the U.S. Department of Labor.²⁴ As structured in the United States, STC has been a limited tool for making cyclical workforce adjustments.

Some reasons for low utilization of STC in the United States can be suggested. Eligible workers may be reluctant to use STC because payments reduce the potential entitlement to benefits if they are subsequently laid off. The reduction in the potential entitlement within a given benefit year is a dollar-for-dollar reduction. This offset is not present in most European STC programs or in Canada. These other countries treat a subsequent onset of full-unemployment as new situation with a full entitlement to UC benefits and not affected by recent STC usage. Another contributing reason could be the inconvenience of applying for STC benefits at the UI administrative agency, even though this is now mainly done by telephone or over the internet. Finally, the person may not be aware of eligibility. All these reasons would be moot if the system was extended and simplified so as to allow all workers at an approved site to participate, with the employer making the STC payment through standard payroll compensation procedures.

²³ See table 6 in Wayne Vroman, “Short Time Compensation in the U.S., Germany and Belgium,” The Urban Institute, June 1992. STC seasonality is more pronounced in Germany and Belgium than in the United States.

²⁴ See Chapter VII in Stuart Kerachsky, et.al. “An Evaluation of Short-Time Compensation Programs,” Unemployment Insurance Service Occasional Paper 86-4, (Washington, D.C.: Employment and Training Administration, 1986) and Chapter VI in Berkeley Planning Associates, “Evaluation of Short-Time Compensation Programs: Final Report,” Unemployment Insurance Occasional Paper 97-3, (Washington, D.C.: Employment and Training Administration, 1997).