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Short-Time Compensation and Job Preservation

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Working Paper 6

Unemployment and Recovery Project

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This report was supported by a grant from the Ford Foundation to study unemployment and the Great Recession, Grant Number 1110-0674. Any opinions expressed herein are solely the author's and should not be attributed to the Ford Foundation, the Rockefeller Foundation, the Urban Institute, the Urban Institute's trustees, or other Urban Institute funders.

This working paper is part of the Unemployment and Recovery project, an Urban Institute initiative to assess unemployment's effect on individuals, families, and communities; gauge government policies' effectiveness; and recommend policy changes to boost job creation, improve workers' job prospects, and support out-of-work Americans. Major funding for the project comes from the Rockefeller and Ford Foundations.

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The Evolution of the U.S. Labor Market

Several evolutionary developments in the U.S. labor market over the past four decades have implications for structuring social protection programs for labor market participants. Two developments are particularly noteworthy: the aging of the labor force and changes in the mix of employer-initiated job separations.

The labor force has become older since the 1970s. Between 1974 and 1979, the influx of working-age baby boomers caused the share of the labor force age 16 to 24 to consistently exceed 24 percent. In contrast, since 2000, the 16–24 share has averaged just 15 percent. The average age of the labor force increased from 37 in 1979 to 41 in 2011, by about four years.

Employers increasingly rely on permanent job separations rather than temporary layoffs when they reduce staffing levels. In the recessions of 1970, 1974, 1980, and 1982, higher unemployment was accompanied by an increase in the share of job seekers on temporary layoff. During the three most recent recessions (1991, 2001, and 2007) the temporary layoff share was stable while the share who were permanently separated increased much more than in the four earlier recessions. The numbers unemployed on temporary and permanent layoff in 2010 were 1.43 and 7.82 million, respectively. A regression analysis of unemployment shares for two periods, 1967 to 1989 and 1990 to 2011, indicated that had relationships from the earlier period held during the more recent period, 1.34 million more persons would have been on temporary layoff in 2010 and 1.43 million fewer on permanent layoff. The change in employer termination policies has had a measurable effect on the cyclical mix of unemployment.

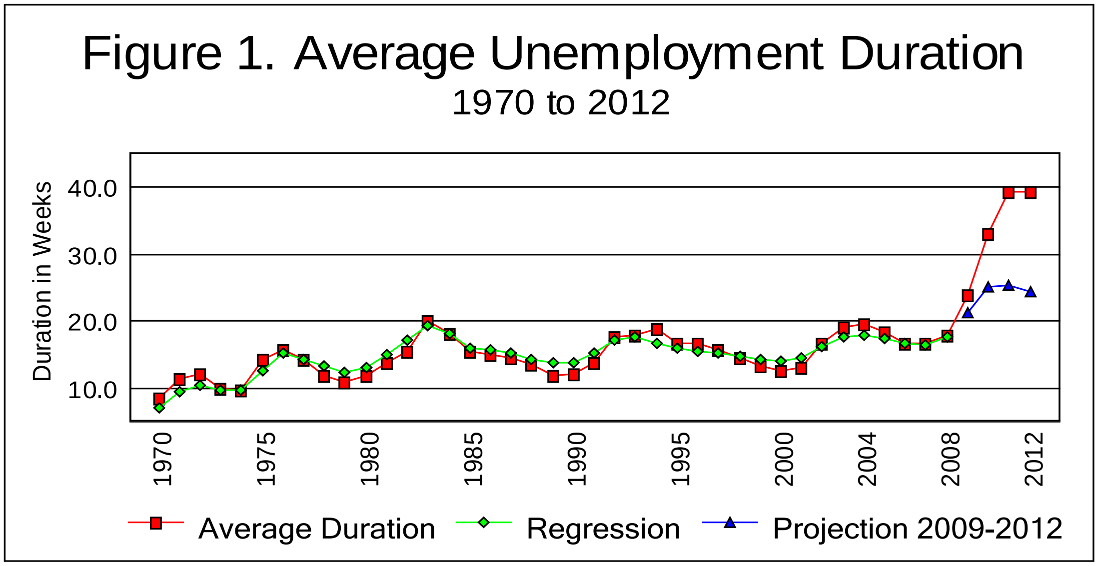
These supply-side and demand-side changes (aging and separation policies, respectively) have been motive forces leading to longer spells of unemployment. Combined with the continuing strong effects of inadequate labor demand, both have contributed to the uniquely long duration of unemployment during 2009–2013. In 2011, for example, the mean duration of unemployment was 39.3 weeks, which partially reflects the older average age of the unemployed (37 years) compared to 1979 (30 years). When the age distribution of unemployment in 1979 was applied to seven age-specific mean durations from 2011 (ages 16–19, 20–24, 25–34, 35–44, 45–54, 55–64, and 65 and older) the calculated mean decreased to 33.9, or 5.4 weeks less than the actual mean.

