

Part-time “Un”employment (STC) as a economic stability measure

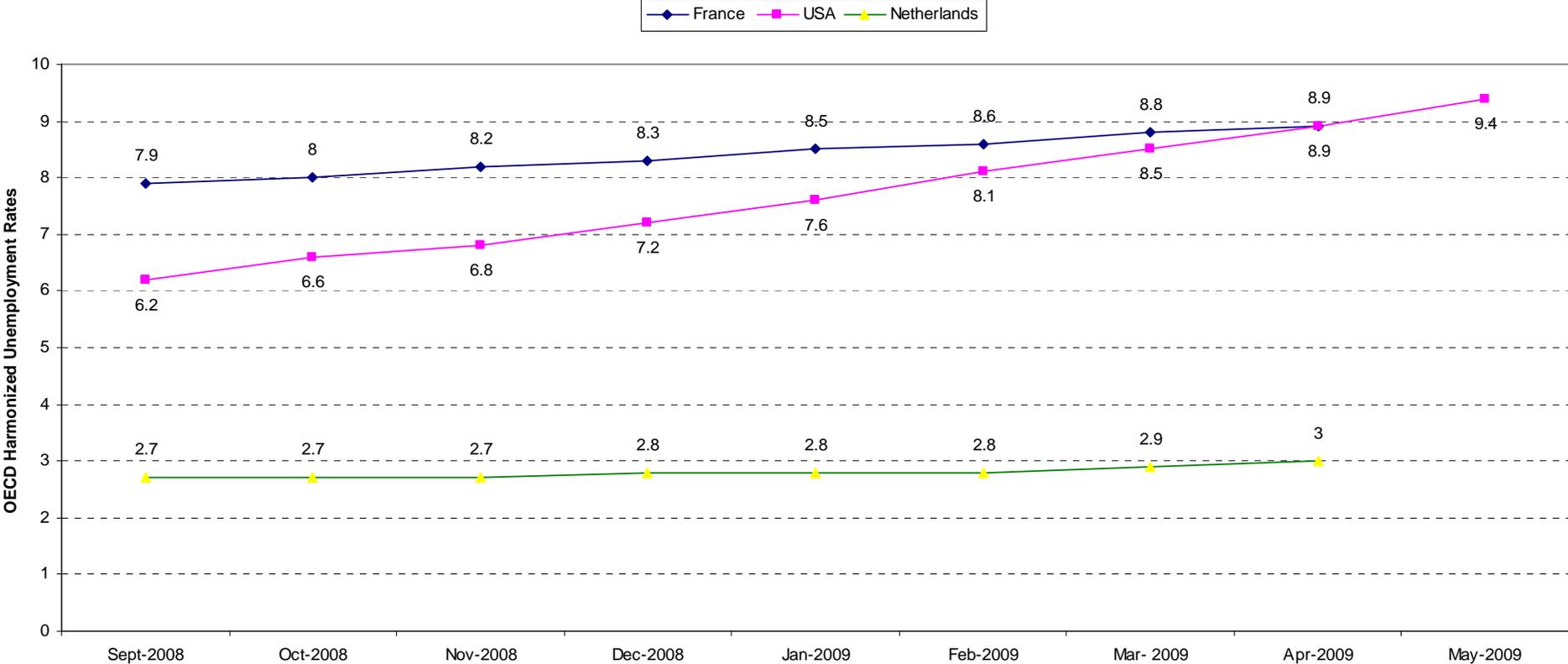
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Alarm bells in America: for all of its vaunted labor market flexibility, unemployment in the US now exceeds that of France and is triple the rate of “short-hours” Netherlands

Select Unemployment Rates During the Global Financial Crisis



Short time compensation

- The US has not been able to protect its economy from the global financial contraction of 2008-09 by nimbly creating jobs. Meanwhile “stodgy” labor markets in Europe have faired much better despite limited fiscal sovereignty under the Euro.
- As with past economic crises, the prospect of using unemployment insurance compensation (STC) to promote hours flexibility rather than employment flexibility to stabilize labor markets and economic output has experienced a revival with the onset of the global financial crises.
- Understanding the macroeconomic importance of work-sharing suggests that short time compensation and other work time regulation policies should assume greater prominence in stabilization policies in a post-industrial, climate-constrained world.

Brief History of STC

Work-sharing programs predate UI systems in Germany and the US.

