# The Rollback of Worker Protections and the Culture of Long Hours Leave Our Economy More Vulnerable to the Next Recession:

## Work sharing, common in other countries, can protect American workers from mass unemployment

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This paper was done in partnership with Groundwork Collaborative

September 2019

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# Contents



## Acknowledgements

The author would like to thank Sarah Rawlins, Karen Conner, Larry Mishel, and Andrea Beaty

# Introduction

While the timing and causes of the next recession are unclear at this point, we can be certain that we will see another recession, and probably in the not too distant future. Past recessions have been catastrophic events for millions of workers and their families, as job loss deprives people of income. This often results in the loss of homes and in many cases leads to homelessness and family breakups. We can and should look for ways to make recessions shorter and milder, but most immediately we should look to protect workers from the hardships associated with unemployment.

Mass unemployment is not the inexorable effect of the business cycle -- in fact, Germany weathered the great recession without it --but protecting workers requires policies that empower them, and programs that discourage layoffs and support employers who keep workers on payroll.

Unfortunately, the Trump Administration and conservative policymakers are pushing our labor standards in the opposite direction -- including rolling back overtime protections for millions of workers, encouraging employers to demand more work from fewer workers now and when the next downturn strikes.

# During Recessions, both Employers and Workers Benefit when Layoffs are Avoided and Work is Shared

When a recession comes, and employers see a reduction in demand for their output, they can respond by reducing their number of workers, or they can keep workers on payroll but reduce the number of hours they work. Essentially, they are sharing the same amount of work among more workers.

In general, reducing hours rather than staff should be a more desirable way to deal with a reduction in demand for both the employer and the employee. From the employer's standpoint, it keeps workers on the job through a downturn, meaning that employers don't have to find and train new workers when the economy recovers and demand increases.

From the worker's standpoint, spells of unemployment can be devastating to them and their families well beyond the loss of a portion of their income. Unemployment has been associated with a long list of bad outcomes, including increased divorce rates, deterioration in the school performance of children, depression, and suicide.[1]

## Work sharing policies through the Unemployment Insurance system have dramatically reduced unemployment in other countries and should be fully implemented here before the next recession

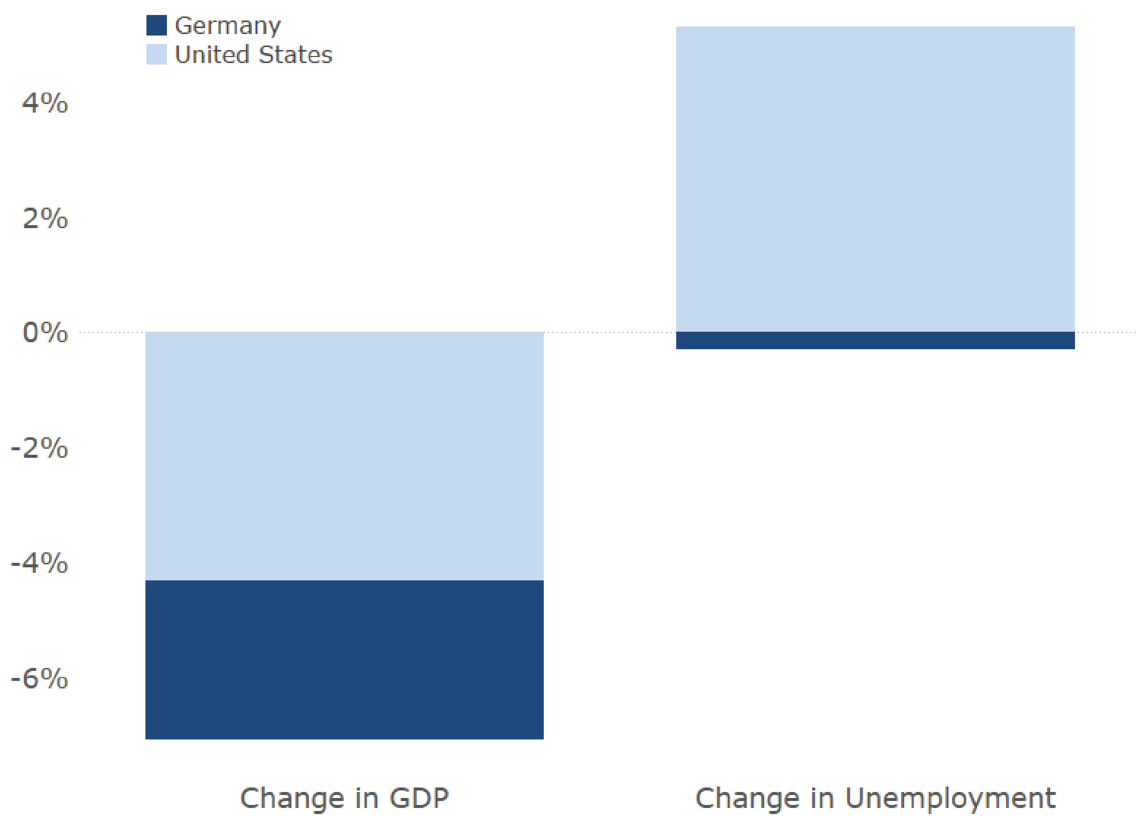
The logic of work sharing or "short-time compensation," as the program is called, is that employers can reduce workers' hours, while still keeping them employed, and have their unemployment compensation pro-rated for the percentage reduction in hours. For example, unemployment insurance typically pays a worker 50 percent of their pay when they are laid off, up to earnings limits. Under work sharing, if they have their hours cut by 20 percent, they can get 10 percent of their pay (half of their loss), made up through a short-time compensation program. In this scenario, if a worker who ordinarily works 40 hours a week, has their hours cut to 32 per work (a 20 percent reduction), with their short-time compensation they would get paid as if they were working 36 hours a week.