In a similar vein, the percentage of job losers with unemployment duration of 27 or more weeks in 2011 was 45.2, with underlying percentages of 6.8 and 52.1 for those on temporary layoff and other job losers, respectively. Applying these 27+ percentages to the 1979 distribution across the same two job-loser groups yields a calculated 27+ percentage for all job losers in 2011 of 38.9 percent. This lower percentage for all job losers, in turn, reduces the aggregate 27+ percentage from 43.8 to 40.1. Aging of the labor force and reduced reliance on temporary layoffs have each contributed measurably to lengthening unemployment spells.

The biannual dislocated worker surveys conducted by the U.S. Bureau of Labor Statistics (BLS) have consistently demonstrated the severe consequences of worker displacement. Not only do displaced workers experience frequent and prolonged spells of unemployment, but they also commonly earn lower wages upon reemployment, lose health insurance coverage, and retire early at high rates. The most recent survey, fielded in January 2012, indicated that the 12.9 million workers aged 20 and older displaced during 2009–2011 experienced all of these consequences. For example, 27.5 percent were unemployed in January 2012. Nearly half were long-tenure workers (three or more years at their last employer) and 26.7 percent were unemployed in January 2012. Roughly one in six of the long-tenure group (17.4 percent) was no longer seeking work.

Figure 1 traces unemployment duration as measured in the BLS monthly labor force survey from 1970 to 2012. It displays annual duration and projections from a descriptive regression. Annual unemployment duration was regressed on the unemployment rate (current and lagged one year) and a linear time trend. The regression, fitted for the years 1970 to 2008, explains over 80 percent of the variation in duration for these 39 years; all three explanatory variables make significant positive contributions to explained variation.[1] Both unemployment rates (TURs) are important, with the lagged TUR having the larger effect on average duration.[2]

Two features of the regression results are especially noteworthy. First, the slope on the trend variable implies a per-decade increase in average unemployment duration of 2.3 weeks. This indicates duration would be 9.2 weeks longer in 2010 than in 1970, assuming a constant unemployment rate. Second, although the regression explains 83 percent of the variation in annual duration between 1970 and 2008, it makes increasingly large errors in projecting average duration during the final four years covered by figure 1, 2009 to 2012.[3] Between 1970 and 2008, the annual errors from the regression ranged between -1.9 weeks and +2.0 weeks. The final four errors, so apparent in figure 1, are for 2009, +2.8 weeks; for 2010, +7.8 weeks; for 2011, +14.0 weeks; and for 2012, +15.0 weeks. Controlling for the effects of the current and lagged unemployment rates and the linear trend, actual unemployment duration departs substantially from the regression line during 2009–2012, the years affected by the Great Recession. Average duration during 2011 and 2012 of almost 40 weeks has been about twice the 18–20 weeks maxima reached in the earlier recessionary years 1983, 1984, 1993, 1994, 2003, and 2004.



Source: Annual duration data from the BLS monthly labor force survey.

