Saving Jobs Through Work Sharing

✓ Work sharing, or short-time compensation (STC), is a work arrangement that spreads reductions in work hours among employees in an effort to eliminate or alleviate the need for layoffs during economic downturns.

✓ STC/work sharing keeps employees on the job, working fewer hours but continuing to earn wages and collecting prorated unemployment insurance benefits; health coverage may also be maintained.

✓ When the economy improves, employers can quickly increase work hours, thus avoiding the costly need to search for and train new employees.

More than 14.6 million Americans were unemployed in June 2010, an increase of 90 percent since the start of the recession in December 2007. These unemployed workers had been out of work for an average of 32.8 weeks, up from 16.4 weeks in December 2007. Forty-three percent were what is known as long-term unemployed; that is, they had been out of work for 27 or more weeks.

To help these jobseekers, who were having an increasingly difficult time finding work, Congress has several times extended the duration of unemployment benefits. Nonetheless, many have exhausted or will soon exhaust their benefits. In addition, many unemployed workers are not eligible for unemployment insurance, and those who were collecting benefits in the first quarter of 2010 received, on average, about $307 per week,¹ hardly enough for a family to live on.

The AARP Public Policy Institute (PPI) has been examining various options to help the unemployed get back to work. One of these options is work sharing, the focus of legislation introduced in both the House and Senate in 2009. On December 11, 2009, PPI held a Solutions Forum on Work Sharing.² Solutions forums are designed to provide a platform for nonpartisan examination of policy issues of importance to the age 50-plus population. The work sharing forum brought together national and international experts to discuss what work sharing is all about and what is needed to create successful work sharing initiatives. Data and observations from the forum are incorporated throughout this Insight on the Issues.

What Is Work Sharing?

Work sharing is an approach to avoiding layoffs during economic downturns that reduces work hours in a firm and spreads the remaining work among employees who might otherwise be let go.

For example, rather than terminate 20 percent of a firm, division, or department in response to reduced demand, an employer might scale back the hours of some or all employees by 20 percent—shifting perhaps from a five-day to a four-day week—to accomplish the same 20 percent reduction in hours worked. Work sharing spreads the burden of a downturn more
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evenly across more workers than does a layoff, which typically targets fewer employees who suffer much larger losses in income.³

Work sharing or work share programs are often referred to as short-time compensation (STC), and these terms are used interchangeably in this Insight on the Issues. However, almost any formal or informal arrangement, such as furloughs that reduce hours to preserve jobs, can be called work sharing. Under STC programs, employees on reduced schedules receive partial unemployment insurance (UI) benefits to help compensate for the reduction in earnings. Most states also require employers to continue to provide health and pension benefits to affected workers.⁴

How Does Work Sharing Work?

Unemployment compensation replaces a portion of the earnings of eligible workers who have become unemployed through no fault of their own. Regular unemployment insurance benefits are generally available for 26 weeks; the permanent extended benefits program may provide additional weeks of benefits to unemployed workers who have exhausted their regular benefits in states with an unemployment rate above a trigger point. In addition, Congress usually extends UI benefits temporarily during periods of prolonged high unemployment and has done so several times since the start of the recession that began in December 2007. To collect unemployment compensation, unemployed workers must be able to work and looking for work.

Work sharing employees remain on the job, albeit on reduced schedules. Because they expect their usual hours to be restored, they do not need to look for another job unless they want to make up for the lost hours. Some states have amended their unemployment insurance laws to allow payment of prorated UI benefits without a job search requirement. In those states, employers submit a plan to the appropriate state unemployment agency explaining how work sharing will be implemented and for how long. The plan must state that the proposed reduction in hours is in lieu of layoffs. If the affected workers are represented by a union, union approval must generally be obtained.

Workers in firms with approved work sharing plans receive some portion of the UI benefits they would have received if they had been laid off and met UI eligibility requirements. For example, work sharers employed four days a week instead of five would receive 80 percent of their weekly wages and 20 percent of the UI benefits they would have received if they had been laid off. If UI replaces about 50 percent of wages, the prorated work share benefits will amount to about 10 percent of total wages (0.20 x 0.50 = 0.10). Work sharers in this situation would take home about 90 percent of their full-time wages.

States vary in their requirements for work sharing, but the minimum reduction in hours is typically 10 or 20 percent and the maximum is commonly 40 or 50 percent.⁵ Although not required by federal authorizing legislation, under state laws, workers generally continue to receive health and pension benefits, making work sharing less financially burdensome for them than it would otherwise be. This, however, is costly to employers, a fact that may predispose some of them to layoffs.⁶

Like regular UI benefits, STC benefits are financed by UI payroll taxes on employers and paid out of state accounts in the Unemployment Trust Fund.

Work share programs are more widely available in many other developed countries than they are in the United States. Although the specifics of the
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Programs vary from country to country, they are typically meant to be temporary responses to help save jobs during downturns.

As of May 2009, the majority of Organization for Economic Cooperation and Development (OECD) countries reported having introduced or expanded STC schemes in response to the economic downturn. Among the program enhancements are extended coverage (e.g., to temporary and part-time workers in some countries), fewer eligibility restrictions, increased subsidies to employers for short-time work, higher replacement rates, and increased funding for training. In response to the severity of the recent recession, Canada extended the maximum duration for work sharing to 52 weeks; Germany’s work share program duration increased from 6 to 12 months, then to 18 months, and finally to 24 months. It was cut back to 18 months at the beginning of 2010.

In Germany, the federal Kurzarbeitgeld (short-time working fund) pays 60 percent of the lost wages of workers without dependent children and 67 percent of the lost wages of those with dependent children. Employers are required to pay half of the social security contributions of their Kurzarbeit (short work) workers for the first six months of the program; after that, they are relieved of the entire contribution.

