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

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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

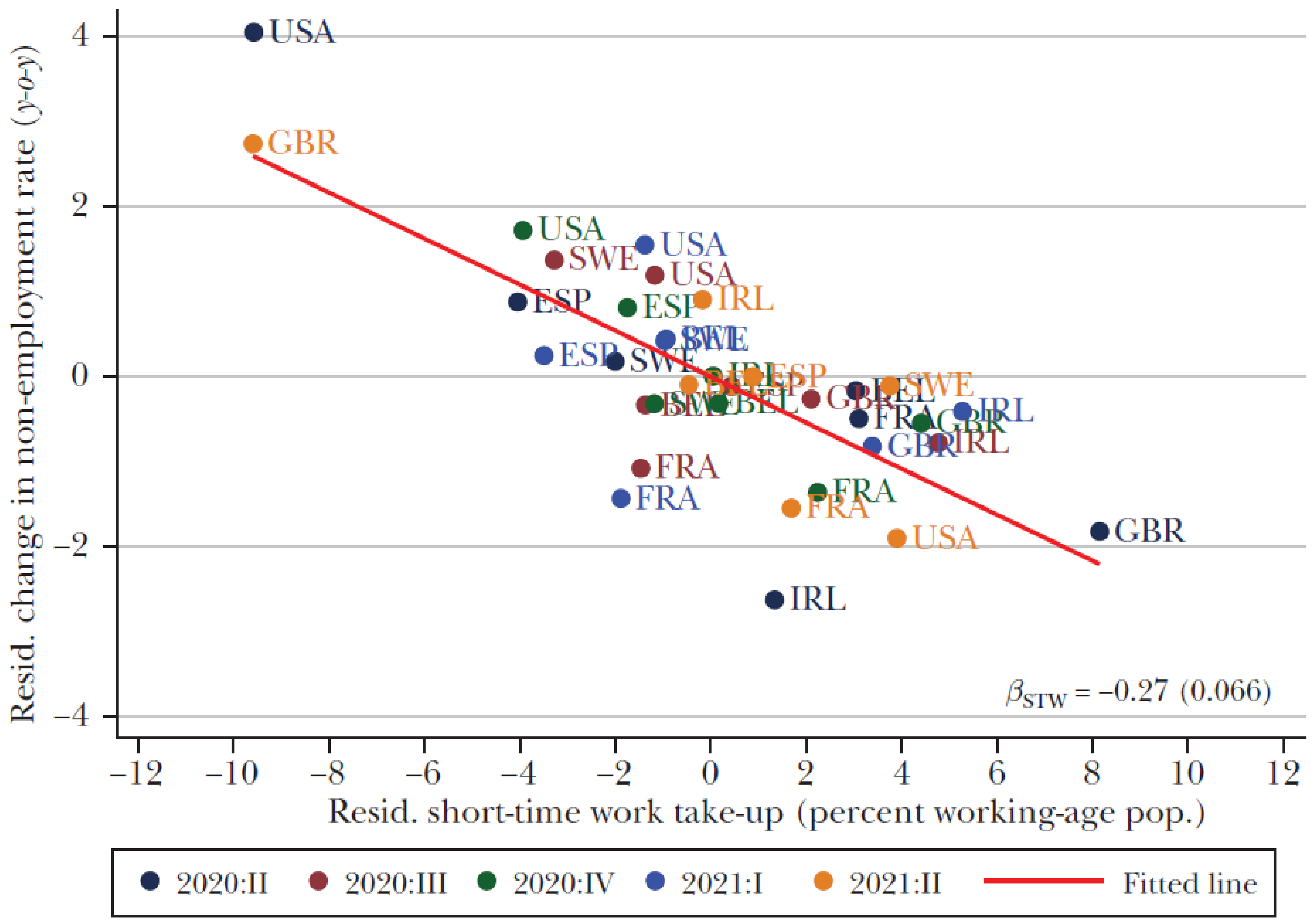
- Under STC, workers whose hours are reduced can receive pro-rated unemployment insurance payments
  - Example: Instead of laying off 20% of its workforce, a firm could cut all workers' hours by 20%. Workers would receive 80% of their wages and 20% of their full unemployment benefit.
- STC attractive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