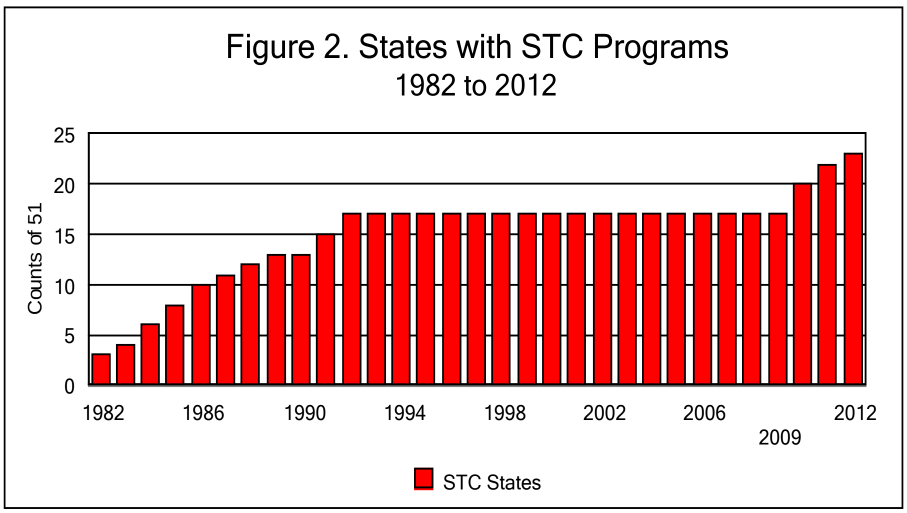
Prevention of Job Separations

The prospect of long unemployment duration in the future and its serious consequences makes it imperative to devise policies that reduce occurrences of unemployment and shorten unemployment duration. Among the policy initiatives that can help improve labor market outcomes are increased formal educational attainment and vocational training, improved labor market information, and enhanced geographic mobility. One policy initiative that has received more attention in recent years has been short-time compensation (STC), also known as work sharing. Unlike some other labor market interventions, STC is viewed favorably by many labor market stakeholders. STC is popular with most workers who have participated, and it has support from representatives of both labor and business. Nearly half the states have STC programs and others have programs under active consideration. Recent federal legislation[4] has provided states with financial incentives to broaden the scope of STC.

Important STC Program Features

Short-time compensation programs provide partial unemployment insurance (UI) benefits to workers placed on reduced work schedules. STC is administered within the regular UI program. If, for example, UI benefits replace up to half of previous weekly wages, an STC participant who normally works 40 hours per week but is placed on a 32-hour schedule would receive 80 percent of full weekly wages and partial UI benefits equalling up to 10 percent of weekly wages. Thus, the reduction in income caused by the reduction in hours worked is offset by partial UI benefits. In this stylized example, the STC participant would receive home pay equalling up to 90 percent of full weekly wages.

In 2012, 23 states had active, though generally small, STC programs.[5] Figure 2 shows the number of active state programs each year from 1982 to 2012. While six states introduced STC programs during 2010–2012, the other 17 states have had STC for at least 20 years. Before 2009, the count was stable for nearly 20 years at 17 states. These states' experiences with STC span three recessions.



Source: U.S. Department of Labor (2012), "Comparison of State Unemployment Insurance Laws," various issues.

STC is established by legislation as part of a state's unemployment insurance law. Employers initiate company STC plans when they file an application with the state UI agency. To be eligible to participate in STC, the employer must be experience rated and not delinquent in paying UI taxes, and must explain the reason for needing to reduce employee hours. Plans are often approved within one or two weeks.

In the past, STC plans needed to conform to several state requirements: a minimum percentage reduction in hours at the affected work unit, plan duration, the minimum and maximum reduction in hours for affected workers, and the maximum number of weeks STC benefits could be paid.[6] Plans generally lasted for 26 or 52 weeks and the maximum payable duration was usually 26 or 52 weeks. For affected workers, the reduction in hours has been bounded between a minimum (10 or 20 percent in all states) and a maximum (40 or 50 percent in nearly all states). Plans also had to specify the treatment of fringe benefits (usually either full maintenance or reduced by the proportionate reduction in hours worked). If workers were unionized, the plan usually needed approval from the collective bargaining unit.

Brusentsev and Vroman (2012) describe STC features linked to standard UI provisions. One is that participants' benefit payments count against experience-rated UI taxes paid by the employer. Since the employer initiates the reduction in hours, STC payments are experience rated in the same way as UI benefits. When claimants collect STC, the payments count against their maximum potential payment for the benefit year (the 12-month period for which current UI eligibility applies) in the same way as UI benefits for full weeks compensated.

California established the first STC program in 1978 following the enactment of Proposition 13, a 1977 tax limitation measure. Arizona, Oregon, Washington, and Florida established programs during 1982–1983 (Morand 1990, 350). By 1989, 13 states had programs and the number increased to 17 by 1992. A statistical analysis of STC in the 17 states with programs before 2010 measured adoption as a 0/1 categorical variable (where 1 identifies a state with STC). Two factors were found to be statistically significant: the state's political ideology and the presence of manufacturing plants operated by Motorola.[7] States with more liberal political ideologies were more likely to adopt STC, as were states with Motorola plants in the 1980s.[8]

The STC reporting system generates monthly data that can be compared with regular state UI data. Initial claims, first payments, weeks claimed, weeks compensated, exhaustion rates, and total benefit payments are routinely reported, as are equivalent initial claims and equivalent weeks claimed. These two series convert STC claims to equivalent full-time weeks; that is, a week claimed by five persons working under a 20 percent reduction in weekly hours would represent one equivalent week claimed. Under certain assumptions, equivalent initial claims and equivalent weeks claimed show the number of layoffs and weeks of full unemployment avoided by the use of STC.

