



Work Sharing—An Alternative to Layoffs for Tough Times

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“It is the kindness to take in a stranger when the levees break, *the selflessness of workers who would rather cut their hours than see a friend lose their job*, which sees us through our darkest hours.” President Barack Obama’s 2009 Inaugural Address

The nation is experiencing the worst recession in a generation. Since the end of 2007, the U.S. economy has lost about 4.4 million jobs and the national unemployment rate has risen inexorably, reaching 8.1 percent in February 2009. This recession is exacting a harsh toll on many workers, with particularly large jumps in unemployment for adults with limited education and for African-American and Hispanic workers. Even if economic growth resumes in 2009, the job market is not likely to fully recover until mid-2010 or beyond.¹

Work sharing, also called short-time compensation, is a special Unemployment Insurance (UI) program that softens the impact of a business downturn on workers, employers and the government. Under work sharing, an employer reduces the hours of work for all workers in a firm or a business unit instead of laying off a portion of the workforce. Workers then receive partial UI benefits to help compensate for the lost hours of work. Because of the severity of the current recession, work sharing programs should be expanded and more states should adopt them. This policy brief describes work sharing and the opportunity for federal action to expand its use.

The Role of Work Sharing

Work sharing programs within the federal-state UI system allow an employer to avoid layoffs and temporarily cut costs by reducing the number of regularly scheduled work hours for the entire workforce or business unit. For example, a firm faced with declining demand for its products or services could reduce the hours of all workers by 20 percent instead of laying off 20 percent of the workforce. Under work sharing, an employer develops a plan with the consent of the union, if the workforce is covered by a collective bargaining agreement, and then submits the plan for approval by the state UI agency. If the plan is approved, workers receive partial UI benefits to help compensate for the lost hours of work. In a typical state program, individuals work four days per week and receive UI benefits for the fifth day of the week while maintaining their employer-provided health and retirement benefits.

Work sharing was first used in California during the late 1970s. A temporary national program was enacted in 1982 and permanent changes to federal law were made in 1992 to allow states to adopt short-time compensation programs. Currently, only 17 states operate programs.² Short-time

compensation benefits, like regular UI benefits, are financed through state UI payroll taxes and paid from state trust funds.

Short-time compensation is not heavily used compared to the regular UI program. But program participation tends to increase sharply when the economy weakens. Beneficiaries under short-time compensation increased from 32,498 in 1997 to 111,202 in 2001 before falling back to 40,238 in 2005.³ During the current recession, states with work sharing programs have reported a spike in program participation by employers and workers. Between 2007 and 2008, there was nearly a 60 percent increase in the number of companies using New York State's Shared Work program and a 119 percent increase in the number of companies using a similar Rhode Island program. Use of work sharing has soared in states hard hit by the housing market collapse. Between 2007 and 2008, initial claims under work sharing rose by 171 percent in Arizona, 78 percent in California and 272 percent in Florida, according to data compiled by the Employment and Training Administration of the U.S. Department of Labor.

The Benefits of Work Sharing Programs

Work sharing is a promising alternative to layoffs, which reduces the impact of an economic decline on workers, employers and the government. The most significant benefits are that it:

- Helps workers keep their jobs, maintain their benefits and continue to build their skills and experience while the overall labor market is weak.
- Offers distinct advantages for entry-level and less experienced workers who are especially vulnerable if a layoff occurs.
- Enables employers to keep the workforce intact and retain skilled employees, greatly reducing the costs of recruitment and training when the economy recovers.
- Benefits the government by keeping more people employed and productive.

There are additional reasons to encourage work sharing. A modest reduction in earnings spread across a large pool of workers is less likely to result in the significant hardships that jobless workers and their families may experience. Also, as employers become familiar with and participate in the program over time, they may adopt more thoughtful and responsible approaches to layoffs.

Work sharing is not a magic bullet for a deteriorating labor market. It is most useful for companies and industries in which it is possible to reduce hours and modify work schedules. It is a tool to respond to falling demand, but it is not designed to avert a permanent layoff or plant closing. In addition, there is potential for abuse if a work sharing effort is not carried out with input from workers or their representatives.

Federal Action Needed to Expand Work Sharing

At a time of rising unemployment, more states should adopt work sharing programs. The federal government also should take action to expand the number of companies and workers participating in state-administered programs. A first step toward this goal is to address the limitations of the federal law that allows states to adopt short-time compensation programs. Another step is to increase technical assistance to states and provide direct outreach to employers, business organizations,

unions and other groups. A third, more ambitious step would be to establish a temporary federal program that would stimulate expansion of current state programs and encourage more states to adopt work sharing.