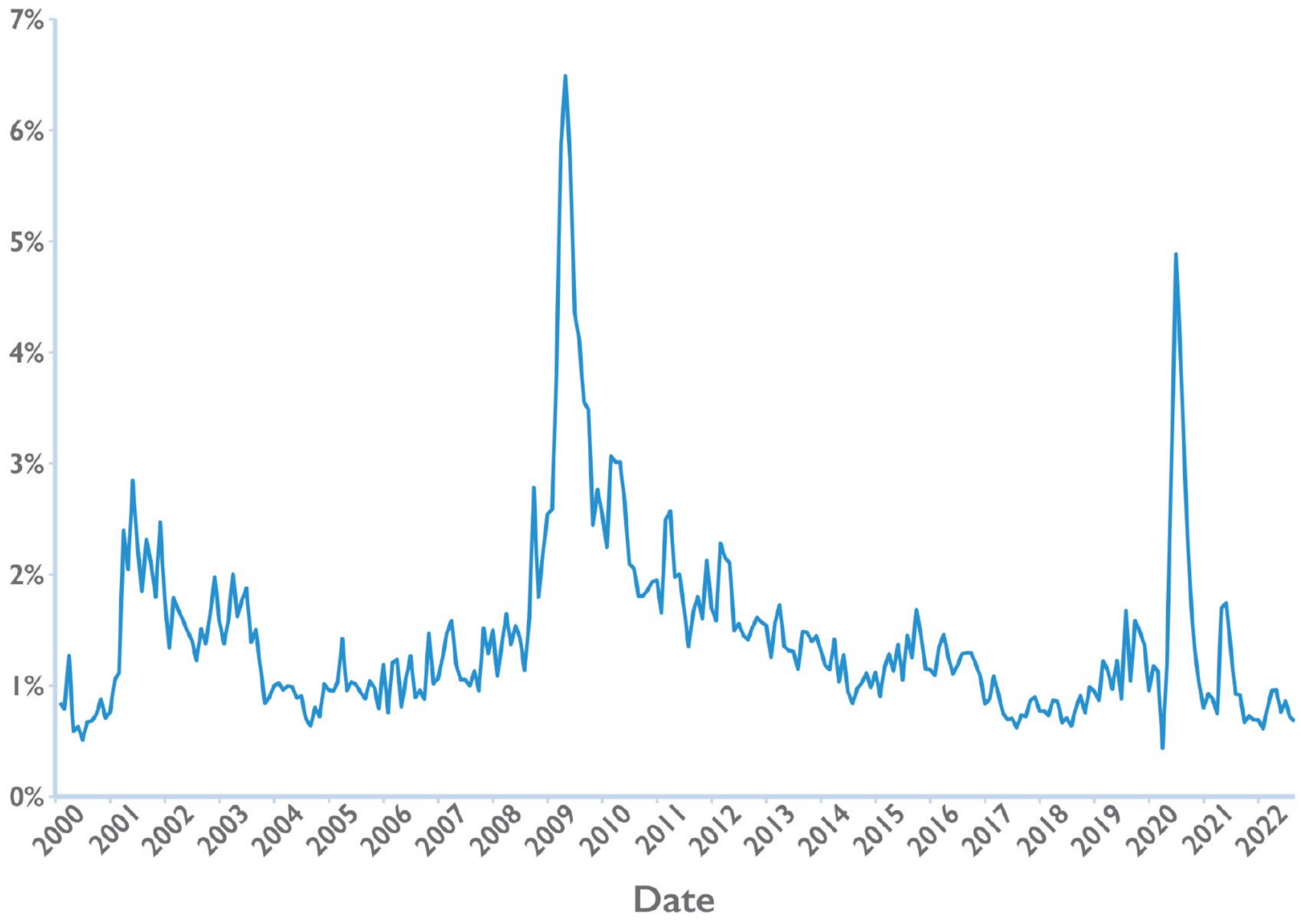


Figure 1: Nationwide Initial Claims for Short-Time Compensation from 2000-2022

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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