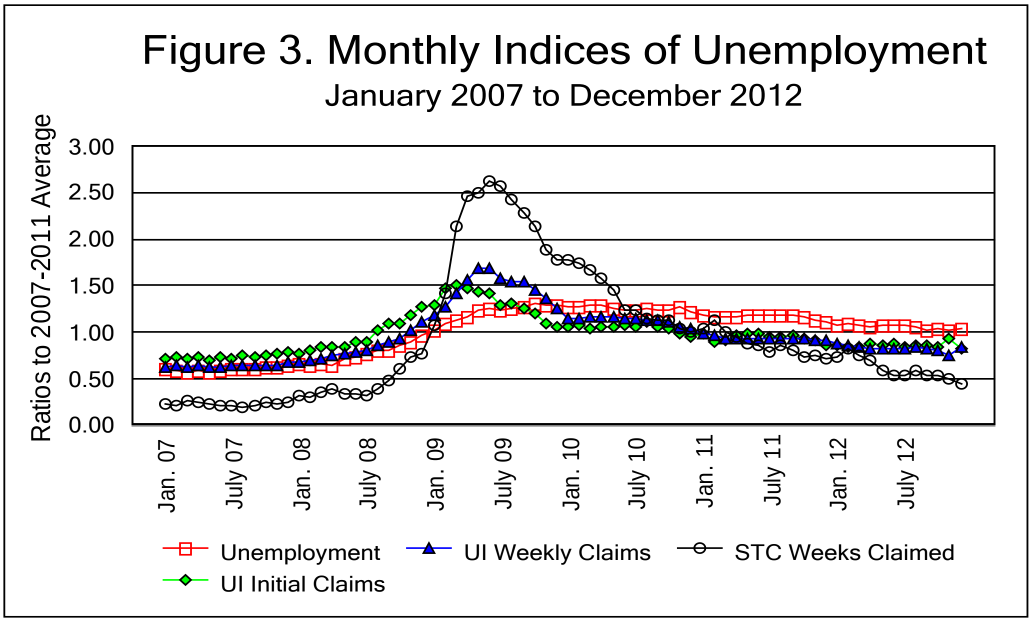
A related paper (Vroman 2012) conducted a regression analysis of STC use between 1989 and 2011 in the 17 states with long-standing STC programs. The dependent variable, annual equivalent weeks claimed as a percentage of state unemployment, was examined using three explanatory variables: (1) the current year's TUR, (2) the TUR lagged one year, and (3) a linear trend. A remarkably consistent set of results was obtained across the 17 states. The current TUR had a positive and significant coefficient in all 17 states, indicating that when unemployment increases, use of STC increases more rapidly than the increase in unemployment. The TUR lagged one year consistently had a negative coefficient, implying that use decreased in a second year of high unemployment even if unemployment continued to increase. The trends in STC use were generally small but more were positive (12) than negative (5). Across the 17 states, STC use increased sharply at the start of recessions.

Figure 3 displays national monthly data on STC use during and after the Great Recession. All series span the 72 months between January 2007 and December 2012. Besides STC weeks claimed, figure 3 also shows national monthly data on total unemployment, UI initial claims and UI weeks claimed for regular UI benefits. All four series in figure 3 are indexed to 1.000 for the 60 months between January 2007 and December 2011. Each entry then shows that month's data as a ratio to its 60-month average.

First, and most dramatic, note the extreme cyclical sensitivity of STC use: the maximum STC index reaches 2.630 in June 2009, much higher than the maxima for the other three series. The lows for STC were much lower than for the other series. During 2007, the STC index averages 0.225, while during the 12 months of 2012, it averages 0.605. Second, the use of STC was highest during the early stages of the Great Recession. Thus, the monthly STC indices were higher in 2009 than in 2010, even though monthly unemployment was actually higher in 2010 than in 2009. Third, STC use varies much more over the business cycle than unemployment or UI claims. Fourth, note the months when the other series reached reach their maxima: UI initial claims in March 2009 (the same month as STC initial claims), UI weekly claims in June 2009 (the same as STC), and total unemployment in October 2009.

This sequencing illustrates the role of UI initial claims as a leading indicator of economic activity. During the Great Recession, regular UI initial claims and STC initial claims both peaked seven months before unemployment peaked. Finally, figure 3 provides a visual summary consistent with the regression results described previously. When unemployment increases, STC claims increase much more than overall unemployment but then fall back much more rapidly than unemployment, even when unemployment remains high.

While STC exhibits a strong cyclical pattern, it is small when compared with other labor market series. During 2009, the year of highest use, STC equivalent weeks claimed in the 17 states with long-standing STC programs were 1.45 million, or 1.00 percent of regular weeks claimed and 0.37 percent of total unemployment weeks. The next section examines selected international experiences with STC and discusses STC programs in four other Organisation for Economic Cooperation and Development (OECD) economies. Examining comparative data helps to emphasize the small scale of STC in the United States.