Germany- STC dates back to 1927

Canada – STC began in 1981

US – STC rights granted to states in 1982

Importantly, all programs are federally-funded, but US state programs try to create the semblance that they are “pre-funded” by experience-based premiums.

Two important macroeconomic aspects of the funding of the Canadian STC system:

1. Past employment history does not affect premiums
2. One-fifth of the program costs were covered from the general revenues of the federal government.

Thus, the Canadian program illustrates that a national STC program does not have to be pre-financed via payroll taxes and could be financed by a variety of federal fiscal arrangements.

STC can then pursue broader socio-economic objectives

Macroeconomic Benefits

- STC programs that spread the burden of economic contractions have salutary impacts on job security and, consequently, on aggregate consumption patterns.
- 1995 Advisory Council on Unemployment Compensation; “By adjusting hours of work instead of the number of workers, the cost of unemployment, both financial and otherwise is broadly shared, rather than being borne by a relatively small proportion of workers.”
- Work-sharing results in a superior distribution of employee sacrifices relative layoffs as all workers maintain some degree of job attachment and fringe benefits. Like any social insurance program, the process of spreading the risk of a calamity has important effects on behavior and well-being. In the case of work-sharing, enhancing the job security of all workers can have a stabilizing effect on consumption patterns, which will in turn attenuate economic fluctuations.

Social costs of human capital losses and hysteresis

- Although the costs to the unemployment compensation scheme are relatively similar whether benefits are granted to a small number of beneficiaries or a larger group receiving partial benefits, the social costs of part-time "un"employment may be greatly reduced.
- Full-time unemployment is linked with a greater incidence of alcoholism, drug abuse, child and spousal abuse and other anti-social behavior, which is likely to be less prevalent under work-sharing.
- In the US, the social costs of full time unemployment are significant due to the reliance on employer-provided healthcare
- Although the US is not fiscally-restrained, there are fiscal advantages to work-sharing vis-à-vis layoffs. Full-time unemployment entails a greater usage of welfare payments, food-stamps, and rent assistance than would not be needed under work-sharing.
- The socialization of the costs of full-time unemployment represents a public subsidy to the firm and senior employees (insiders).

Human Capital Loss and Hysteresis

- Since they accumulate over time, the largest macroeconomic costs of full-time unemployment may be those related to human capital loss and hysteresis.
- The ideological or psychological aspects of path-dependency may have been overlooked. That is, society may become more accepting of higher unemployment rates over time. In which case, it is not the skills of the worker or the commitment of the employer that is lacking, but a social desire to reduce unemployment (Kalecki, 1942).
- Intuitively, relying on part-time unemployment would eliminate much of the hysteresis effects related to the skill and behavior of workers as well as those related to the attitudes of employers and governments regarding “equilibrium” or “natural” rates of unemployment.

Importance of Federal Financing

- Drawing on Abba Lerner's (1943) observation that governments are not fiscally-restrained up to the level of full-employment allows STC programs to abandon any lingering notions that the UI system has to be prefunded by insurance premiums.
- When financed by a federal government using a sovereign currency, STC programs can be funded under a “pay as you go” policy that allows it to pursue broader objectives such as labor market solidarity (seniority payments) environmental protections (throughput limits) and socio-economic concerns (well-being improvements or structural adjustment).