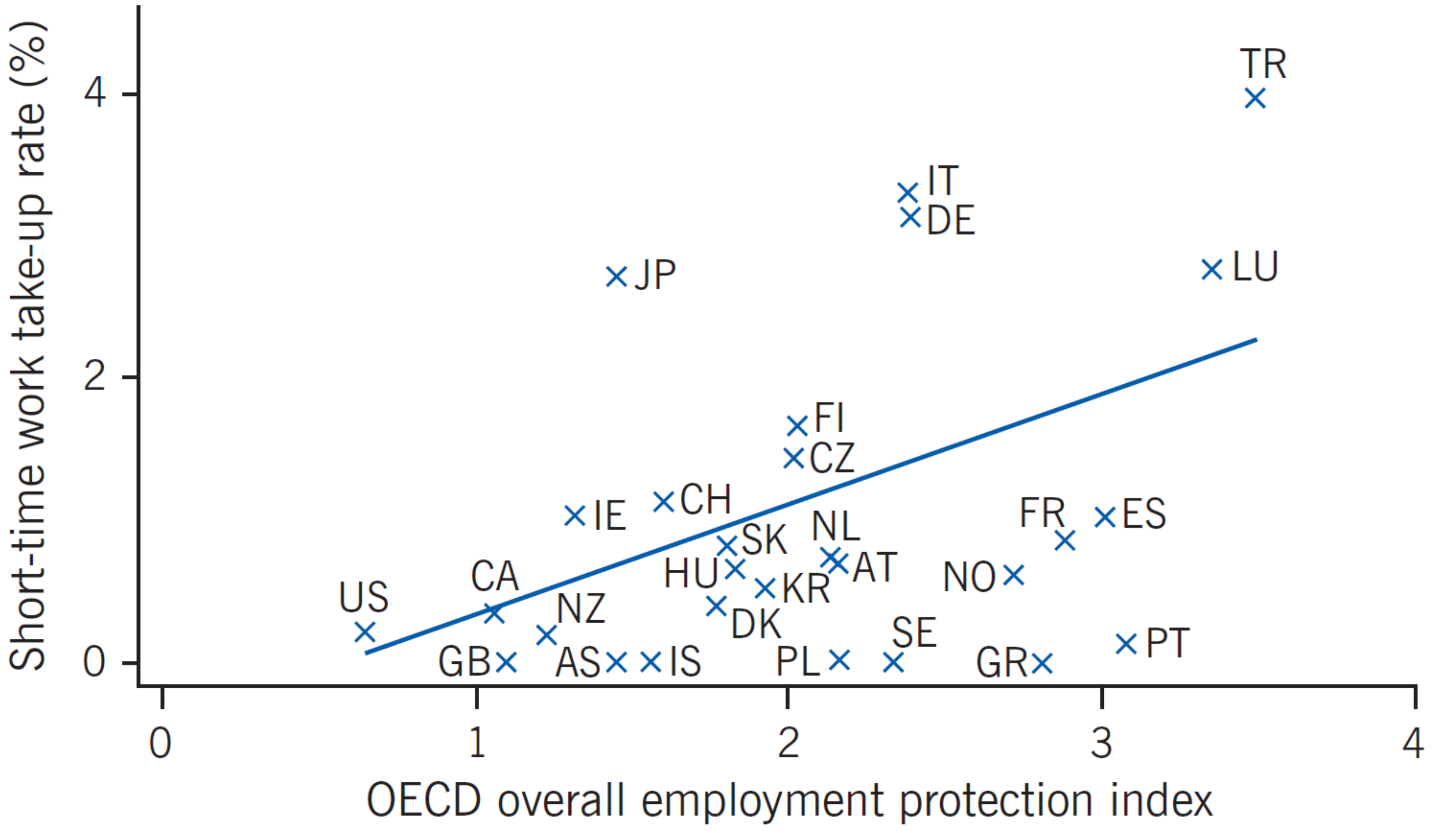
Having a local champion is important

- 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.

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Source: Cahuc, "Short Time Work Compensation Schemes and Employment," *IZA World of Work,* 2019.

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?

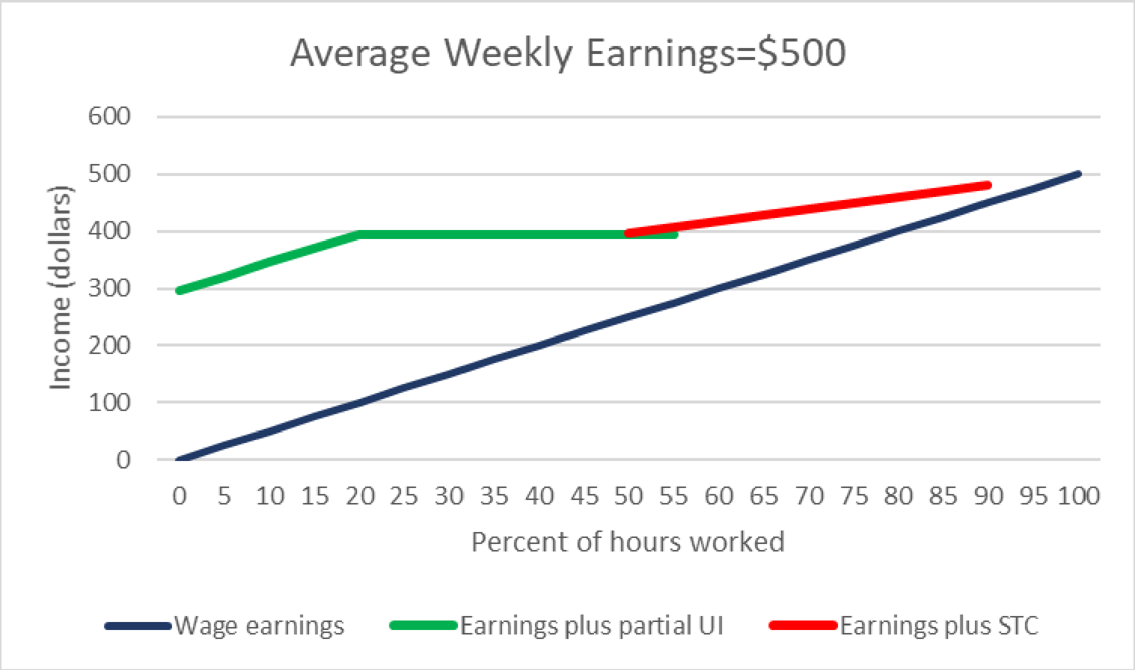
Partial UI and STC structured very differently