Funds for the short-time program in Germany come from unemployment insurance contributions paid equally by employers and employees.

Germany currently extends program eligibility to all workers, including part-time and temporary workers, covered by the German social security system who experience a loss of 10 percent or more of their monthly earnings. In Canada, permanent full- or part-time employees who qualify for regular unemployment benefits are eligible for work sharing benefits as well. In the United States, in contrast, work sharing is generally available only to workers with a substantial (i.e., full-time) attachment to the labor force.

How Long Has Work Sharing Been Around?

Short-time compensation was introduced first in Germany in the 1920s. In the United States, work sharing without short-time compensation was common during the Great Depression and was credited with saving jobs despite its limitations, which included a lack of supplemental compensation and few employee protections.

In 1978, California became the first state to implement work sharing with STC. In 1982, Congress enacted a temporary federal work sharing law that allowed states to pass legislation easing the work search requirement. Thirteen states passed legislation to permit work sharing in the 1980s, and three more did so in the early 1990s.

Work sharing became a permanent part of federal UI law in 1992. States have the option of initiating work sharing as they choose. Few states, however, took up work sharing after 1994, and until May 2010, only 17 states had active work sharing programs.

Interest in work sharing has grown since the start of the recession in 2007, as has the use of work sharing programs in states that pay STC. Recently, the governors of Colorado, New Hampshire, and Oklahoma signed legislation allowing work sharing in those states. Bills to allow STC have been introduced in Hawaii, New Jersey, Ohio, Pennsylvania, and South Carolina.
What Work Sharing Is Not

Work sharing is not the same as job sharing, although the terms are often confused. A recent National Public Radio blog, for example, was titled “Cure for U.S. Unemployment Could Lie in German-Style Job Sharing.”19

This blog was actually referring to work sharing, which, as noted above, is a temporary arrangement that reduces the work hours of employees to save jobs during periods of reduced business demand. Job sharing is a flexible work arrangement under which workers (usually two) share a full-time job, enabling each of them to better balance their paid work and nonwork responsibilities and interests. Job sharing can be a temporary or permanent arrangement.

Nor does the work sharing discussed here refer to any cut in hours resulting from structural changes in the economy and a corresponding longer term decline in the need for labor.

Keeping People at Work—What Role for Work Sharing?

In June 2010, more than 14.6 million persons in the United States were unemployed, up from 7.7 million at the start of the “great recession” in December 2007.

Workers may be unemployed (i.e., without a job but actively seeking work) for a variety of reasons: they are new entrants or reentrants; they have voluntarily left a job and are seeking a new one; they have been fired for cause; or they have been downsized or dislocated. Since the start of the recession, the significance of the various reasons for unemployment has changed.

As of June 2010, 42 percent of unemployed workers were classified as permanent job losers—that is, their employment ended involuntarily and they did not expect a recall (table 1). This is an increase from 28 percent at the start of the recession.

Many of the unemployed have been or will be out of work for a protracted period. The average duration of unemployment in June 2010 was 32.8 weeks, up from 16.4 weeks in December 2007. For those aged 55 and over, the average duration of unemployment in June was even higher—40.6 weeks—and more than half of them had been unemployed for at least 27 weeks.20

Although unemployment insurance benefits have been extended several times in the past two years, many unemployed workers will exhaust these benefits,21 which paid, on average, $307 per week in the first quarter of 2010, or about 36 percent of the average weekly wage for the previous 12 months.22

The Congressional Budget Office has projected that high unemployment will continue for some time, averaging

| Table 1 |
|-----------------|--------|--------|
| **Reason for Unemployment, Unemployed Aged 16+, December 2007 and June 2010** |
| **(in percentages)** |
| **Reason** | **Dec. 2007** | **June 2010** |
| Job loser/on layoff* | 14.4 | 8.1 |
| Other job loser** | 28.0 | 42.3 |
| Temporary job ended | 12.0 | 8.5 |
| Job leaver | 9.8 | 5.7 |
| Reentrant | 28.2 | 24.4 |
| New entrant | 7.5 | 11.0 |
| Total*** | 100.0 | 100.0 |

*Job losers who expect a recall.

**Permanent job losers whose employment ended involuntarily and who do not expect a recall.

***Numbers may not add to precisely 100 due to rounding.

10.1 percent in 2010 and 9.5 percent in 2011. Some labor experts contend that the recovery could turn out to be a jobless recovery.24

Job layoffs can have adverse long-term effects on workers and their families. Workers reemployed after a layoff often earn less in their new jobs than in their previous ones for years after finding work, according to a recent study conducted for the Connecticut Department of Labor.25 In addition, long-term earnings losses are greater for reemployed workers who are displaced during a recession than during periods of economic growth.26

Prolonged unemployment can cause or aggravate physical and emotional problems, place enormous stress on families, lead to domestic violence, and contribute to children’s failure in school.27 Some job losers, particularly older ones, give up the search and withdraw from the labor force. Such unemployed workers may never return, with obvious detrimental consequences for their current and future financial well-being.

Work sharing would not have prevented the job loss of all, or even most, of the workers who have lost their jobs since the start of the recession. However, it can save some jobs and thus have a positive effect on the financial well-being of those who would otherwise be out of work. It can perhaps also prevent or mitigate some of the social and psychological problems that often accompany unemployment.

What Are the Advantages of Work Sharing?