While work sharing programs played a role in limiting unemployment in most wealthy countries in the Great Recession, they had their largest effect in Germany. Even though Germany had a more severe downturn than the United States, measured by the fall in GDP, it actually experienced a small decline in unemployment at the trough of the downturn, as compared to a rise of 5.3 percentage points in the United States, as shown in Figure 1. Although workers in Germany did suffer a loss of pay from the downturn, they were completely shielded from any increase in unemployment.

1 Charles (2004); Nordt (2015)

**FIGURE 1**

**Great Recession: Changes in GDP and Unemployment, U.S. and Germany**




Source: OECD (2019).

Work sharing programs already exist as part of unemployment insurance systems in 27 states, including California, New York, Texas, and several other large states.[2] Unfortunately, there was relatively little use of these programs in the last recession. In the period of peak take-up in 2009, just 0.22 percent of workers in the United States were receiving benefits through the short-time compensation program. By comparison, in both Italy and Germany, 3.0 percent of the workforce was on a work sharing program, while in Belgium the figure was 5.0 percent.[3]

Two reasons for this low uptake are employers' lack of knowledge of the programs' existence, and cumbersome rules that were put in place close to forty years ago and badly need modernization. In some states forms must still be filled out by hand rather than electronic filings. The federal government should be moving now to get the existing work sharing programs modernized and to get the remaining states to include a work sharing option in their unemployment insurance programs. And, it should

2 U.S. Department of Labor (2019)
3 Abraham (2016)

make sure that every employer knows that reducing worker hours is an alternative to laying people off. Using short-time compensation should be every bit as easy as laying workers off and having them receive full unemployment insurance.

This should be a priority now, before the next recession hits. Yet the Trump Administration and Congressional leaders have not put forward any new proposals on work sharing in their budget documents or legislative priorities.

## Work sharing works best when workers have power and labor protections are strong

To be clear, there are other important differences between the German labor market and the U.S. labor market besides the widespread use of work sharing. Most notably, German workers have much more say in the running of corporations, both as a result of a higher unionization rate and also the legal right to elect half of the members of the board of directors at mid-size and large companies. The greater voice of German workers gives them more confidence that changes in work hours and structure will be carried through in ways that protect their interests. In addition to work sharing, Germany was also able to save jobs through time banking programs and negotiated reductions in hours in collective bargaining agreements. Even while recognizing the distinct institutional structure, the path of unemployment in Germany in the Great Recession shows the potential of work sharing and related measures to limit unemployment.