Source: Unemployment from BLS. UI initial claims, UI weeks claimed, and STC weeks claimed from the Office of Unemployment Insurance. Data are seasonally adjusted.

A Comparison with STC in Other Countries

Most member countries of the OECD have an STC program. Of the 30 countries that were OECD members prior to the onset of the Great Recession, 24 offered STC during 2010. The programs in individual OECD countries are highly diverse as to scale and detailed program provisions. Summaries of STC provisions are given in tables 1 and 2 in Hijzen and Venn (2010). They show the minimum and maximum range of permissible reductions from normal work schedules, along with eligibility requirements (employers' reasons for applying, need for a social partner's agreement, and participant worker eligibility for UI benefits) and possible conditionality requirements (mandatory participation in training, submission of a recovery plan, no dismissal guarantee, and job search requirements for participants). Along all these dimensions the STC programs in individual countries exhibit wide diversity.

Analysis by OECD staff (Hijzen and Martin 2012; Hijzen and Venn 2010) and others (Boeri and Bruecker 2011; Burda and Hunt 2011) have found that STC helped stabilize employment during the Great Recession. In countries like Germany, Japan, and Italy with large STC programs, the use of STC increased the share of the reduction in hours worked to be concentrated in weekly hours and reduced employment reductions. Estimates developed by Burda and Hunt (2011) and Boeri and Bruecker (2011) both concluded that in Germany, STC increased employment by 250,000–400,000 in 2009, a year when an average 1.14 million workers participated in STC.

Table 1 provides summary details on STC programs in five countries: the United States, Canada, Belgium, Germany, and Italy. Canada is an English-speaking country with many similarities to the United States. Belgium, Germany, and Italy have had STC for decades and operate large-scale programs. The two panels in table 1 respectively summarize long-standing statutory provisions and program adjustments undertaken because of the Great Recession.

All five countries administer STC within the same agency that administers the standard UI program. The United States, however, is the only country that operates a state-level as opposed to a national STC program. Union approval of plans is required in all five countries, and all have explicit requirements for STC participants to maintain their fringe benefits.

The remaining lines in table 1's top panel illustrate some differences between the U.S. programs vis-a-vis the other countries'. The United States experience rates STC payments; these payments reduce the remaining entitlement within the benefit year workers start to collect STC. The other countries, in effect, continue to treat the worker as employed. Hence, if a spell on STC is followed by a layoff, the entitlement to UI benefits is not reduced by the prior receipt of STC. This nonreduction may affect participation in STC, whereby U.S. workers may decide not to collect STC in anticipation of a potential near-term layoff. Also likely to increase worker participation is the administration of STC payments by the employer in both Germany and Italy. The administrative agency then reimburses the employer for STC payments.

The bottom two lines in the top panel identify other adjustments that help preserve employment. Both Belgium and Germany have working-time accounts, a form of deferred compensation. Working-time accounts are owned by individual workers and accumulate when hours worked exceed standard hours. Rather than receiving overtime payments, the added earnings are deposited into these accounts and are available later, should work hours be reduced below standard hours. About half of German workers have these accounts and during the Great Recession, account withdrawals may have saved up to 300,000 jobs in 2009 (Boeri and Bruecker 2011). German employers also encouraged workers to use vacations during the Great Recession, another way to help maintain total employment.

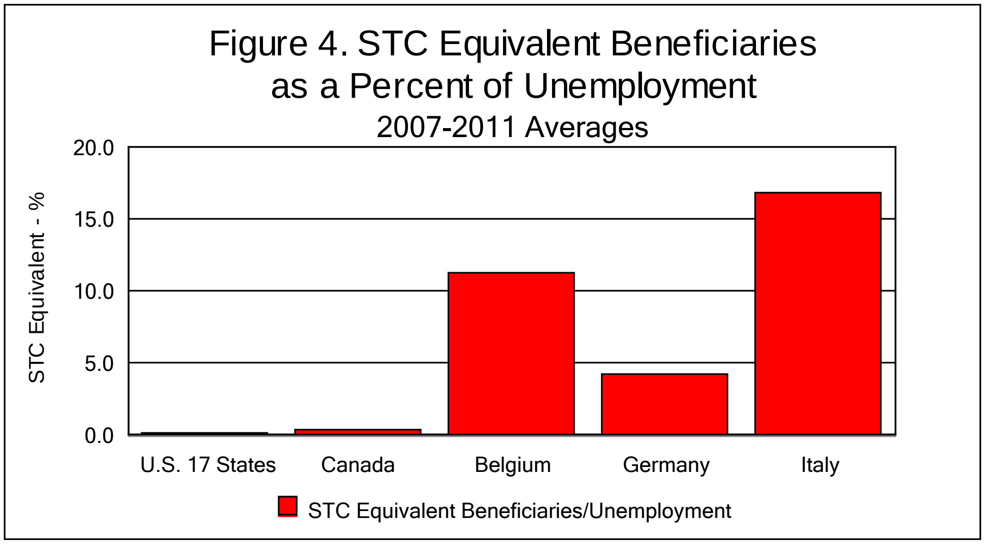
Table 1. Comparison of STC Programs in Five Countries