Work sharing keeps workers on the job, at least for some period after a downturn. On the whole, work share employees, especially those who receive partial unemployment compensation and retain their access to health insurance and other benefits, are better off than those who do not work at all. They need not look for another job—which can prove fruitless in a long and deep recession—and they are able to maintain their skills and perhaps even update them if they use some of their downtime for training. Additional training can also improve a company’s productivity once the recovery occurs or make workers more marketable if they are laid off or if their hours are not restored.28

Work sharing arrangements apply to all workers in a targeted unit, department, or firm; tenure is irrelevant. Recently hired and thus less experienced workers (who are often the first fired) may especially benefit from a work sharing arrangement.29 Consequently, work sharing can help maintain workplace diversity by preserving the jobs of lower- as well as higher-seniority workers, one of the intangible benefits of work sharing mentioned by CLASP’s Neil Ridley, a work sharing expert, at AARP’s Solutions Forum on Work Sharing.30

Under work sharing, employers pay less in wages than they paid when all employees were working normal hours; consequently, they save money. However, firm revenues are also down at the same time, owing to reduced demand. In states where employers are required to maintain all the health and
pension benefits of work sharers, benefit costs are not likely to drop, because they are not tied to hours worked. Thus, employers continue paying full benefits to short-time employees.31

The big advantage of work sharing to employers involves the preservation of human capital; work sharing helps employers retain skilled workers who might not otherwise be available for recall when the economy recovers. Employers thus avoid costly and time-consuming efforts to recruit and train new employees. When the economy recovers, employers with work share programs can restore hours and quickly gear up for increased production.

Communities benefit from work sharing because workers maintain a greater ability to buy, which stimulates the economy, and they pay more in sales taxes than they would if they did not work at all. The continuation of employer health coverage and pension contributions reduces dependence on the state for support.32 Demand for social and other services might also be lower than it would be if the workers were permanently laid off. Presumably, there are fewer ancillary problems (e.g., health impairments, school failure, labor force withdrawal) among work sharers and their families.

Who Uses Work Sharing?

Since the start of the recession in 2007, employers have taken various steps to reduce labor and operational costs. Layoffs and hiring freezes have been common, as has the reduction or elimination of salary increases and bonuses.33 Somewhat fewer than one in three employers with 50 or more employees surveyed by the Families and Work Institute said that they have used both voluntary and involuntary reductions in hours to reduce costs.34 However, these reductions do not seem to have been associated with formal STC programs. A recent Pew Research Center poll found that 28 percent of workers had had their work hours reduced, and 11 percent had been forced to switch from a full-time to a part-time job.35 Again, it is not known how many of these workers might have participated in an STC program.

In the United States, formal STC programs have been available to a relatively small number of employees. This is partly because fewer than half the states have such programs, and some of those with programs do not implement or actively promote STC. At least until recently, the number of STC beneficiaries as a percentage of regular UI beneficiaries has rarely exceeded 1 percent, even in recessions. However, as Ridley has pointed out and as available data confirm, work sharing is sensitive to the state of the economy.36

Figures from the U.S. Department of Labor indicate that participation in work sharing programs peaked in 1992, 2001, and 2009, corresponding with recessions.37 Vroman and Brusentsev report that the number of STC weeks in 11 active work sharing states shot up in 2009, more than doubling as a percentage of all weeks of regular UI benefits claimed.38

Greater reliance on work sharing has been reported for both Washington State and New York, where the number of work share programs has escalated since the recession began.39 In Washington, the number of employers filing work sharing plans tripled between 2008 and 2009.

According to the Washington State Employment Security Office, 2,800 businesses and about 51,000 employees were approved to participate in the state’s work sharing program in 2009. The number of employers was up from
621 in 2008; the number of employees was up from 21,272 in 2008.\textsuperscript{40}

New York’s deputy commissioner for workforce development, Bruce Herman, reported that participation in work sharing had increased dramatically since New York began to promote it aggressively about a year and a half earlier, using firms that had implemented work share programs to provide testimonials. These efforts, according to Herman, generated substantial media attention, which likely fostered greater interest in the program. New York streamlined its work sharing claims system at the same time, making it much easier to handle the increase in STC claims.

New York officials noted that at least since the latter part of the 1980s, work sharing had been underutilized in the state; it was used primarily by upstate manufacturing firms that experienced seasonal downturns. More than 2,000 New York businesses—both for-profit and not-for-profit firms—were participating in the state’s work share program as of December 2009; approximately 43,000 workers were involved.\textsuperscript{41}

Although many small firms have turned to STC,\textsuperscript{42} a 2002 examination of administrative data found that firms using STC in California were larger than those that did not—an average of 239 employees versus 40 in firms generating UI charges without work sharing.\textsuperscript{43}

Work sharing firms in California were disproportionately in manufacturing (62 percent of the work sharing firms but only 11 percent of the firms generating UI benefits). This was also the case in New York, although employers in other sectors have adopted work sharing since the state began promoting it.\textsuperscript{44}

According to Ridley, work sharing is currently being used by a broader range of industries than in the past.\textsuperscript{45}

The California study also found that work sharers tended to be older (ages 35–64) and better paid than unemployed workers on regular UI. This, the study’s authors observed, was “consistent with the notion that employees participating in [the California work sharing program] tend to be those with higher skills and who are more closely tied to particular firms”\textsuperscript{46} (i.e., the skilled and experienced workers who would be hard to replace quickly when the economy heats up).

### How Well Does Work Sharing Work?

#### Experience with Work Sharing

Perhaps because work sharing is a small program that affects relatively few workers or employers in the United States, research on it has been rather limited. One of the most detailed evaluations of STC was done for the U.S. Department of Labor by Berkeley Planning Associates and Mathematica Policy Research (BPA/MPR). Completed in early 1997, this study was based on 1992 data, so it describes experiences that are now nearly 20 years old.\textsuperscript{47} The evaluation examined STC programs across states, assessed the practices and perspectives of employers who had used STC, and examined STC’s impact on the Unemployment Trust Fund and the layoff behavior of firms.

