Testimony of Dean Baker
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As is typically the case in economic downturns, the most economically vulnerable experience the greatest pain. The overall unemployment rate has risen from 4.5 percent at the peak of the last business cycle to 9.7 percent in February of 2010, an increase of 5.2 percentage points. By comparison, the unemployment rate for Hispanics rose from 5.0 percent at the peak of the business cycle to 12.4 percent in February, an increase of 7.4 percentage points.

The increase in the unemployment rate for African Americans has been even sharper. For African Americans overall, the unemployment rate increased by 8.1 percentage points, from a low of 7.7 percent in August of 2007 to 15.8 percent in the most recent data. The unemployment rate for African American teens has increased by an incredible 16.3 percentage points from its low of 25.7 percent in March of 2007 to 42.0 percent in the most recent data.

This pattern is typical of a downturn. It tends to be the case that those who are most recently hired and lowest down in the status of their jobs are the first to be fired. Hispanics and African Americans continue to face difficulties and discrimination in moving into better paying jobs, therefore they are often the first to be laid off in a downturn. What is different about this recession is the severity of the downturn and the projections that its impact on the labor market will be felt through most of the current decade. The most recent projections from the Obama administration show the unemployment rate remaining above normal levels until 2017.

This extraordinary situation demands new and stronger measures than have been used in recent recessions. In this vein, the Congressional Black Caucus may want to consider an adaptation of the work-sharing model that has proven quite successful in Germany and the Netherlands. Both countries have aggressively promoted work-sharing programs. As a result, their unemployment rates have not risen in this downturn, in spite of the fact that both countries have actually seen steeper falls in output than the United States.

The logic of work-sharing is very simple. Instead of providing an unemployment benefit to unemployed workers who have lost their job, work-sharing programs divide the benefit among workers who stay at their job, but work shorter hours. In the standard German version, workers would have their hours cut by 20 percent. The government makes up 60 percent of the lost pay (12 percent of total pay) with a tax credit. It requires the company to cover 20 percent of the lost pay (4 percent of total pay).

This leaves workers with 4 percent less pay, while they work 20 percent fewer hours. Typically, this could mean working a four-day week instead of a five-day week. In this situation, the savings on commuting costs, childcare, and other work-related expenses are likely to exceed the workers' reduction pay, leaving them on net better off in spite of the fact that they are working fewer hours.

It should be possible to adapt a version of work-sharing for the United States. In fact, 17 states already have work-sharing programs as part of their unemployment insurance system. These programs are not well publicized. As a result, many employers do not even know of their existence. There are currently bills in both houses of Congress that would provide funding to publicize and modernize the work-share programs that already exist and provide seed money to states that would like to establish such programs.

It is important to recognize that measures that prevent layoffs have the same impact as creating new jobs. Each month the Labor Department reports a net figure for job gains or losses. In recent months, the Labor Department has reported relatively small declines in jobs, leading many to believe that few layoffs are taking place. In fact, companies are losing roughly 4 million workers a month, half of them through voluntary quits and half through layoffs and firing. These lost jobs are offset by roughly 4 million new hires each month, leaving the net figure showing modest job losses in recent months.

If the 2 million workers who lose their job each month against their will can be reduced by 10 percent through work-sharing programs, then this would have the same effect on the economy as adding 200,000 jobs a month. Therefore, work-sharing should not just be seen as a mechanism that could have prevented job loss during the worst months of the downturn, as it can effectively create more jobs even now by slowing the current pace of layoffs.

It is also possible to design a tax credit that provides a mechanism for work-sharing that goes beyond the existing work-share programs and would be able to start immediately. Representative Conyers has already proposed a bill that can provide the model for such a program. Under this bill, employers, including small businesses, non-profits and state and local governments, can get a credit for up to 10 percent of workers' total compensation, or $3000 (which ever is less), for reducing work hours while leaving their compensation unchanged. The logic of this system is that the total amount of labor demanded is more or less fixed by the demand for the workers' output. However, if workers all work 10 percent fewer hours, then employers will need 10 percent more workers. If employers of 30 million workers took advantage of this sort of credit, they would need to hire 3 million additional workers.

This tax credit can provide an opportunity for employers to experiment with family friendly work practices such as paid sick days or paid family leave. The tax credit can provide a period of government support for these practices, effectively allowing companies to test them out at little or no cost. If these family-friendly work practices prove successful and contribute to a more productive and desirable work environment, then employers are likely to leave them in place even after the credit has expired. This will be a lasting benefit from a temporary tax credit.

It is also a simple matter to design a tax credit so that it can be targeted to communities that have been especially hard hit by the downturn. The size of the credit can be increased for areas where the unemployment rate is especially high. For example, in metropolitan areas in which the unemployment rate exceeds 15 percent, the size of the tax credit can be doubled or even tripled. This would mean that employers could receive 20-30 percent of workers' compensation if they cut back hours by 20-30 percent while leaving compensation unchanged. This would provide substantially more incentive for employers in cities like Detroit to take advantage of the tax credit.

In sum, work-sharing is a way to both increase employment in general and to target communities especially hard hit by chronic unemployment. It can also provide a basis for permanently transforming the workplace with more family-friendly policies for this and future generations of workers.

Dean Baker is an economist and Co-Director of the Center for Economic and Policy Research in Washington, D.C.