The surest way to increase worker power at the workplace is with higher unionization rates, but that is not easily accomplished, especially in a short period of time. However, labor laws can be written to give workers more rights on the job. For example, employers can be forced to pay overtime premiums if they change workers' schedules with short notice or require workers to work shifts with inadequate rest in between.

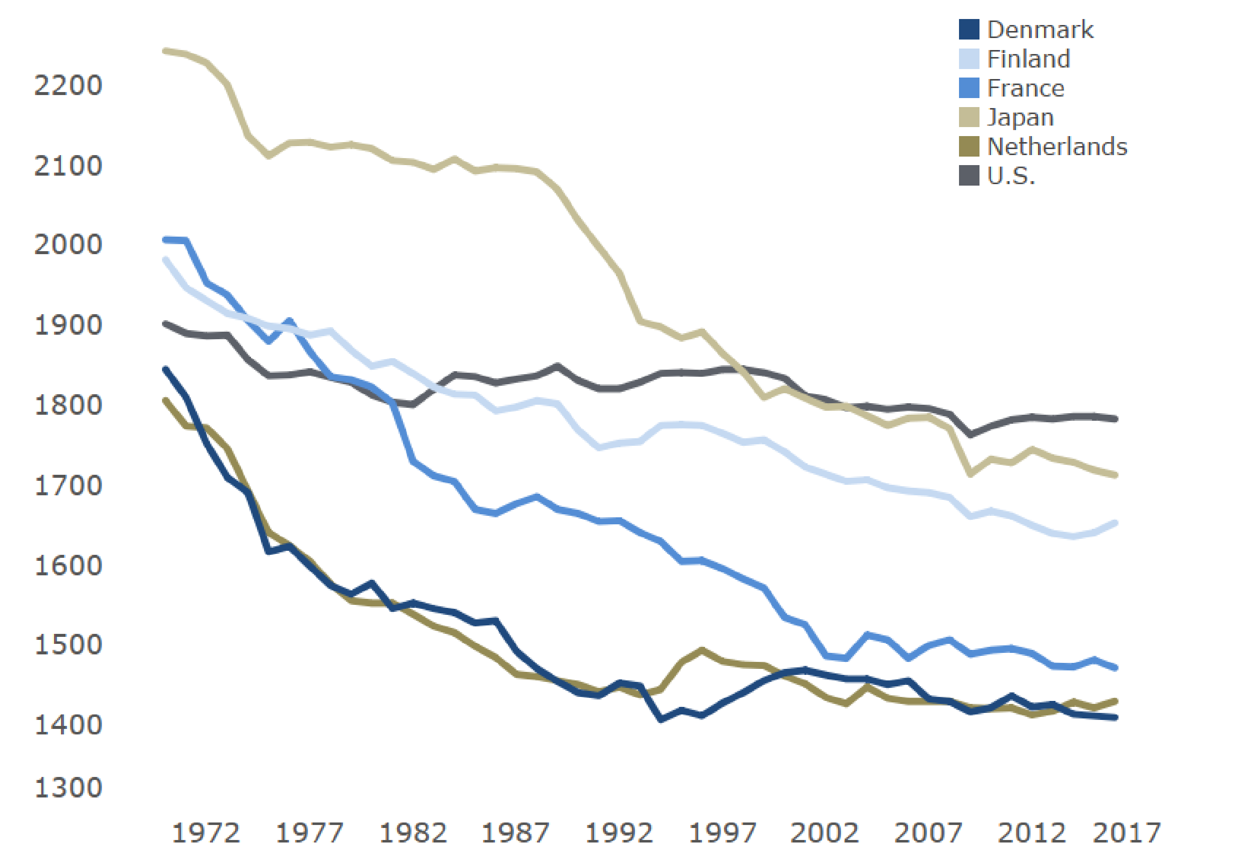
We should also have greater enforcement of the laws that already exist, such as overtime rules, which should also be extended to all nonsupervisory salaried employees. Overtime protections increase earnings for workers who put in long shifts, compensated them for putting extra hours, while at the same time providing a disincentive for employers to require long hours. Yet the Department of Labor is moving to roll back proposed rules that would have extended overtime protections to millions of additional workers, and cut overtime pay for workers who are currently covered.