Functional Finance

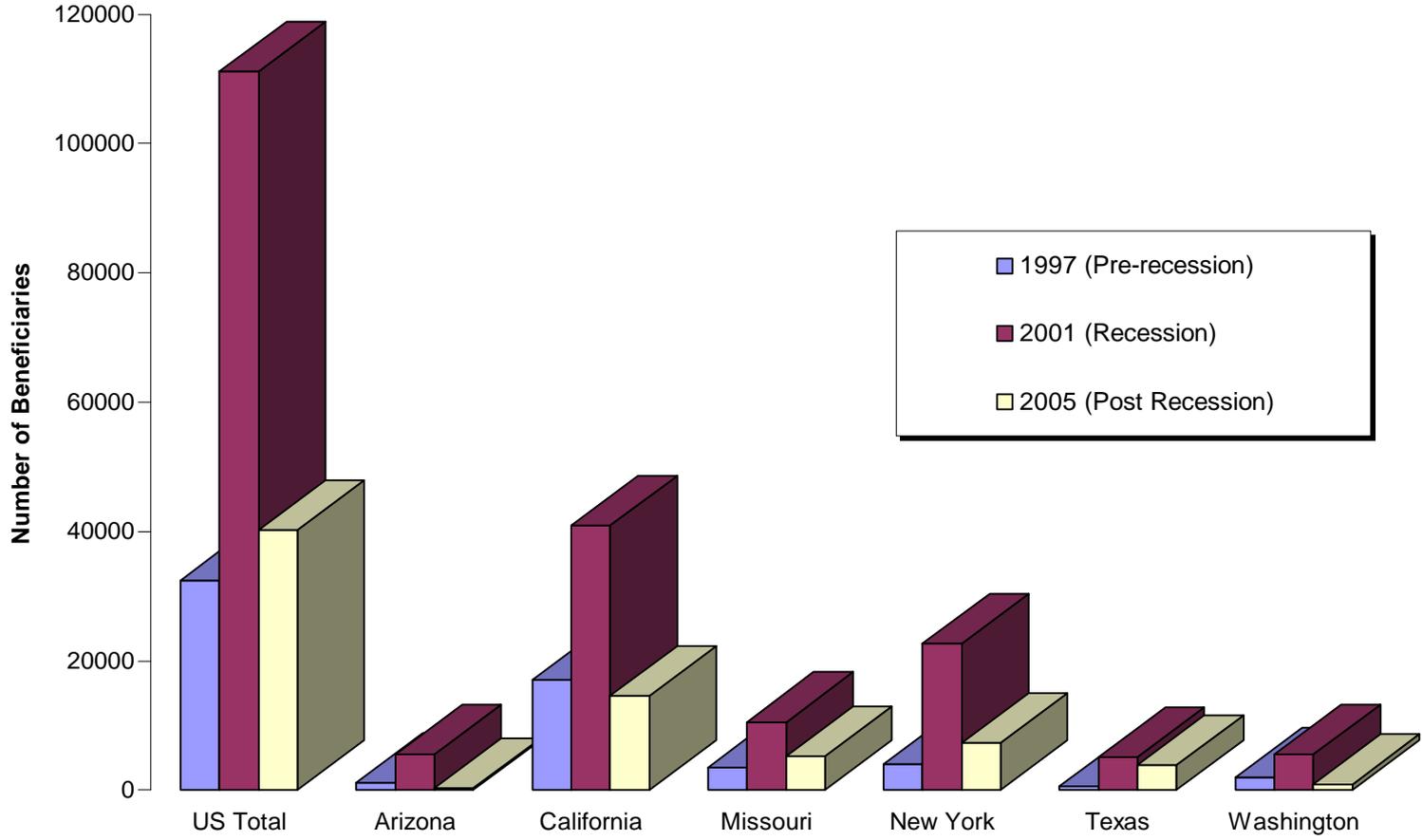
- US, UK, Australia and other currency-issuing countries are resurrecting the government's responsibility for sufficient spending as an economic stabilization measure.
- This time two important differences exist;
 - 1) reducing unemployment must be accomplished in a climate-constrained environment that can ill-afford an expansion of the current composition of economic activity (Stern Report).
 - 2) Psychological limits to growth have been reached. (Happiness research reveals that greater socio-economic participation is more important than economic growth)

Therefore, spending to encourage work time reduction is a more sustainable and redeeming use of stabilization funds.

Assessment and revival of STC

- Balducci and Wandner (2007) investigated the use of STC during the 2001 recession in a variety of US states. Their analysis shows a clear increase in the use of work-sharing in the majority of states that offer a STC program.
- Although the scale of STC use is minuscule as a percentage of total UI benefits (2%), the data suggest that the policy can create the flexibility needed by employers as they adjust to a reduced demand for labor without resorting to layoffs

Cyclical Use of Part-time Unemployment Compensation in the US and for the Six Most Active States