Employers were generally satisfied with STC; however, STC firms nonetheless continued to resort to layoffs. UI charges were also higher for STC firms than for those that had not used it, suggesting to the investigators that STC firms might have been experiencing “greater economic distress” than other firms.

States in the BPA/MPR evaluation tended not to promote STC actively (a
factor that seems to have changed in at
least some states in the recent recession). However, the report refers to “some
evidence” suggesting that improved
marketing has the potential to increase
participation levels, although this
hypothesis had not undergone systematic
testing at the time of the evaluation.
Contending that states have much to
learn from one another, the report cited a
need for technical assistance with the
design of state STC programs, which
would be addressed in legislation that
has been introduced in Congress. (See
below: What Does the Future Hold for
Work Sharing?)

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Systematically collected and measured
data on the number of jobs saved by
work sharing are not available for the
United States. What is available depends
on inconsistent reporting on the number
of participating employers and work
share employees that states choose to
release.48 Clearly, more and better data
on STC programs are needed to help
policymakers, employers, and unions
make sound decisions about the
feasibility of work share programs under
various circumstances. Insights on jobs
saved through work sharing are available
from other countries.

Some German observers, including
Labor Minister Franz Josef Jung,
attribute the less pronounced increase in
unemployment in that country in part to
the Kurzarbeit program.49 Jon
Messenger of the International Labor
Organization (ILO) credits working time
adjustments, mainly the German work
sharing program (combined with the
drawdown of credit hours in working
time accounts, which is required before
companies can apply for Kurzarbeit),
with essentially stopping the increase in
unemployment early in the crisis.50

In Germany, work sharing has been
credited with preventing an estimated
432,000 job losses as of June 2009,51
which Messenger suggests is probably
an underestimate.52 According to the
Bundesagentur für Arbeit (Federal
Employment Agency) in Germany, the
number of employees receiving short-
time compensation rose from 39,400 in
September 2008 to approximately
1.45 million the following May, about
5.2 percent of workers subject to social
insurance contributions.53

Messenger reports that from August
2008 to August 2009, German
unemployment increased by only
8.8 percent, while U.S. unemployment
rose by 56.4 percent.54 At the height of
the economic crisis, more than
1.5 million German workers were
sharing work. Germany’s experience
with work sharing has led the ILO to
conclude in a recent report that short-
time work in Germany appears to have
been successful.55 Its longer term effects,
however, cannot be known until
sustained economic growth has resumed.

The European Commission’s
Employment in Europe 2009 report
conurs that “the practice of promoting
reductions in working time is something
that has protected European jobs from
the initial impact of the recession and
helped to avoid the sharp rises in
unemployment seen for example in the
USA.”56 Average hours of work of full-
time employees fell by more than

Jon Messenger, ILO
3 percent in Germany and Austria (two nations with active work sharing programs) from the second quarter of 2008 through the second quarter of 2009. The European Commission sees this reduction as a “clearly visible” favoring of reductions in work time over reductions in employment levels.57

Even if work sharing is not the only—or even the main—reason for relatively low or stable unemployment rates in countries with work share programs, the programs are popular in Europe. Asked at the AARP Solutions Forum on Work Sharing why there was no apparent opposition to work sharing in Germany, Markus Franz, counselor for labor and social affairs at the German embassy in Washington, replied, “The answer is so easy and so short, and I guess it shouldn’t be distracted by too many words: It saves jobs.”

Canadian firms also use work sharing. Messenger reports that as of September 2009, nearly 6,000 work sharing agreements affected more than 165,000 workers in Canada.58 Data from before the recession suggest that work sharing in Canada has functioned as intended; namely, as a temporary program providing relief during downturns. In that country, the number of layoffs said to be avoided reached 12,836 during the 2001 recession, compared with about 3,000 during 2006/2007, a period of economic expansion (figure 1).59 This figure began to increase in 2007/2008. Whether it spikes upward for 2008/2009 awaits further data.

Regardless of what the numbers might say about saved jobs, work sharing is no guarantee against layoffs; nor can work sharers be certain that all shared positions will survive. Even in Germany, layoffs sometimes follow work sharing, especially when a downturn is prolonged.60

An economy might not recover in time for a business to avoid layoffs, or a firm might experience other problems that require permanent staff reductions. Nor is work sharing a solution for failing firms or firms that are restructuring for reasons having nothing to do with a temporary economic downturn. The 1997 BPA/MPR study cited “strong suggestive evidence that firms that participated in the STC program may have faced different economic forces or were less healthy than comparison firms.”61 But even if it is followed by layoffs, work sharing can serve as “a brief cushion during employment transitions that end in permanent layoffs.”62

**What Does Work Sharing Cost?**

**Experience Rating**63 and the Trust Funds

An employer that uses work sharing in combination with STC and remains in business later pays back, through unemployment taxes, the funds that were withdrawn from the state’s account in the Unemployment Trust Fund to pay the STC benefits. There is no reason, in

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**Figure 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of layoffs avoided</th>
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<tbody>
<tr>
<td>2000/01</td>
<td>2,500</td>
</tr>
<tr>
<td>2001/02</td>
<td>5,000</td>
</tr>
<tr>
<td>2002/03</td>
<td>7,500</td>
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<tr>
<td>2003/04</td>
<td>10,000</td>
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<tr>
<td>2004/05</td>
<td>12,500</td>
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<tr>
<td>2005/06</td>
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<td>2006/07</td>
<td>10,000</td>
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<td>2007/08</td>
<td>5,000</td>
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theory, that STC should place greater strains on a trust fund than other UI benefits. The BPA/MPR evaluation found little evidence that STC threatened the solvency of state accounts in their UI trust funds. Although STC costs to the UI system were substantial, the UI tax rates of STC firms were sharply higher as a result of experience rating, even in the absence of any special surtax for STC use.⁶⁴

