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The Long-term Benefits of Short-time Compensation

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Most Americans are familiar with unemployment insurance (UI), a joint federal-state government program that provides payments to workers who have lost jobs and are unable to find new work. These programs have become critically important during the COVID-19 pandemic, as government orders have shut down large segments of the economy. In acknowledgement of the importance of these programs during the crisis, the federal government, through the Coronavirus Aid, Relief and Economic Security (CARES) Act, is supplementing weekly UI payments with an additional $600.[1]

Less well understood are programs such as short-time compensation (STC) and partial unemployment insurance. A short-time compensation plan allows an employer to reduce layoffs by instead sharing available work across multiple employees. The plan is filed with the state, and affected employees can collect a percentage of unemployment insurance benefits to compensate for their lost hours. Workers also maintain any non-wage benefits, such as health care, that they would normally receive if working their regular full-time hours. To encourage such programs, Section 2108 of the CARES Act provides federal funding for 100 percent of short-time compensation paid by the 27 states with programs already in place.[2] The CARES Act also provides funding to assist states without such policies to adopt them.

Even in the absence of a short-time compensation plan, many of the same benefits can be achieved with a partial unemployment insurance program, which most states have. In many cases, these programs were recently adopted. For example, On March 17, 2020, Governor Roy Cooper of North Carolina issued an executive order allowing workers in the state whose hours were cut to apply for partial unemployment insurance.

How is this program useful to firms?

There are two main benefits for firms. First, the program allows firms to retain more of their workers on their payroll. This means that firms are able to keep employees who have experience and knowledge of their business. And, as demand increases, these firms will be able to scale up more rapidly. In the meantime, distributing available hours to more workers helps create a greater sense of equity among employees.

Second, some smaller companies or those who employ workers with unique skills may have concerns about bringing an employee back on payroll if they are unable to guarantee full hours. This may be of particular concern in light of the relatively generous UI benefits currently available, which firms would not want to deny to their workers. Partial UI allows a firm to partially employ workers in such a way that employees realize no drop in total compensation (when counted as wages plus UI payments) as compared to receiving full unemployment insurance benefits.

How is this beneficial to employees?

Partial UI can help reduce long-term unemployment. A number of studies have shown that individuals with long-term unemployment (typically defined as six months or longer) face significant discrimination in the labor market. Keeping workers attached to their firms reduces unemployment gaps in individual job histories. Also, by remaining employed, albeit partially, workers are better able to keep their skills current, making them more employable in the long run. Moreover, a number of studies have demonstrated that unemployment is linked to high levels of stress, family disruption and lower health outcomes; partial UI can help to prevent these adjunct issues.[3]

Finally, retaining at least partial employment may help with consumer confidence, and thus be of benefit to the broader economy. A number of academic studies have tried to understand the overall welfare implications of such programs. For example, Giupponi and Landais (2018) show that the availability

[1] This additional $600 is set to expire on July 31, 2020.

[2] Arizona, Arkansas, California, Colorado, Connecticut, Florida, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Texas, Vermont, Washington, and Wisconsin.

[3] David and von Wachter (2012), "Recessions and the Costs of Job Loss," Brookings Papers on Economic Activity; Burgard, Brand and House (2007), "Towards a Better Estimation of the Effect of Job Loss on Health," Journal of Health and Social Behavior; Sullivan and von Wachter (2009), "Job Displacement and Mortality: An Analysis Using Administrative Data," Quarterly Journal of Economics; Charles and Stevens (2004), "Job Displacement, Disability and Divorce," Journal of Labor Economics; Johnson, Kalil, Dunifon (2012), "Employment Patterns of Less Skilled Workers: Links to Children's Behavior and Academic Progress," Demography

of a short-time work compensation program in Italy stabilized employment and had positive welfare effects. Cahuc, Kramarz and Nevoux (2018) show similar findings in France and argue that short-time work compensation programs reduce inefficient job losses and lead to a reduction in government expenditures.

What needs to be done?

The visibility of short-time and partial unemployment programs must increase. There is evidence that, even in states with a longer history of short-time compensation and partial UI programs, there is limited uptake due to lack of awareness.[4] A study by the Upjohn Institute found that a modest advertising effort greatly increased awareness and participation in these programs.[5] We need to get the word out and make sure that firms and employees are aware of these programs and their benefits.

[4] https://www.cbpp.org/sites/default/files/atoms/files/4-2-14fe-hassett.pdf
[5] https://research.upjohn.org/externalpapers/75/

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