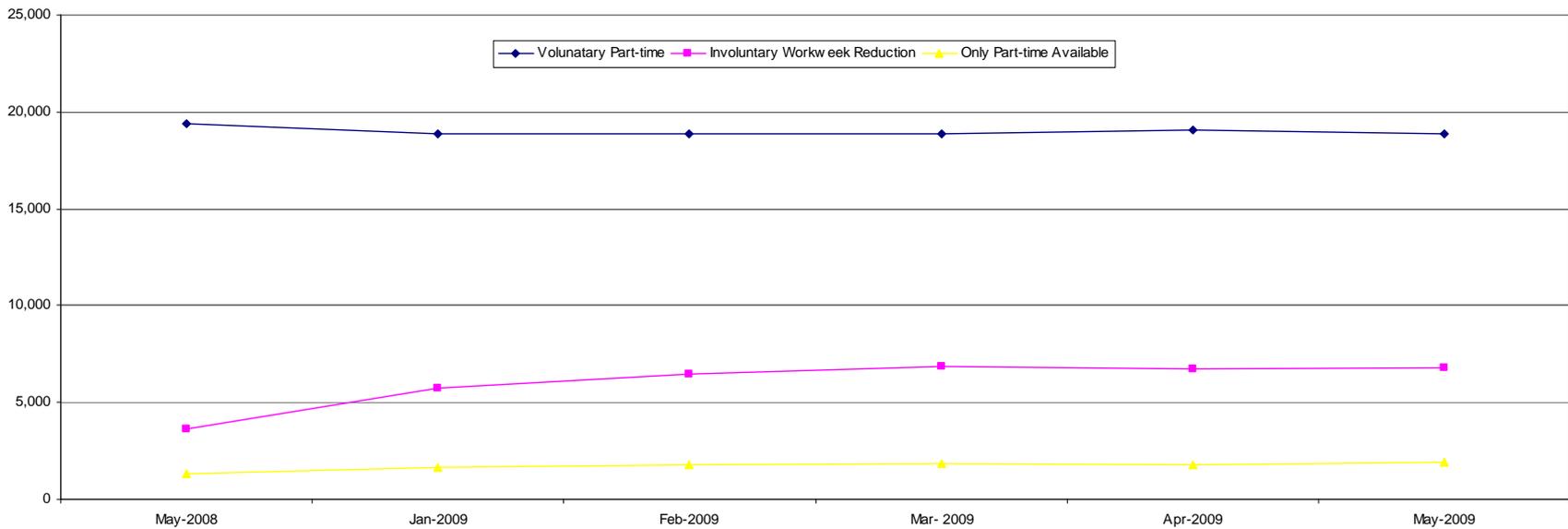
Source: Balducchi and Wandner. (Note: US total of 111,202 in 2001 was still only 1.1 percent of regular UI beneficiaries)

- Van Audenrode (1994: 97) concludes that, “countries with the most generous STC programs have large and quick working time responses to variations in the need for labor. In those countries, overall labor adjustments end up being as flexible as in the United States because working time adjustments compensate for restrictions on firings.” In other words, hours flexibility has tended to offset the greater rigidity that European firms face in expanding and contracting their payrolls. This suggests that a more solidaristic method of labor market adjustment is possible.
- Some arbitrary hours shuffling happens automatically