	United States	Canada	Belgium	Germany	Italy
	Statutory provisions				
National program?	**No**	Yes	Yes	Yes	Yes
Plans need union approval?	Yes	Yes	Yes	Yes	Yes
Fringe benefits maintained?	Yes	Yes	Yes	Yes	Yes
STC benefits reduce regular benefits?	**Yes**	No	No	No	No
Employer administers payments?	No	No	No	Yes	Yes
STC experience rated?	**Yes**	No	No	No	No
Working-time accounts?	No	No	Yes	Yes	No
Restrict overtime, encourage vacations?	No	No	No	Yes	Yes
	Adjustments during the Great Recession				
Simplified plan applications?	No	Yes	No	Yes	No
Increased maximum duration?	No	Yes	Yes	Yes	Yes
Expanded STC scope?	No	Yes	Yes	Yes	Yes
Advertised STC program?	No	Yes	Yes	Yes	Yes

Sources: Information from Hijzen and Venn (2010), Boeri and Bruecker (2011), and country sources.

Because the Great Recession was so serious, the other countries in table 1 modified their programs to support participants. Application requirements were eased in both Canada and Germany. All four foreign countries temporarily extended plan durations and increased advertising about STC. Belgium expanded the scope of STC by extending coverage to white collar workers. Germany and Italy allowed smaller firms to participate. These changes helped stabilize employment, particularly in 2009.

One important difference between the United States and foreign STC programs is their scale. Figure 4 illustrate the contrast across the five countries. The figure displays the five-year averages of STC-equivalent beneficiaries as a percentage of unemployment. For the United States, this percentage refers to unemployment in the 17 states with long-standing STC programs. STC beneficiaries were 0.2 percent of unemployed workers, compared to 0.4 percent in Canada, 4.1 percent in Germany, 11.3 percent in Belgium, and 16.9 percent in Italy. The United States to date has operated a very small STC program.



Source: Data developed by author using country sources.

The Small Scale of STC in the United States

Viewed from a cross-country perspective as in figure 4, STC in the United States is a small-scale program. Across the 17 states with long-standing programs, however, measurable contrasts in program scale are observed as summarized in table 2. The table displays four measures of STC scale: two columns compare STC-equivalent weeks with weekly claims for regular UI benefits (columns 1 and 2) and two compare equivalent STC weeks with statewide unemployment (columns 3 and 4). Each comparison was made using both the five-year average during 2007–2011 and the maximum STC percentage for 1989–2011.

Table 2. Scale of STC Equivalent Weekly Claims in 17 States with Long-Standing Programs

Percentages	Equivalent weekly STC/ weekly UI 2007–2011 (1)	Max equivalent weekly STC/ weekly UI 1989–2011 (2)	Equivalent weekly STC/ unemployment 2007–2011 (3)	Max equivalent weekly STC/ unemployment 1989–2011 (4)
Below 0.25	3	2	11	4
0.25–0.499	5	1	4	6
0.50–0.749	3	1	1	3
0.75–0.999	3	2	1	2
1.00–1.499	1	5	0	1
1.50–1.999	1	4	0	1
2.00–2.999	1	0	0	0
3.00 and up	0	2	0	0
17-state avg.	0.610	1.020	0.193	0.373

Sources: Measures developed from the UI Handbook, ETA 5159 STC monthly reports, and BLS estimates of state unemployment. The averages for 1989–2011 are based on fewer than 23 years for Connecticut, Iowa, Minnesota, and Rhode Island, which started paying STC benefits one or two years after 1989.

Note the predominance of low percentages in table 2. During 2007–2011, equivalent STC weeks averaged less than 1.0 percent of weekly UI claims in 14 of the 17 states (column 1) with higher averages recorded only in Texas, Kansas, and Rhode Island. Kansas and Rhode Island were the only states where equivalent STC weeks exceeded 0.50 percent of state unemployment (column 3). While the percentages for the year of maximum STC scale were higher, just two exceeded 3.0 percent relative to weekly claims (column 2) and just two exceeded 1.0 percent of state unemployment (column 4). The maximum equivalent STC percentages summarized in columns 2 and 4 were heavily concentrated in 2009 (i.e., 13 and 16, respectively, in the two columns).