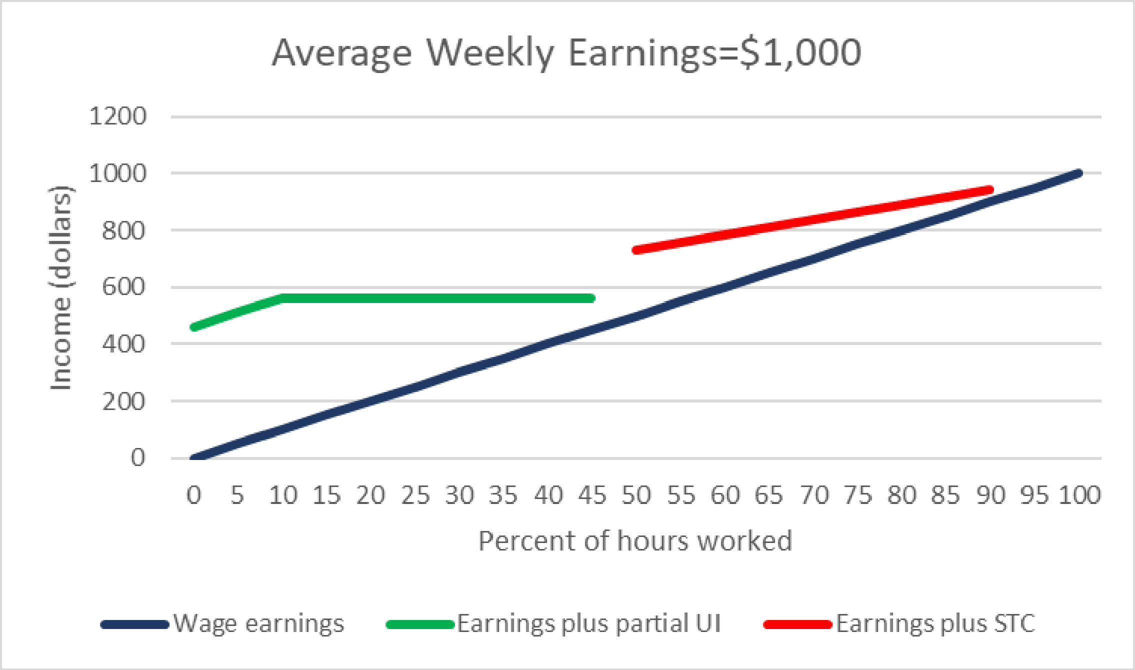
Partial UI

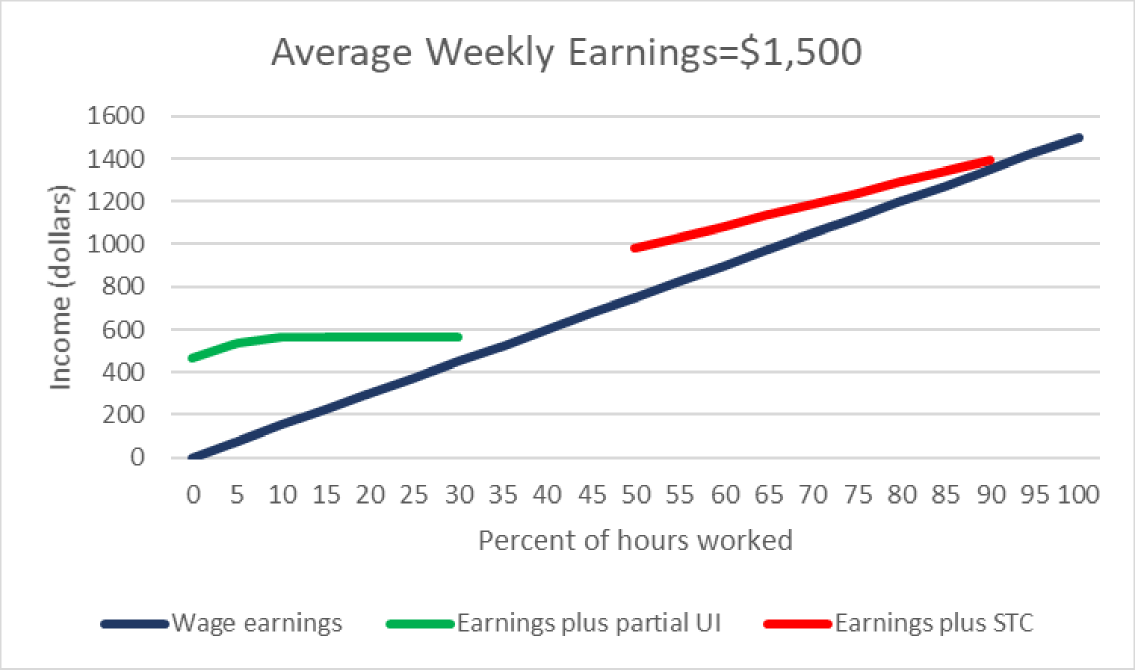
- Benefits payable only if earnings below a threshold, most commonly the weekly full benefit amount
- Benefit amount reduced with earnings less a disregarded amount
- Worker may or may not remain attached to original employer
- Any worker whose earnings low enough to qualify for partial UI may apply

