Discussion:
Short-Time Compensation in the U.S. and California from 2000 to 2022,
by Rodriguez, Segal and von Wachter

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Labor Markets During and After the Pandemic
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Paper examines use of short-time compensation (STC) during pandemic recession

• STC can be a valuable tool for preserving worker-firm relationships in the event of a temporary reduction in demand

• Despite efforts to promote it, take-up of STC has remained very low in the United States compared to other countries
  – Partial UI and temporary layoffs offer alternatives to U.S. employers

• In data for California, outcomes during pandemic more favorable for STC recipients than for either partial or full UI recipients
  – Smaller earnings losses
  – More stable employment
  – Results are descriptive, not causal
Will discuss three topics

1) STC as an alternative to layoffs

2) Why STC take-up has remained so low in the United States

3) Whether partial UI could be redesigned to better substitute for STC
STC as an alternative to layoffs
STC versus layoffs

• Under STC, workers whose hours are reduced can receive pro-rated unemployment insurance payments
  – Example: Instead of laying off 20% of its workforce, a firm could cut all workers’ hours by 20%. Workers would receive 80% of their wages and 20% of their full unemployment benefit.

• STC attractive for responding to a temporary downturn in demand
  – Can mitigate increase in unemployment
    • Reduces search congestion in the labor market
    • Avoids potential long run scarring effects of unemployment
  – Allows businesses to retain valued employees with firm-specific capital, avoiding recruiting and training costs when business picks back up

• Less well suited for addressing a permanent reduction in demand
  – May slow reallocation to more productive firms
Evidence on how STC affects outcomes of interest

• One strand of literature has used *cross-state or cross-country comparisons* to assess effects of STC on employment
  – Employment changes account for less of the cyclical adjustment in overall hours in countries with STC programs (Abraham and Houseman 1993, 1994, 1995; Van Audenrode 1994)
  – Employment changes accounted for less of the adjustment in overall manufacturing hours in states with STC programs during the Great Recession (Abraham and Houseman 2014)
  – Overall employment falls less during cyclical downturns in countries that use STC more extensively (Boeri and Bruecker 2011; Cahuc and Carcillo 2011; Hijzen and Venn 2011; Hizjen and Martin 2013; Giuponni, Landais and Lapeyre 2022)

• Institutional context is likely to matter
Figure 4
Short-Time Work Usage and Non-Employment During the COVID Crisis: Cross-Country Evidence

Source: Giupponi, Landais and Lapeyre, “Should We Insure Workers or Jobs During Recessions,” Journal of Economic Perspectives, 2022.
Evidence on how STC affects outcomes of interest (continued)

• Challenge for *firm-level* analysis: Firms that use STC may differ from firms that do not
  – Matching on observed characteristics unlikely to fully capture all relevant differences
  – Most convincing firm-level studies have exploited plausibly exogenous variation in access to STC related to regional variation in plan approval rates (Kopp and Siegenthaler 2021; Cahuc, Kramarz and Nevoux 2021) or differences in eligibility by firm size and industry (Giupponi and Landais 2020)

• Results from well-identified studies support view that
  – STC reduces size of employment declines at firms hit by large negative shocks
  – Extended STC may slow reallocation to more productive firms, but effect is small
Why has STC take-up remained so low in the United States?
Federal legislation during past two recessions has actively promoted STC ...

• Middle Class Tax Relief and Job Creation Act of 2012 (February 2012)
  – Full federal reimbursement for benefits under approved state plans for up to three years through August 2015
  – $100 million in Federal funding for program administration and employer outreach
  – Timing not ideal; by time law passed, recovery already underway for more than two years

• CARES Act (March 2020, later extended)
  – Full federal reimbursement for benefits under approved state plans through December 31, 2020; extended through September 6, 2021
  – $100 million in Federal funding for program administration and employer outreach
  – CARES Act STC provisions should have had larger effects than 2012 legislation
    • Enacted early in pandemic
    • Department of Labor clarified that recalled workers could be put on STC
    • STC recipients eligible for Federal Pandemic Unemployment Compensation payments of $600/week from March 27, 2020 through July 31, 2020 and later payments of $300/week from December 27, 2020 through September 6, 2021
... but take-up has remained low

Panel B: Monthly Initial Claims for Short-Time Compensation as a Share of All UI Initial Claims

Figure 1: Nationwide Initial Claims for Short-Time Compensation from 2000-2022

Rodriguez, Segal and von Wachter
Why has STC take-up not been larger?

• Paper suggests some explanations
  – Lack of information
    • RCTs in Iowa and Oregon found that informational mailings and other advertising efforts raised employer awareness and, in Oregon, subsequent STC use (Houseman et al 2017)
  – Administrative barriers
    • Cumbersome application and weekly reporting interface
    • Rules that can preclude participation (e.g., employers with negative UI account balances)
    • Complications for multistate employers caused by different rules in different states
    • Limits on permissible hours reductions (no more than 60% under Federal law and less in many states)

• Other factors not emphasized in paper also likely important
  – Role of local champions for STC program
  – Ease of layoffs as an alternative
  – Requirement to maintain benefits
Having a local champion is important

• In states where STC has been used most heavily, often can point to a local champion
  – Rhode Island during the Great Recession: Ray Filippone, Director of UI (since retired)
  – Oregon during the pandemic recession: David Gerstenfeld, UI Division Administrator until June 2020, then Acting Director, Employment Department
  – Michigan during the pandemic recession: Governor Gretchen Whitmer