This is because “STC claims appear to be experience-rated at least as well as regular UI claims”; the program is, in a sense, “self-financing.”⁶⁵ In other words, employers who rely more on STC have higher UI taxes than those that neither have an STC program nor lay off workers. Still, it is important to keep in mind, as Ridley has emphasized, that although work sharing does have an impact on an employer’s experience rating, the alternative—layoffs—also affects experience rating and leads to higher UI taxes.⁶⁶ And to ensure that nonusers are not stuck with paying for STC in firms that use it, seven states impose a supplemental tax on employers using STC that have reached the top of the state’s experience rating schedule.⁶⁷

The BPA/MPR report cautioned, however, that the observations on work sharing and the trust fund were not necessarily the final word and that additional research was needed. A more recent study on Washington State’s Shared Work program during 1992–2003 also did not find a negative impact on its unemployment trust fund. Benefit charges did initially exceed taxes, but within three years, the resultant higher taxes led to the recapture of all UI payments.⁶⁸

For various reasons, BPA/MPR examined STC use in 1992 rather than 1991, which, the authors acknowledge, included the “most severe” period of what at the time was the most recent recession. Whether trust fund recovery will be as quick and pronounced after the recent recession, for example, remains to be seen. Until additional evaluation data become available, conclusions about the impact of STC use on state trust funds should be accepted with caution.

Other Employer Costs and Concerns

Other costs may be lower and some higher under work sharing. For example, according to Vroman and Brusentsev, the average hourly wage paid by employers is likely to be lower under STC than under layoffs.⁶⁹ This is because highly paid workers, along with those earning less, will experience wage cuts when they are sharing work. With layoffs, however, the most recently hired, inexperienced, and thus lower paid workers are frequently targeted. Under those circumstances, employers will continue to pay the full wages of the retained higher earners.

On the other hand, hourly fringe benefit costs will likely be higher with work sharing, especially in states that require employers to maintain full benefits. Some of these costs, however, might be offset by the fact that when work sharing ends, employers simply restore the hours of their work sharers rather than hire new workers, which results in lower recruitment, training, and other costs associated with staff turnover.

Vroman and Brusentsev suggest that unemployment compensation costs could be higher as well, in part because benefits would be paid to more senior and thus more highly paid workers than would typically be the case under layoffs. From their study of work sharing in California, MaCurdy, Pearce, and Kihlthau likewise note that employers can expect lower UI claims from layoffs or terminations, because not all of those who are laid off collect UI benefits.⁷⁰ However, work sharers must apply and be deemed eligible for
benefits, like their regular UI counterparts.

Also, STC provides a fractional, or prorated, unemployment benefit. How expenditures for STC benefits compare with what might be paid as regular UI benefits depends, in part, on the equivalence between job sharers and potential job losers (e.g., five employees whose hours were reduced by 20 percent would, if they filed for UI benefits, be the equivalent of one regular UI filer). These figures are not likely to be known with certainty.

Work share programs impose some administrative burdens on employers and state employment agencies, which can create an impediment to employer participation.

On the other hand, STC is intended to be temporary. Depending on how long it takes an STC company to recover and restore hours, work share employees might collect their short-time unemployment benefits for less time than laid-off workers do. In addition, although employees who would have been let go may be better off under work sharing, the same cannot be said of workers who would not have been terminated. Under work sharing, the wages of these workers will drop.

Knowing that an employer is trying to avoid layoffs by reducing hours might improve the morale of all workers who might have been—or might yet become—victims of a layoff. But workers who do not believe that they would be laid off might resent their temporarily lower wages. Of course, these workers could still be faced with furloughs and other compensation cuts.

During a recession, when many unemployed people experience difficulty finding work, most employees probably see themselves as better off under work sharing. Nonetheless, highly skilled workers would likely face fewer barriers in their job search and might choose moving to other jobs over reduced work hours. STC workers might use their time off to get training or perhaps take on another part-time job. Still, workers on STC must be available to resume their regular work schedules, which could put a crimp on other activities such as training.

Many firms using STC in the BPA/MPR study were repeat users, which has raised some concern about whether STC is being used as intended—namely, as a short-term response to a cyclical downturn. Differences were evident across states, which might have been due to state administration practices or differences in the nature of the recession. How repeat users differ from other STC firms—including in their eventual layoff and survival rates—warrants further study to determine whether there is merit to the concerns about repeat users. If layoffs are prevented by repeat adoption and if UI premiums are experience rated, repeat use may not be worth worrying about.

When workers do experience layoffs after work sharing, a question is whether the ultimate duration of unemployment is shorter than it would be if workers had been laid off at the outset. In the United States, a UI benefit year (the period during which benefits from a single claim may be paid) begins with the payment of STC benefits, just as it does for regular UI beneficiaries. Workers who are laid off after participating in an STC program see their remaining UI benefits reduced on a dollar-for-dollar basis by their STC payments. (This does not happen in Germany.)
Is There a Productivity Impact?
Although there is some evidence that STC firms return to full production sooner than those that lay off workers, work sharing’s potential impact on productivity is not clear. Productivity could fall in STC firms as a result of the reduction in work hours, particularly those of more experienced senior workers who are unlikely to have been let go in a layoff. On the other hand, productivity could increase as a result of workers remaining attached to the job (and perhaps motivated to keep things that way). The large majority of employers in one study reported that STC workers were at least as productive as or more productive than full-time workers, while 84 percent to 93 percent of employers in a five-state study of work sharing said that work sharing’s reduced turnover increased productivity or profits. However, employee resistance to STC in a large Canadian firm resulted in a significant decline in productivity, which caused the firm to suspend the STC program.