Across all four distributions summarized in table 2, Rhode Island consistently ranked first while Kansas and Vermont were consistently second and third among the 17 states. For other states wishing to operate large STC programs, administrative practices in these three states merit close attention. At least three practices seem key to raising STC participation. First, UI agency leaders believe strongly in the advantages of STC and actively promote the program with state employers. Promotion activities include advertisements in the media, website postings, and on-site visits to plants contemplating mass layoffs. Employers are encouraged to consider reducing weekly hours in preference to making layoffs. They also inform employers about other state services, such as worker training programs, which can be financed with public resources. Second, employers with successful STC experiences are willing to publicly endorse the program and its advantages, such as the savings on training costs due to improved worker retention rates. Testimonials from other employers may speak to prospective STC employers more effectively than information provided by the UI agency. Third, word-of-mouth dissemination from one employer to another is thought to be important, but this has not been confirmed by surveys or other means. Employers' and workers' consistently high participation in these three states signals a strong commitment to STC.

The February 2012 Federal STC Legislation

Senator Jack Reed of Rhode Island has demonstrated a strong interest in fostering STC use. He, along with Senators Richard Durbin and Sherrod Brown, introduced STC legislation in both 2010 and 2011.[9] Most STC provisions from their bill were included in the Middle Class Tax Relief and Job Creation Act of February 2012. This legislation includes three STC provisions: (1) temporary federal financing of STC benefits, (2) grants to states for STC-related purposes, and (3) increased federal responsibilities for promoting STC.

The temporary federal financing can reward not only states with existing STC programs, but also states that establish new STC programs. For states with existing programs that meet a federal definition of STC, the federal partner can pay 100 percent of STC benefit costs for up to three years. States that introduce new STC programs with appropriate provisions can have half their STC benefit costs financed by the federal partner for up to 30 months. Even in states that do not establish STC, employers can pay STC and have the federal government finance half of the benefit costs for two years. These are strong financial incentives to encourage the adoption and use of STC.

The legislation also authorizes grants[10] to states for two STC-related activities: (1) implementing newly established programs and improving the administration of existing programs, and (2) promoting increased enrollment of employers in STC. The bill sets aside $100 million, with one-third and two-thirds, respectively, for the two activities. Each state's share of the $100 million is determined by its share of federal UI taxable payroll.

The third set of provisions specifies areas of increased federal responsibility for promoting STC. The law gives a 10-part statutory definition of STC, which states with existing programs must satisfy to receive three years of reimbursement for benefit payments.[11] The new definition updates a definition of STC promulgated 25 years ago. Permissible reductions in weekly hours are between 10 and 60 percent of normal weekly hours. Employer-provided health and retirement benefits are to be fully maintained for STC recipients. In their plan submissions, employers must estimate the number of layoffs avoided due to STC.

The federal government provides states with guidance and technical assistance for establishing and administering STC. Requirements for reporting STC activities have been expanded somewhat. Most important is a new requirement to report monthly the number of employers operating STC plans.

Note that the financial inducements in the February 2012 legislation extend not only to states with existing STC programs and states that establish new programs, but also to employers in states that do not have a permanent STC law. The payments represent a reward for past and current state actions in establishing STC. Also, they partially reimburse STC benefit costs in states that do not establish permanent STC programs but do have an agreement with the U.S. Department of Labor to allow STC payment in a manner consistent with the new federal law. To the extent that financial incentives motivate state and employer decisions, this legislation provides strong rewards for offering STC. The law also rewards states for effective outreach to the employer community. Technical assistance from the federal partner will also help states in administering STC.

Other Suggestions to Expand STC Use

In addition to the detailed provisions of the February 2012 legislation, at least four other actions can increase the scope of STC. Some can be accomplished within current statutes while others require additional federal legislation.

1. Disseminate information about STC and its advantages to employers and workers. Three channels of information dissemination are obvious: (1) advertise in the media and on agency websites, especially in the early stages of a recession; (2) include information about STC in UI tax notices to employers; and (3) provide information to employers and workers during mass layoffs. When Rhode Island, the state with the largest STC program relative to its labor market, learns of an impending mass layoff, the Department of Labor and Training aggressively tries to save jobs by visiting the plant site and informing employers and workers about STC and other available support services. Employer testimonials add to the effectiveness of Rhode Island's program.