• Conversely, ambivalence of state personnel charged with administering STC program may discourage use
  – In one state with a low-take-up STC program, the standard email sent to employers who inquired about used to begin by saying “Your account will be charged for the benefits paid for your participation in the Voluntary Shared Work program. This may increase your unemployment insurance tax rate significantly.” (bold in original); wording clearly reflected staff reservations
Low barriers to layoffs for U.S. employers

- In other countries, layoffs typically subject to significant notification and/or severance pay requirements
  - Negotiations with unions or works councils also may be required

- U.S. employers face few restrictions on layoffs
  - WARN Act requires 60 days notice for plant closings and mass layoffs at firms with 100 or more full-time employees
    - Threshold for triggering WARN requirements: 50 or more employees representing at least a third of employment at affected site or 500 or more employees
  - Requirements do not apply if 1) giving notice would undermine a firm’s efforts to obtain new capital to stay in business; 2) layoff due to unforeseen circumstances; or 3) layoff due to a natural disaster
  - If layoff originally temporary and later becomes permanent, WARN Act requirements apply only once it is clear employees will not be recalled
  - WARN Act contains no severance pay requirement.
Job protection and short-time work take-up rates

Source: Based on [1]; Figure 7.

Requirement to maintain health insurance may make STC less attractive to U.S. employers

• U.S. health care costs are high
  – Average annual U.S. employer-provided health insurance premiums in 2022 $7,911 (individual) and $22,463 (family)
  – Average employer shares 83% ($6,584) and 72% ($16,357)

• Health care costs generally lower in other countries and not necessarily financed by employer contributions that must be continued during STC
  – United Kingdom: National health insurance financed through general tax revenues
  – Switzerland: Mandatory health insurance purchased by individuals, not employers
  – Germany: Health insurance costs lower than in the United States; requirement that employers continue social insurance contributions for workers on STC waived during both Great Recession and pandemic recession
Could partial UI be redesigned to be a better substitute for STC?
Partial UI and STC structured very differently

**Partial UI**

- Benefits payable only if earnings below a threshold, most commonly the weekly full benefit amount
- Benefit amount reduced with earnings less a disregarded amount
- Worker may or may not remain attached to original employer
- Any worker whose earnings low enough to qualify for partial UI may apply

**STC**

- Benefits payable if hours reduced 10 to 60 percent (band narrower in many states)
- Benefit amount proportional to reduction in hours
- Worker must remain attached to original employer
- Employer must apply to set up a STC plan and satisfy program requirements
Maine partial UI and STC programs

- **WBA**: 1/22 of average of 2 high quarters, to maximum of $462
- **Partial UI benefit**: Qualify if gross earnings less than WBA plus $5; benefit calculated disregarding $100
- **STC benefit**: Pro-rated for hours reductions of 10% to 50%
Illinois partial UI and STC programs

- **WBA**: 47% times $1/26$ of 2 high quarters, to maximum of $505$
- **Partial UI benefit**: Qualify if gross earnings less than WBA; benefit calculated disregarding $\frac{1}{2}$ of WBA
- **STC benefit**: Pro-rated for hours reductions of 20% to 50%
California partial UI and STC programs

- **WBA**: $1/26$ of high quarter earnings, to maximum of $450
- **Partial UI benefit**: Qualify if earnings less than $1.25 \times \text{WBA}$; benefit calculated disregarding $25$ or $25\%$ of earnings
- **STC benefit**: Pro-rated for hours reductions of $10\%$ to $60\%
Partial UI formulas could be made more generous

• Relevant parameters are 1) maximum WBA, 2) earnings eligibility threshold for partial UI, and 3) amount of earnings disregarded in calculating partial UI benefits.

• Consider the following option:
  – Set WBA equal to \( \frac{1}{2} \) average weekly earnings (e.g., \( \frac{1}{26} \) high quarter earnings) up to maximum WBA (e.g., $500)
  – Set earnings eligibility threshold for partial UI as a multiple of the WBA rather than an absolute amount (e.g. up to 2X WBA)
  – Express earnings disregard as a percent of earnings rather than as a fixed amount or percent of WBA (e.g. \( \frac{1}{2} \) of earnings)

• With these parameters, if average weekly earnings below 2X maximum WBA, partial UI benefits look just like STC benefits
  – Partial UI benefits in Montana (and until recently in Vermont) have looked a lot like this
Hypothetical partial UI and STC programs

- **WBA**: \(\frac{1}{2}\) of weekly earnings to maximum benefit of $500
- **Partial UI benefit**: Qualify if earnings less than 2X WBA; calculated disregarding half of earnings
- **STC benefit**: Pro-rated for hours reductions of 10% to 60%
Two possible paths forward for better supporting workers on reduced hours during downturns?

• Continue efforts to encourage employers to make use of STC
  – Do more to market program
  – Streamline administrative processes
  – Offer subsidies during economic downturns
    → Would not give up, but efforts not especially successful to date

• Make partial UI more accessible
  – Set earnings threshold for eligibility higher
  – Set disregard as a fraction of earnings rather than a fraction of the WBA or a fixed amount
    → If employers know workers can get partial benefits, even those not open to STC may be more inclined to see adjusting through hours as an option
  → Moral hazard a concern; could vary parameters depending on economic conditions (more generous during recessions)
Paper raises interesting issues about how UI is structured

• Existing system provides insurance against the effects of economic downturns in different forms
  – In 27 states, STC for workers on reduced hours
  – Partial UI for (a somewhat different set of) workers on reduced hours
  – Fill UI for workers on layoff

• Important to consider how these three approaches interact with and complement one another
THANK YOU!

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References


References (continued)


References (continued)