A Canadian study of work sharing and productivity among telecommunications workers in the 1990s found a significant decline in productivity among employees in shared work arrangements. This decline was due at least in part to what the investigators referred to as “coordination costs,” which resulted from tasks being started by one technician and finished by another, presumably because of the reduced hours introduced in response to increased competition. In this study, however, productivity under work sharing was compared with productivity before the firm cut work hours. If maintaining workers on full schedules is not an option, the more appropriate comparison might have been with the productivity of workers remaining after a layoff.

As is the case with other aspects of work sharing, the research on work sharing and productivity is limited, dated, and fails to provide a definitive answer.

Why Isn’t There More Work Sharing?
Concern about administrative costs may discourage firms from looking into work sharing; this issue was raised by Bruce Herman, New York State deputy commissioner for workforce development. For example, work schedules, practices, and payrolls must be adjusted. However, the widespread use of computers to manage work schedules and benefits programs has provided many ways to deal with administrative burdens. Costs likely could be reduced by taking advantage of the latest technology for filing and processing UI benefits claims.

Another impediment to increasing access to work share programs is that work sharing is not well known among employers or workers, or even among policymakers in many states. And, as noted above, it is often confused with job sharing.

Balducchi and Wandner maintain that the low level of state implementation of STC is due to a lack of leadership on the part of the federal government. The U.S. Department of Labor, they say, “has not issued work sharing guidance, encouraged state participation, or

Moderator David Balducchi, U.S. Department of Labor
provided technical assistance,” perhaps because of a technical deficiency in federal UI law.

According to Jane Oates, U.S. Department of Labor (DOL) assistant secretary for employment and training, the UI program insures workers against the risk of unemployment. Eligibility for benefits must be based on the “fact or cause” of a worker’s unemployment. Since 1992, however, federal law has allowed states to condition STC program approval on factors not related to unemployment. But, as Balducchi and Wandner indicate, these factors have not always included certain employee protections. An example is the requirement in some states that employers continue to pay for health coverage and other benefits, which is not a federal requirement. Uncertainty about how to deal with discrepancies between federal UI eligibility criteria and state requirements for employers may help explain why DOL has not provided guidance or technical assistance on work sharing to the states.

Also, as Marc Baldwin of the AFL-CIO Working for America Institute stressed at the AARP Solutions Forum on Work Sharing, states are dealing with other, more pressing UI program issues, including overall coverage and trust fund solvency. It may be difficult for them to take on innovations such as work sharing.

In addition, some state governments, particularly those with less automation of UI claims, worry that a surge of STC requests could overwhelm state government officials. Thus, while some states, such as Rhode Island, have actively marketed STC to employers, other states have not done so.

Finally, work sharing simply may not be suitable for a particular firm or its employees.

What Does Work Sharing Need to Be Successful?

In the United States, state legislation implementing STC is the first requirement for work sharing. By
definition, work sharing will involve a reduction in hours and wage cuts that enable employers to achieve savings without layoffs. Compensating workers for some of the wage loss is critical to generate support for the program. Support from other key stakeholders, such as labor leaders, is vital as well. The ILO’s Jon Messenger observes that several elements contribute to successful work sharing programs, among them that

- work sharing programs cover all workers (presumably in a company, department, or unit),
- wage subsidies be provided to work share employees,
- governments actively promote work sharing,
- program design and implementation involve stakeholder dialogue and collective bargaining, and
- managers make whatever adaptations in operations are necessary for an effective work share program, including supporting training (when needed).

A specific time limit on how long workers will be subjected to reduced hours is also important. This helps workers more efficiently manage their finances, determine if enrolling in a training program is feasible, or decide if it makes sense to look for another job. However, employers might not be able to set such time limits, as they cannot be certain when demand will rebound.

**What Does the Future Hold for Work Sharing?**

Further state and federal action on work sharing legislation is possible. Over the past two years, work sharing has expanded in states with active work sharing programs; the idea may continue to spread if the jobs deficit continues. Legislation to permit work sharing has recently passed in three more states and has been introduced in others. Officials in many states with work sharing programs have been enthusiastic. One of these is New York State’s Bruce Herman. And he is not alone: Suzanne Bump, secretary of labor and workforce development in Massachusetts, has said, “I frankly don’t understand why there aren’t more states that participate in this program.”

At the national level, STC bills have been introduced in Congress. S. 1646, S. 2831, S. 3753 and H.R. 4135, for example, clarify some of the technical ambiguities in federal law concerning STC and would promote STC programs for employees whose work weeks have been reduced by at least 10 percent. The programs would continue to be voluntary on the part of states and employers. States could choose whether to enact STC, and employers could choose whether to use it. Prorated unemployment benefits would be paid as STC, and employers would be required to certify that program participation did not affect the continuation of health or defined benefit retirement plans.

The bills would require DOL to develop model STC legislation that states could use and to provide technical assistance to states in developing, enacting, and implementing STC programs. For a limited time, the secretary of labor would award start-up grants to state agencies to defray the costs of implementing STC programs. Also for a limited time and subject to several requirements, state unemployment trust funds would be fully reimbursed for the STC benefits paid to program participants. Time limits on work sharing are necessary to reduce potential displacement effects. H.S. 4183 also includes temporary incentives for state adoption of STC but not a requirement for technical assistance.
In addition, the Department of Labor has submitted draft legislation to Congress to deal with the technical problem (discussed above) in unemployment insurance law that has limited state law as well as DOL’s promotion of short-time compensation. The Unemployment Insurance Integrity Act, transmitted to Congress in May 2010, would provide an exception to the “fact or cause” requirement for STC programs.