Correct a technical deficiency in federal law. It is important to fix a technical deficiency in the federal law that defines state short-time compensation programs. Congress authorized a temporary national program in 1982 to allow states to experiment with short-time compensation. Work sharing became a permanent part of the UI program through the Unemployment Compensation Amendments of 1992. However, the 1992 permanent authorization did not include certain employer and employee protections that had been built into the 1982 temporary program. Most notably, the 1992 law left out requirements that employers continue to provide health and retirement benefits for short-time compensation beneficiaries and that union representatives provide consent to the plan. Policymakers attempted to fix the problem by inserting new provisions in the failed Reemployment Act of 1994. Since the 1990s, uncertainty and concerns about the limitations of the 1992 legislation have hampered the ability of the U.S. Department of Labor to provide program guidance and technical assistance.⁴

To address this issue, Congress should adopt a technical amendment to restore the protections in the 1982 law or provide clear authority for the Secretary of Labor to establish appropriate requirements for state programs.

Expand the federal role in outreach, marketing, education and technical assistance. Since the early 1990s, the Department of Labor has provided limited guidance and assistance to states interested in adopting work sharing. Very few states launched programs after 1992 compared to the number initiated between the late 1970s and early 1990s. Short-time compensation continues to be a small program that is not well known to employers or workers.

The Department of Labor should step up its guidance and level of assistance to the states. The Department should develop model state legislation, provide guidance and convene conferences or other educational programs for the states. In addition, the Department should assist states with expanded marketing and outreach to employers, business organizations, unions and workers. Direct outreach to business associations and unions could be particularly helpful.

How States Are Marketing Work Sharing

New York and Rhode Island report surging interest in work sharing during the recession. Rhode Island uses a rapid response team—a state unit designed to respond to large-scale layoffs—to promote work sharing and to help employers understand how it can meet their needs. The Commissioner of the New York State Department of Labor holds press conferences across the state to educate employers about the benefits of the Shared Work program.

Establish a temporary, federally funded short-time compensation program. In response to the recession, the Administration should consider taking more ambitious steps to expand the reach of current programs. The Administration could work with Congress to establish a temporary program to provide federally-funded short-time compensation benefits in states that operate programs. This approach would reduce pressure on state UI trust funds during the

economic crisis and would encourage states to expand participation.⁵ In addition, the federal government should provide start-up funding to states without work sharing programs.

Key features of a temporary program are:

- Time Frame and Funding. It would be a two-year, federally funded program that would not draw down state UI trust fund balances. Federal funds would be used to reimburse state accounts.
- Administrative Costs. State agencies would receive additional funds to administer the increase in the number of participating employers and beneficiaries and to automate the program. Because most states approve work sharing plans on a case by case basis and use a manual, paper-based process, administrative costs for short-time compensation tend to be somewhat higher than for regular benefits.
- Start-up Funding for States. States that establish programs during the next two years could apply for grants to increase administrative capacity and implement work sharing programs. States would be able to participate in the temporary, federally funded program by enacting companion legislation.
- Adequate Notice. Employers that file a work sharing plan would provide adequate notice to employees about any reduction in hours and changes in schedule and allow employees to participate in training during their down time.
- Inclusion of Full-Time and Part-Time Workers. The temporary program could be used to assist full-time *and* part-time workers whose hours have been reduced in lieu of temporary layoffs.
- Increased Role for Labor Unions. Unions would have the option of promoting and initiating short-time compensation plans. Allowing unions and employers to initiate a plan may increase participation in work sharing.
- Training in Tandem with Work Sharing. States would be encouraged to provide basic skills and occupational skills training to short-time compensation beneficiaries during their down time, using existing authority and funding under the Workforce Investment Act. Priority would go to those employed in industries with a high concentration of low-wage workers with limited education and skills.
- Role for State Rapid Response. States would be encouraged to direct state and local rapid response teams to advise employers about alternatives to layoffs and help employers assess the feasibility of using short-time compensation.

It is time for work sharing to take on a more significant role in the nation's response to unemployment. An expansion of work sharing to all states would complement the modernization

of UI benefits included in the American Recovery and Reinvestment Act of 2009. The benefits of expanded work sharing programs would flow not only to workers, but also to employers and state governments that have been hit hard by the recession.

¹ “How long would a job market recovery take? January 7, 2009 Economic Snapshot. Economic Policy Institute. January 2009.

http://www.epi.org/economic_snapshots/entry/webfeatures_snapshots_20090107/

² The 17 states are: Arizona, Arkansas, California, Connecticut, Florida, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Missouri, New York, Oregon, Rhode Island, Texas, Vermont and Washington. 18 states have such laws; Louisiana enacted a short-time compensation law, but did not implement it.

³ David E. Balducchi and Stephen A. Wandner. “Work Sharing Policy.” *Publius*. Volume 38, Number 1, Winter 2008. Page 16.

⁴ Balducchi and Wandner. Page 16-18.

⁵ 24 states are experiencing serious UI financing difficulties, as of the end of 2008. Seven additional states have trust funds that are barely solvent. See National Employment Law Project. *Unemployment Insurance Financing: State Trust Funds in Recession as of December 31, 2008*. February 2009.

http://www.nelp.org/page/-/UI/Trust_Fund_Solvency_Update.pdf