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%

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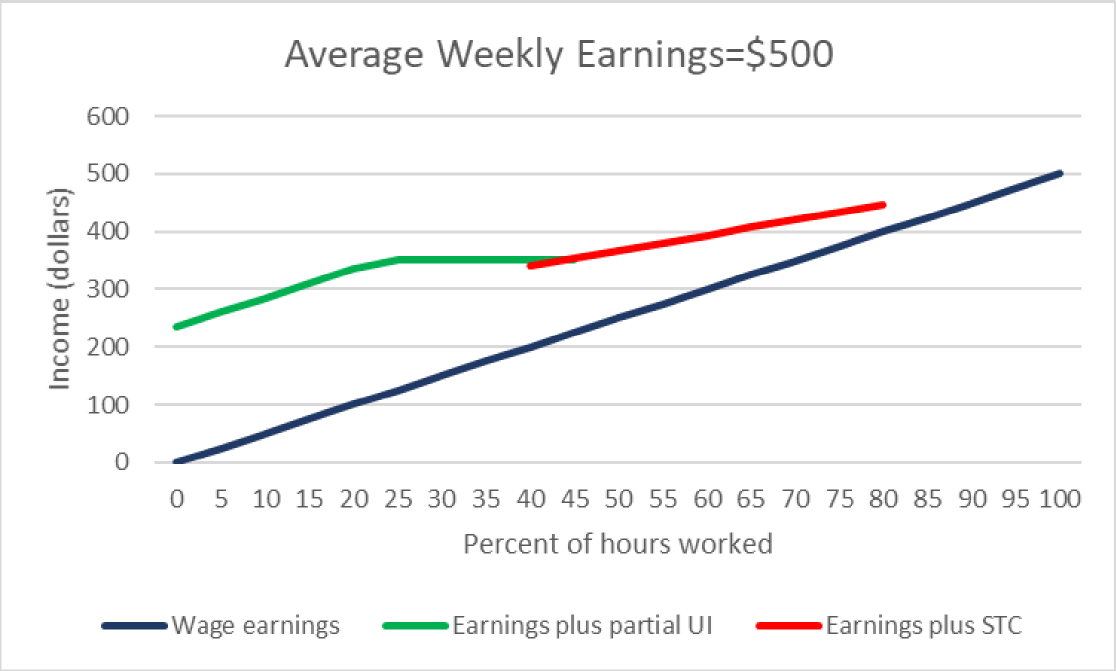
