

## Memo

To: Interested Parties

From: Dean Baker, Center for Economic and Policy Research

Topic: Job Sharing Tax Credit

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CBO baseline projections show unacceptably high rates of unemployment for several years into the future. According to CBO, unemployment will average 10.2 percent for calendar year 2010, 9.1 percent for 2011, and 7.7 percent for calendar year 2012. The large projected deficits for these years, coupled with a political environment that is hostile to additional stimulus, will make it difficult to get any substantial stimulus approved by Congress. At the same time, it is also difficult to find forms of stimulus that will provide a substantial – and quick – boost to the economy.

Job sharing is a mechanism that could maximize the employment from each dollar of stimulus. The basic point is simple: job sharing would use tax dollars to pay firms to shorten the typical workweek or work year, while keeping pay constant. If workers' purchasing power is held constant even as they work fewer hours, then labor demand will be held constant. This should cause employers to want to hire additional workers to make up for the fewer hours worked by their incumbent work force. For example, if the firm had all of its workers putting in 5 percent fewer hours, then it should want to hire approximately 5 percent more workers.<sup>1</sup>

The effects of this tax incentive could be dramatic. If employers of 60 million workers reduced work hours by an average of 5 percent, then it should lead to the creation of 3 million new jobs – before taking into account any multiplier effect. In principle, these jobs could be created quickly and would be in the private sector. (A similar payment, comparable to the tax credit, could also be extended to state and local governments.)

### **Mechanics of the Job Sharing Tax Credit**

The credit is intended to compensate employers for shortening work-time while keeping compensation unchanged. For example, suppose an employer had been employing workers for an average of 40 hours per week over the prior year. If the employer were to shorten the average workweek by 2 hours, or 5 percent, while keeping compensation unchanged, then they would be eligible to receive a tax credit for the amount needed to keep each worker's compensation unchanged.

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<sup>1</sup> There are 17 states that have workshare programs that are designed to achieve a similar outcome by having employers reduce hours rather than cut back employment. However, these programs usually put in bureaucratic obstacles that make it difficult to take part in the program. The main purpose of these obstacles is to prevent employers from taking advantage of the program if they had not otherwise intended to make layoffs. In this case, the goal is to have employers take advantage of the program, whether or not they intended to make layoffs.

The size of the credit would be capped at \$3,000 a year, or 10 percent of the worker's compensation, whichever is lower. This would both ensure that the tax credit is disproportionately directed toward workers at the middle and bottom and also limit the incentives for gaming the system.

The intention would be to have the credit take effect quickly, so the best route would be to allow employers to begin to take the credit by adjusting hours worked beginning at a date not long after legislation is approved. The adjustment should be relative to a well-defined base period, for example the average number of hours worked by workers in the relevant category in the 3 months prior to the effective date. The credit can initially be given based on self-reporting, but can be subsequently verified through payroll tax data. As an additional check, an employer can be required to clearly post any reductions for the credit on their website. This would allow the affected workers the opportunity to verify that the hours reductions had in fact occurred.

It is likely that larger firms will disproportionately take advantage of this tax credit since it may be difficult for smaller firms to adjust their workplace for shorter hours. To correct for this, the shortening of hours could also take the form of additional paid vacations or other paid leaves, since these should have the same impact on the need for new workers.

Table 1 shows the hypothetical impact of this tax credit under low and high take-up scenarios. In the low take-up scenario the rate is assumed to be zero for smaller firms and 30 percent for the largest firms. In the high take-up scenario the rate is assumed to 5 percent for the smallest firms, rising to 60 percent for the largest firms. The calculations assume that the average reduction in work time is 5 percent.

**Table 1**  
**Direct Job Creation of Job Sharing Tax Credit**

Firm Size	Employment (thousands)	Average Hours Reduction = 5 percent			
		Take Up Rates		Low	High
		Low	Direct Job Creation	High	Direct Job Creation
1-4	5,606	0%	0.0	5%	14.8
5-9	6,613	0%	0.0	5%	17.4
10-19	8,204	5%	21.6	10%	43.2
20-49	11,801	10%	62.1	20%	124.2
50-99	8,873	15%	70.1	30%	140.1
100-299	11,310	20%	119.1	40%	238.1
300-499	7,813	25%	102.8	50%	205.6
500-999	7,334	30%	115.8	60%	231.6
over 1000	40,349	30%	637.1	60%	1,274.2
<b>Total (thousands)</b>			<b>1,128.5</b>		<b>2,289.1</b>

Source: BLS, Business and Employment Dynamics, 2005 and author's calculations.

With the rates assumed in the low take-up scenario there would over 1.1 million jobs directly created. The rate in the high take-up scenario implies the creation of nearly 2.3 million jobs.

Table 2 shows the gross cost, assuming that the average credit is \$2,000. It calculates the indirect job creation under the assumption that additional spending has a multiplier effect of 1.5 (i.e. the growth attributable to re-spending is equal to 50 percent of the tax credit).<sup>2</sup> It also assumed that 20 percent of the GDP generated as a result of the tax credit is recaptured in tax revenue.

**Table 2**  
**Cost of Net Impact of Job Sharing Tax Credit**

	Gross Cost (\$2,000 per worker) (billions)	Direct Jobs (thousands)	Indirect Jobs (M=1.5) (thousands)	Total Jobs (thousands)	Net Cost (billions)	Cost per Job per Year (thousands)
Low	\$42.9	1,128.5	207.1	1,335.6	\$30.0	\$22.5
High	\$87.0	2,289.1	420.0	2,709.1	\$60.9	\$22.5

Table 2 shows that total job creation in the low take-up scenario will be 1.3 million. In the high take-up scenario it will be 2.7 million. The average cost per job per year is \$22,500 under these assumptions, far lower than the cost of job creation through other forms of stimulus.

<sup>2</sup> Moody's Economy.com estimated the multiplier for spending on the existing state workshare programs at 1.7.