2. Ensure that STC plans are easy to implement, especially at the early stages of a downturn. At present, employers are required to submit STC plans to the UI agency and receive approval before starting STC payments. An alternative approach, presently followed in Germany, would let the employer initiate an STC plan and commence it immediately, administering payments through the employer's existing payroll system.[12] At the same time, the employer informs the UI agency of starting the plan. Agency oversight could be accomplished by randomly auditing plans. Alternatively, the UI agency could establish fast-track procedures during recessions to simplify and expedite STC plan applications and approvals. Canada expedited procedures to facilitate plan start-ups in 2009 and 2010.

3. Modify the financing of STC benefits. One approach would be to treat the payment of STC benefits as a category of noncharged benefit in the experience-rated UI system. In effect, the cost of STC benefits would be spread to all covered employers, rather than assigned to STC employers. While total STC benefits might be modest relative to total UI benefits, non-STC employers would likely oppose this suggestion because their noncharges would increase. Alternatively, the federal partner could assume full responsibility for financing STC benefits.[13] Both approaches would reward STC employers for maintaining employment and reducing layoffs. This would help reduce permanent job separations and the attendant problems BLS displaced worker surveys find to be caused by worker dislocation. If some STC participants were subsequently severed, the later payments for full unemployment would be treated the same as other charged benefits assigned to the employers who initiate layoffs.

4. Provide a different treatment of STC benefit payments from regular UI benefits in charging against the worker's maximum benefit amount, or MBA. The MBA is the maximum entitlement to UI benefit payments available to a worker during a 12-month benefit year. As people receive weekly UI benefits, the remaining balance in their MBAs decreases. For many, the entitlement lasts for 26 weeks, after which they have exhausted benefits.

Currently, STC payments reduce the remaining balance in the MBA in the same way as the payment of full weekly benefits, just at a slower weekly rate. This current treatment of STC benefits occurs even though STC recipients are employed while receiving STC payments. Worker participation in STC would be encouraged if STC payments did not reduce the remaining MBA balance. Claimants would not face uncertainty about potential future benefits for full unemployment because the MBA would be undiminished by the receipt of STC. Recall that the United States is the only one of the five countries examined in table 1 where the entitlement to UI benefits for full weeks of unemployment is reduced by the receipt of STC benefits.[14] This suggestion would effectively change the current treatment of STC recipients from being partially unemployed to being employed. Should they become fully unemployed later (after receiving STC) they would have access to an undiminished MBA.

The latter two suggestions to enlarge STC could not be implemented under present UI statutory and administrative arrangements. The appetite for additional federal STC legislation in 2013 or 2014 is certainly in question, but federal conformity requirements would have to be revised to permit a change in practices related to experience rating and treatment of the MBA. For both suggestions, however, implementation could lead to wider STC use than under current UI statutes. Wider use would also be anticipated if the federal partner in the federal-state UI system assumed full responsibility for financing STC benefit payments.

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Notes

1 Avg. Dur. = 0.07 + 0.66*TUR + 1.00*TURLag + 0.23*Trend

(0.1) (2.7) (4.6) (12.1)

Adjusted R^2= 0.83 Standard error = 1.22 Data period 1970 to 2008

Avg. Dur. is average unemployment duration. TUR is the unemployment rate (current and lagged) and Trend =1 in 1970, 2 in 1971, etc. Beneath each slope coefficient is the absolute value of its *t* ratio (significant if 2.0 or larger).

2 TUR is common usage in reference to the unemployment rate. It is shorthand for total unemployment rate, the number unemployed in the state as a percentage of the state's labor force.

3 A comprehensive explanation for the increase is not addressed in this paper. Two factors previously discussed are undoubtedly the aging of the labor force and decreased employer reliance on temporary layoffs.

4 The Middle Class Tax Relief and Job Creation Act of February 2012 (PL 112-96).

5 Louisiana also authorizes STC but has not paid any STC benefits for nearly two decades.

6 The Middle Class Tax Relief and Job Creation Act provides a 10-part definition that state UI programs must meet to be allowed STC programs.

7 In the early 1980s Motorola was a major proponent of STC. It actively promoted STC use through changes in state UI laws intended to encourage its adoption by employers.

8 Details of the regression are available from the author.

9 For example, S.386.IS Unemployment Insurance Solvency Act of 2011.

10 The details of the grant process are given in Unemployment Insurance Program Letter 27-12.

11 The conformity requirements of the new law are described in Unemployment Insurance Program Letter 22-12.

12 The plan would have to conform to the requirements of the STC statute. In unionized workplaces, the agreement of the union would have to be secured by the employer.

13 As noted above, the Middle Class Tax Relief and Job Creation Act provided for temporary federal financing of STC.

14 The uncertainty caused by charging STC benefits against the MBA may help explain the low participation rate of STC eligibles in the United States. See Berkeley Planning Associates (1997) for one analysis of STC take-up rates.

About the Author

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