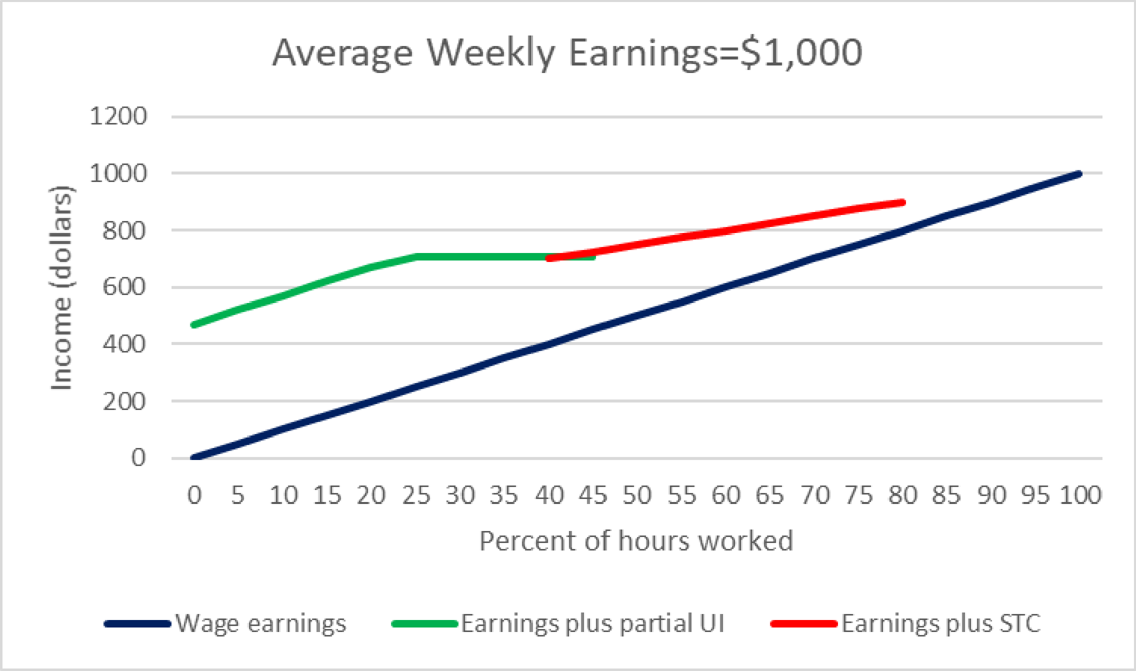
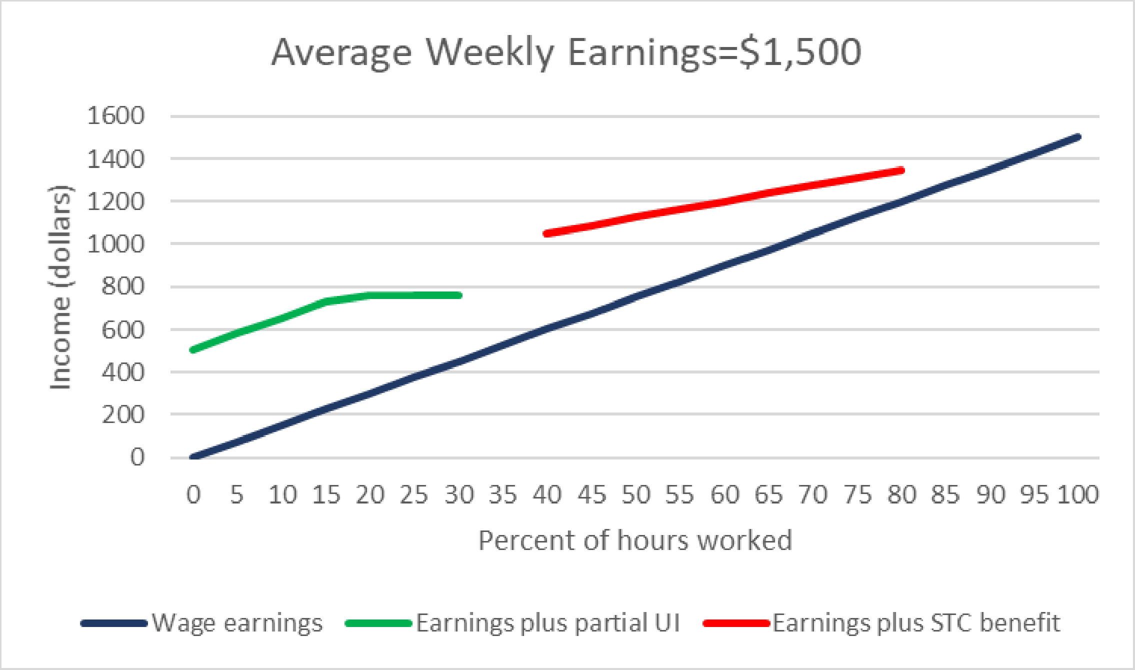
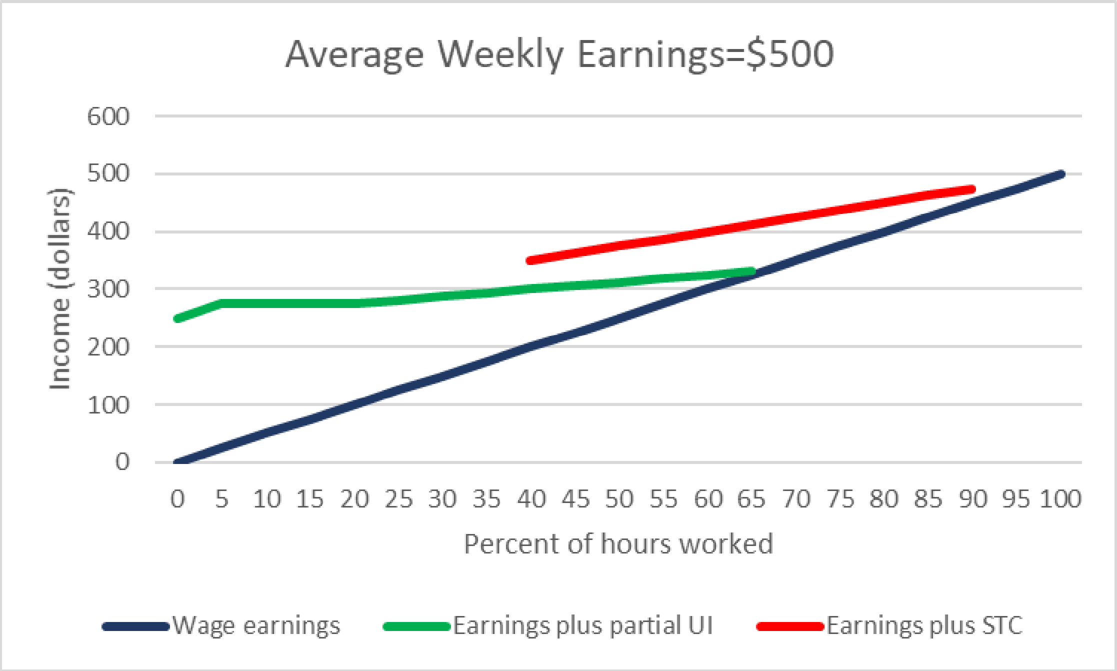