Part Time Due to Slack Work or Lack of Full Time Jobs, US Workers

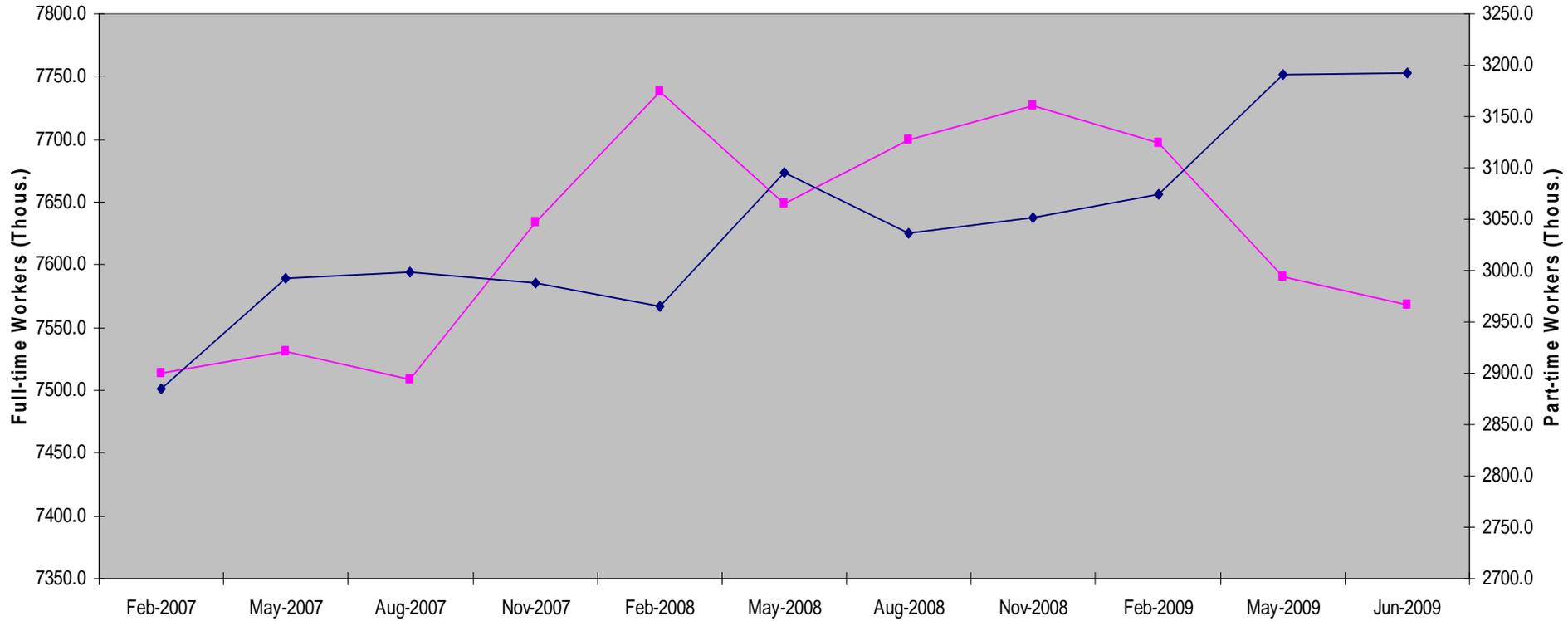


Part-time Work Status by choice in America



Employment Composition in Australia

■ Full-Time Employment ◆ Part-time Employment



- The US figures indicate that for every one involuntary part-time worker there are three workers who are voluntarily working part-time.
- Importantly, evidence suggests that even more workers are willing to shift to part-time status. In a survey of 757 full-time workers, the Opinion Research Corporation (March 26-30, 2009) found that 94 percent of employees were willing to save jobs by changing or reducing their schedule. If their job was at stake, 8 of 10 full-time workers would move to a 4-day week with the same number of hours. Sixty percent of workers would accept additional unpaid vacation days, and nearly half (48 percent) would reduce their hours with reduced pay. (Consistent with surveys conducted during tight labor markets.)

- In response to the global financial crisis, a diversity of employers – from private, to public, to the non-profit sector - have chosen to reduce hours as a means of mitigating layoffs.
- According to a survey of 141 human resource executives at US-based companies, 22 percent have reduced workweeks, 24 percent have implemented mandatory shutdowns, 17 percent have required furloughs, while 11 percent have offered voluntary furloughs (Watson Wyatt, 2009).
- A bigger survey of 518 large companies by Hewitt Associates (2009), found that 20 percent of companies had cut hours or imposed furloughs, a much greater fraction than the survey has revealed in previous recessions.
- In addition to large public employers, such as the State of California, implementing reduced workweeks and furloughs –which are essentially unpaid vacation leave – many private employers across the US are realizing the benefits of work-sharing (Yost, 2009). Yet, only those employers and employees residing in one of the 17 states that offer STC can avail themselves to partial federal unemployment benefits to help offset the income loss resulting from their hours reduction.
- Since work sharing has proven popular with both employers and employees, public policy should seek to make the reduction and reorganization of hours a more attractive, viable, and popular alternative to layoffs.

Conclusion

- In the 1960s, President Kennedy cited the communist threat as an excuse for not reducing hours, “In the face of the Communist challenge, a challenge of economic as well as military strength, we must meet today’s problem of unemployment with greater production rather than by sharing the work.”
- Given that today’s paramount challenges are now unemployment, labor market inequality that adversely impacts our well-being, and climate change, a new progressive American president can not make similar excuses.

- Since Kennedy's abrogation, Europe has exceeded the US in expanding the leisure time of the working class (as well as other social benefits). Despite its celebrated labor market flexibility, American is left with a financial holocaust, a hemorrhaging labor market and a moribund economy. Meanwhile, a lack of adequate federal fiscal policy in Europe has forced many countries to become increasingly experimental with work hours and the strategy has been somewhat successful in insulating labor markets.
- Yet, given its significant fiscal prowess, America can reform its federal spending programs to encourage work-sharing rather than the layoffs and thereby attenuate the pernicious macroeconomic effects of full time unemployment.