MaCurdy, Pearce, and Kihlthau suggest that “the fact that less than one percent of employers rely on work sharing leaves little doubt that most firms perceive [work sharing’s] prospective costs to outweigh its benefits.” Yet companies that have implemented work sharing seem enthusiastic about it, if anecdotal information is any guide. As one New York employer said, “If you don’t know about the Shared Work program, you have to seek out an application to this program immediately because it is one of the best programs that New York State offers.” “It’s a win-win,” according to the personnel and safety director for Columbia Steel Castings in Portland, Oregon, and has enabled his company “to keep [their] trained workforce, and employees to maintain their standard of living.”

Administratively, some see the program as a “bit of a headache” but worth it. Current law and the proposed legislation simply make the STC program available at the state level, leaving firms with the choice of whether or not to implement work sharing.

Work sharing, says Baldwin, “is fast and . . . an important intervention.” Once a state has taken action, work sharing programs can be up and running in as few as 15 days.

Various experts have come out in favor of some form of work sharing in recent months. They include Nobel laureate and author Paul Krugman of Princeton University, Kevin Hassett of the American Enterprise Institute, and Dean Baker of the Center for Economic and Policy Research. In a joint opinion piece in the LA Times, Baker and Hassett maintain that if work sharing policies were to reduce monthly dismissals by 10 percent, the effect on employment would be the same as creating 200,000 jobs per month.

Jared Bernstein, Vice President Biden’s chief economist and economic policy advisor, reported in an April 2010 job creation memo to the president that the president’s economic team has been looking into work sharing and was supportive. The chairman of the Federal Reserve Board also made a plug for work sharing: Responding to a question from Senator Jack Reed (D-RI), Ben Bernanke said, “In general, programs that encourage temporary work-sharing arrangements in an economic downturn can have potential benefits for both works and employers.” He went on to highlight a number of the benefits discussed elsewhere in this Insight on the Issues.

Once recovery is under way and hiring picks up, however, the need to do anything about unemployment becomes less apparent. Pressure on states to pass enabling legislation or on employers to implement work share programs wanes when employers are adding rather than shedding workers. Thus, it may seem that it is never the right time to act on work sharing. When times are good, states have little reason to think about work sharing. When times are bad, states (and employers and workers) want more immediate responses than are possible if laws have to be introduced or changed. The time required to enact enabling legislation and educate employers, labor leaders, and workers about work sharing might seem daunting and not worth the effort if other programs (e.g., extension
of UI benefits) would reach larger numbers of workers more quickly.

But even if the situation is improving (290,000 jobs were added to the economy in April 2010), work sharing still has a potentially important role to play in firms that do not rebound quickly in an upturn. States without work sharing legislation should be thinking ahead and considering implementing legislation so that employers can quickly offer work sharing to their employees in the next downturn.

Work sharing, it is important to stress, is not the solution to an unemployment crisis. Rather, it is one potential response to escalating unemployment during an economic downturn. Where feasible—and that is not everywhere—shared work can help prevent or at least postpone many layoffs.

The experts at the AARP Solutions Forum on Work Sharing stressed that work sharing is not the only way to mitigate the pain of prolonged unemployment during recessions. But they agreed, as Neil Ridley said, that it should be a “part of every state’s toolkit when a recession threatens.” Messenger likewise emphasized that although it is not a panacea, work sharing is an important approach to avoiding layoffs during a downturn that benefits employers, workers, and government.

Greater outreach to potential work share employers may be required, as many do not know about it or understand it. Herman and Messenger believe that government at both the federal and state levels has a role to play in disseminating information on work sharing. New York State and Germany have actively promoted work sharing with what appear to have been positive results. Since the decision to introduce a work share program is up to the employer and since a program’s effectiveness depends on how it is implemented, Messenger argues that it helps to get stakeholder input in program design and implementation. And stakeholders include the managers who will facilitate the workplace adjustments necessary to ensure that work sharing will succeed.

Despite what appears to be growing interest in work sharing’s potential to save jobs, a number of questions warrant further scrutiny. The AARP Solutions Forum on Work Sharing highlighted the need for further research on the topic in the United States, which might convince policymakers, labor leaders, employers, and others of its merits and identify ways to strengthen work share programs.

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What lessons, for example, have been learned in the dozen-plus years since the last large-scale study of work sharing was published? Is it possible to estimate how many jobs have been saved as a result of work share programs compared with other job-saving measures? How have workers fared under work sharing? How many workers have ended up being laid off after work sharing, and under what circumstances has this occurred? How do workers, employers, and managers assess their experiences with work sharing? Who are the repeat users of STC and how do they compare with firms that, at least to date, have used STC only once? Can better data be collected on the costs of work sharing to employers? Can more definitive conclusions be drawn on work sharing and productivity? What about work sharing’s impact on unemployment trust funds—do more recent data reinforce earlier conclusions? Have states had different experiences with work sharing,
and do they matter? Can best practices be identified?

Interest in work sharing seems to have grown recently, but even in states where STC is available, relatively few employers have taken advantage of it. More and better data on recent experiences with work sharing and updated information on its cost, productivity implications, and impact on the UI trust funds might encourage more state legislators, employers, and labor leaders to consider work sharing’s potential role in saving jobs during an economic downturn.

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2 The Solutions Forum was cosponsored by AARP’s Office of International Affairs.