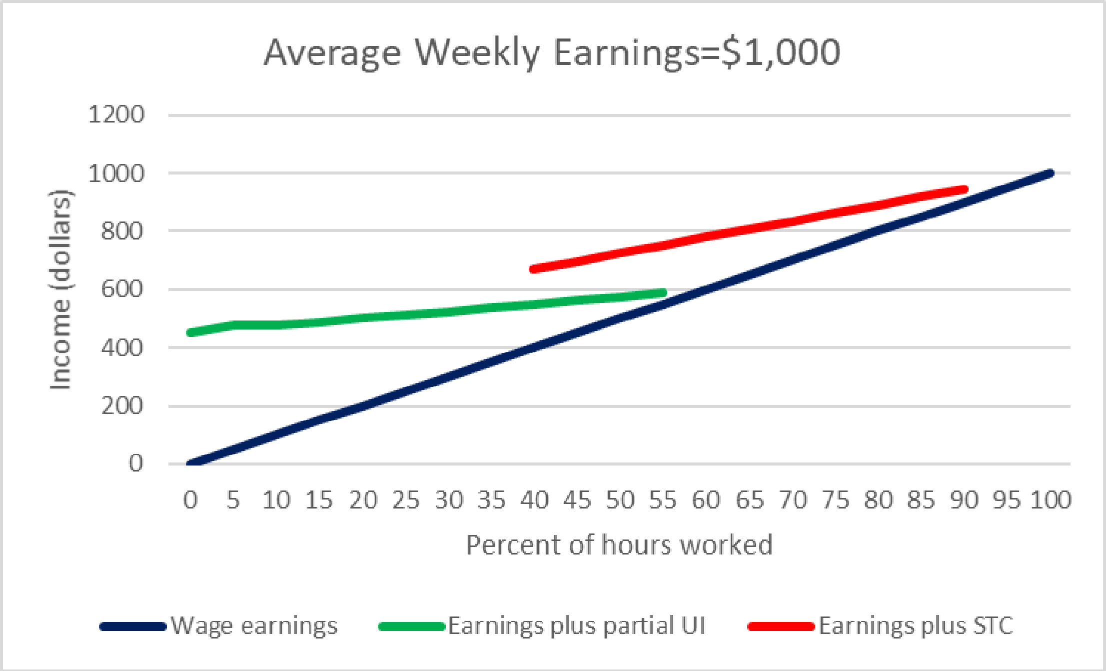


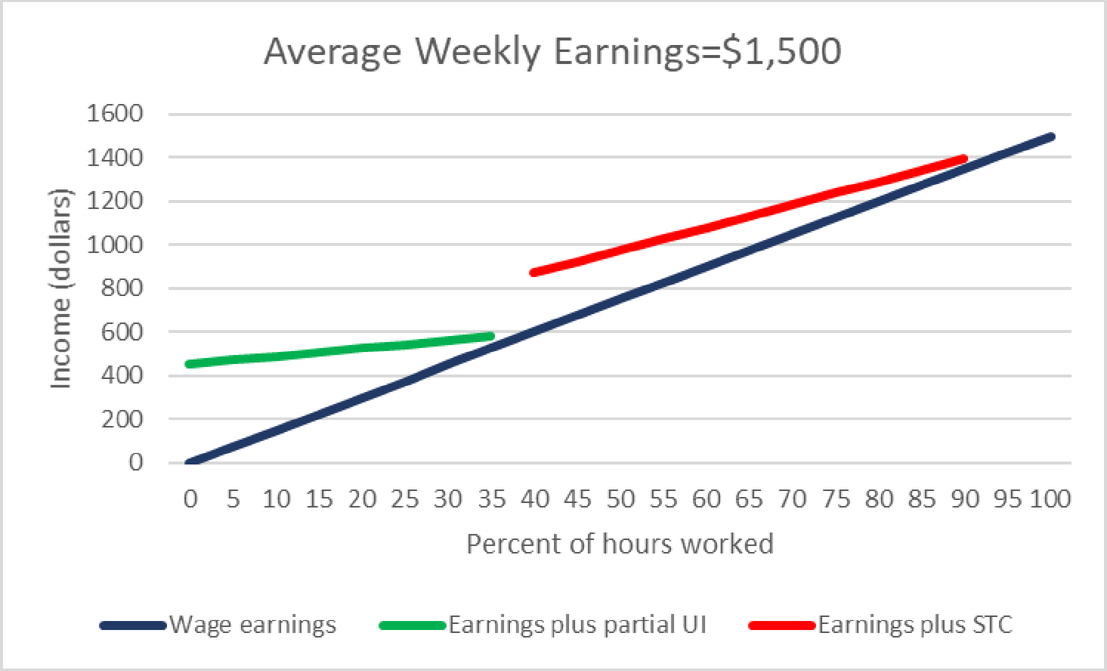


Illinois partial UI and STC programs

- 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 ½ 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*WBA; benefit calculated disregarding $25 or 25% of earnings
- STC benefit: Pro-rated for hours reductions of 10% to 60%