# Trends in Hours in the U.S. and Elsewhere

U.S. policies encourage long hours, hampering work sharing and damaging well-being. While other wealthy countries have been sharply reducing work hours in the last five decades, there has been relatively little change in the United States, as shown in Figure 2.

**FIGURE 2**

**Average Annual Hours of Work, OECD**




Source: OECD (2019).

In 1970, average annual hours in the United States were slightly below the levels in France and the Netherlands, and well below the level in Japan. Hours in the United States were already substantially above the average for Denmark and Finland. Over the next five decades, the picture changes dramatically. In 1970, workers in the United States had put in on average 3 to 5 percent more hours than workers in Denmark and Finland, according to the OECD data, by 2016, this difference had grown to more than 25 percent. Workers in France and the Netherlands now have considerably shorter average work years than workers in the United States. Even workers in Japan now work about 5 percent less on average than workers in the United States.

The differences in the trends in hours worked is explained by the fact that other countries imposed rules requiring paid time off in the form of paid family leave, paid sick leave, and paid vacation. The countries in the European Union now require employers to give workers four to six weeks a year of paid vacation.

The United States has a long way to go in catching up with other wealthy countries in guaranteeing workers paid time off. While higher paying jobs generally provide paid family leave, sick leave, and vacation as part of their benefit package, most lower-paid workers have little or no paid time off. In recent years there have been many bills put forward to guarantee paid time off, but the only legislation that has become law has been at the state and local level.

It is important to focus on getting work hours in the United States in line with other wealthy countries, since workers' living standards depend not only on the money they earn, but also having time to enjoy their lives. It will be necessary to require various types of paid time off to ensure that all workers get access, just as it was necessary to pass the Fair Labor Standards Act in 1937 to ensure that workers had a 40-hour standard workweek.

## Other barriers to work sharing exist, but they can be overcome, and make robust work sharing programs even more important

The structure of worker benefits in the United States, especially health care and pensions benefits, have historically given employers a large incentive to not reduce worker hours. Health care insurance and defined benefit pensions were generally an overhead cost per worker, which increased little or not at all with an increase in hours worked. Since these benefits were often quite costly relatively to straight wages, employers would often prefer to pay workers an overtime premium rather than hire more workers and incur additional overhead costs.

These tradeoffs have changed somewhat in recent years as defined benefit pensions are rapidly disappearing in the private sector. Defined contribution, 401(k)-type plans, typically involve an employer payment that is a fixed percentage of wages. There are some overhead costs associated with adding a worker to a plan, but these are small compared to the commitments entailed in a defined benefit plan.

Most private employers still provide health care insurance. This is a large overhead cost, although it is becoming increasingly common for employers to pro-rate the portion of the premium they pay. This reduces the overhead cost for hiring a new worker for less than a full-time position. Insofar as the Affordable Care Act and future health care reform measures reduce workers' reliance on employer-provided insurance, employer-provided health care insurance will be less of an overhead cost in the years ahead.

Even if the status of pensions and health care insurance as overhead costs could be immediately ended, their impact on employment patterns would remain for some time into the future. But this institutional history should not prevent us from pursuing robust work sharing policies -- in fact, the institutional barriers to work sharing make it even more important for the government to put in place a strong work-sharing program to counteract the existing incentives for employers to shed workers during downturns.

## Conclusion

Work sharing has been proven to be an effective way of protecting much of the workforce from the worst effects of a recession. Countries that have used it aggressively have managed to limit the extent to which unemployment rises in a downturn. In the extreme case, the unemployment rate actually fell in Germany during the Great Recession even though it experienced a larger loss in GDP than the United States.

The federal government should be focused on shoring up the existing work sharing programs now and getting the states that don't already have them as part of their unemployment insurance system to adopt them. It also should be aggressively promoting these programs so that in the next recession, employers are more likely to look to reducing worker hours than laying off workers. An effective work sharing program can protect millions of people from periods of unemployment that could prove devastating to workers and their families.

More broadly, the federal government should focus on building a labor market that ensures broadly shared prosperity during periods of growth, and protects workers and families from the catastrophic effects of unemployment during recessions. This means strengthening unions and other forms of worker voice, enhancing overtime protections, and enacting paid time off policies that will bring the U.S. in line with other developed nations, so that workers can live full lives.

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