7 Organization for Economic Cooperation and Development (OECD), Addressing the Labour Market Challenges of the Economic Downturn: A Summary of Country Responses to the OECD-EC Questionnaire (Paris: OECD, 2009), at www.oecd.org/dataoecd/15/29/43732441.pdf. The United States was not listed as having short-time work schemes, perhaps because the focus was on national rather than state or local policies and programs.

8 Since the fall of 2008, the number of middle-income countries with work-sharing or short-term work programs has increased as well. See Jon C. Messenger and Sarai Rodriguez, New Developments in Work Sharing in Middle-Income Countries, Travail Policy Brief No. 2 (Geneva: International Labor Office, February 2010).

9 Organization for Economic Cooperation and Development (OECD).

10 Jon C. Messenger, AARP Solutions Forum on Work Sharing, and personal communication with the author.


13 Ibid.


17 These states were Arizona, Arkansas, California, Connecticut, Florida, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Missouri, New York, Oregon, Rhode Island, Texas, Vermont, and Washington.

18 Illinois and North Dakota had enacted legislation permitting the payment of STC but allowed their programs to expire; Louisiana also enacted STC legislation but does not operate a program (Wandner, 23; Neil Ridley, personal correspondence with the author, June 11, 2010).

19 As of June 2010, the bill had failed in Hawaii and Maine.


22 Ibid.

23 Congress of the United States, Congressional Budget Office, The Budget and Economic Outlook: Fiscal Years 2010 to 2020 (Washington, DC: Congressional Budget Office,
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January 2010, at http://www.cbo.gov/ftpdocs/108xx/doc10871/01 -26-Outlook.pdf. As of July 2010, however, the unemployment rate was 9.5 percent, however, the unemployment rate was 9.5 percent.


26 Ibid.


28 Messenger, AARP Solutions Forum on Work Sharing.


30 Ridley, AARP Solutions Forum on Work Sharing.

31 Not all states require that full benefits be maintained; some allow prorated benefits.

32 Shelton, 6.

33 Ellen Galinsky and James T. Bond, The Impact of the Recession on Employers (New York: Families and Work Institute, 2009). These findings were from a survey of human resources directors in firms with 50 or more employees in May 2009.

34 Ibid.


36 Ridley, AARP Solutions Forum on Work Sharing.

37 Shelton, 4. These were the recessions of July 1990–March 1991, March–November 2001, and the one beginning in December 2007. Data in the Shelton article were available only through 2008. Data for 2009 show that the nearly 289,000 STC beneficiaries were almost 2.1 percent of regular UI beneficiaries, up from 0.97 percent in 2008. This figure was highest in the second quarter of 2009. (See U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Database, ETA report no. 5-159; data provided by Stephen Wandner of the Department of Labor.)

38 Vroman and Brusentsev, 16.

39 Marc Baldwin, Bruce Herman, and Neil Ridley, AARP Solutions Forum on Work Sharing.


41 Herman, AARP Solutions Forum on Work Sharing.

42 For example, Herman (AARP Solutions Forum on Work Sharing) pointed out that the majority of work sharing firms in New York are small and midsized.


44 Herman, AARP Solutions Forum on Work Sharing.

45 Ridley, AARP Solutions Forum on Work Sharing.

46 Macurdy, Pearce, and Kihlthau, 9.

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48 Washington State, for example, reports that its shared-work program helped save some 20,000 jobs in 2009 (Washington State Employment Security Department).


50 Messenger, AARP Solutions Forum on Work Sharing.


52 Messenger, AARP Solutions Forum on Work Sharing.

53 Bundesagentur für Arbeit, 12.

54 Messenger, citing OECD data at the AARP Solutions Forum on Work Sharing.


57 Ibid.

58 Messenger, AARP Solutions Forum on Work Sharing.


60 “Countries Ask How Germany Avoided Mass Unemployment.”


62 Balducchi and Wandner, 113.

63 Under the U.S. unemployment system, which is employer-financed, employers with higher UI benefits paid have a higher UI tax rate. That rate is based on their “experience” with unemployment benefits.

64 Berkeley Planning Associates and Mathematica Policy Research.

65 Ibid., iv.

66 Ridley, AARP Solutions Forum on Work Sharing.

67 Shelton, 3.


69 Vroman and Brusentsev.

70 MaCurdy, Pearce, and Kihlthau, 10.

71 Abraham and Houseman, 1993.


74 Ibid. BPA/MCR concluded that state differences in repeat usage did not seem to be due to differences in firm-specific characteristics.

75 Once a worker qualifies for UI benefits, his or her benefit year begins. This is a 52-week period during which, under normal circumstances, up to 26 weeks of unemployment compensation can be paid. Claimants who return to work before exhausting their benefits can, if they become unemployed again, file an additional benefit claim. If their benefit year has not expired, they will be eligible only for the portion of the original 26 weeks that they did not already receive. Weeks of STC count toward the total amount of UI that workers may receive in a benefit year. Workers may also be able to qualify for a second benefit year based on more recent work experience.

76 Berkeley Planning Associates and Mathematica Policy Research, 3-17.

77 Ibid., 3-16–3-17.

78 Ibid., 5-14.


Work sharing was not the only response the company made in the face of increased competition.

Herman, AARP Solutions Forum on Work Sharing.

Balducchi and Wandner, 128.

Jane Oates, testimony before the U.S. Senate Committee on Finance, Washington, DC (April 14, 2010).

Balducchi and Wandner, 124.


Baldwin, AARP Solutions Forum on Work Sharing.


Macurdy, Pearce, and Kihlthau, 10.


Ibid., 42.

Baldwin, AARP Solutions Forum on Work Sharing.

Observations by David Balducchi, Marc Baldwin, and Bruce Herman at the AARP Solutions Forum on Work Sharing.