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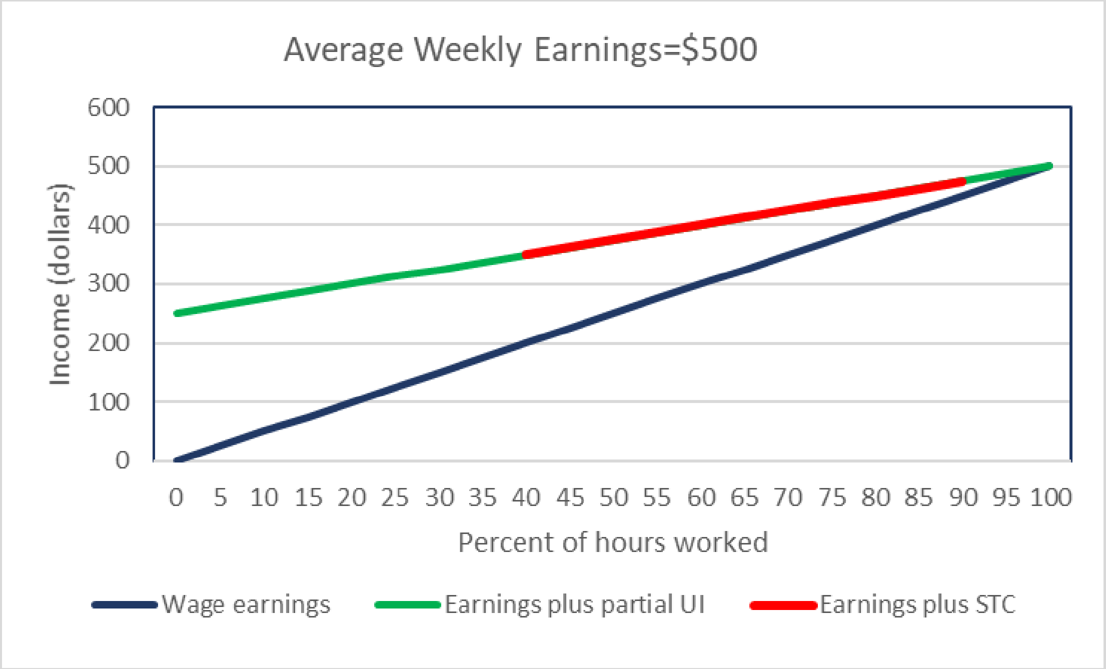
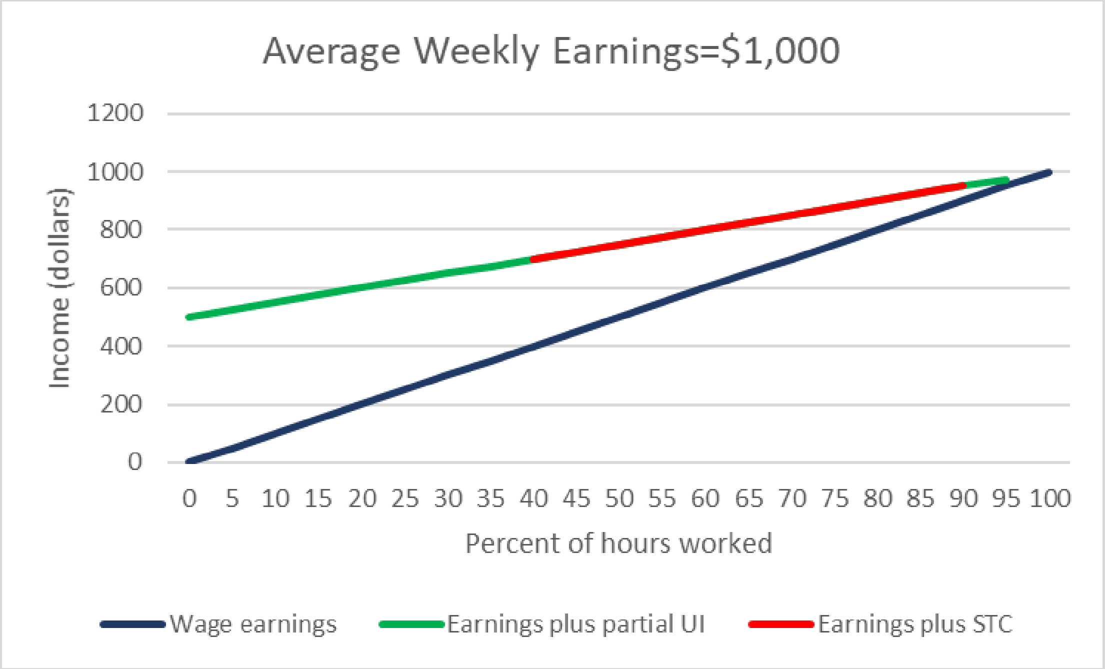
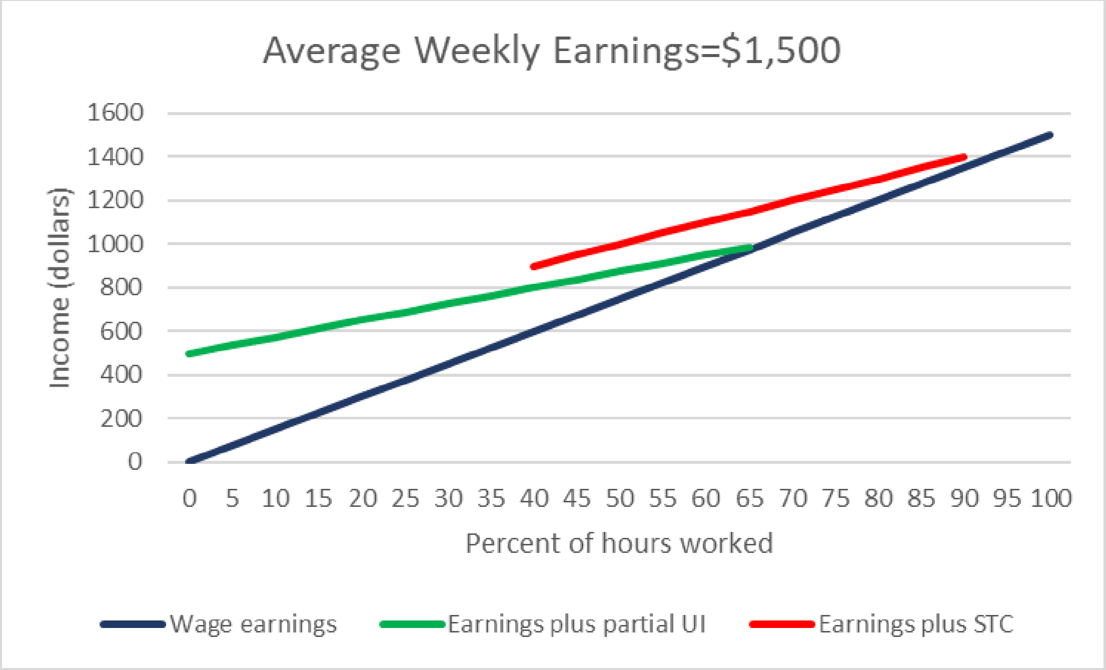
Partial UI formulas could be made more generous

- 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 ½ average weekly earnings (e.g., 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. ½ 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: ½ 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%

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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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