



Job Sharing Would Ease the Pain of Recessions

By Betsey Stevenson and Justin Wolfers - Apr 30, 2012

No one likes to fire people, and no one likes to be fired. So it's odd and unfortunate that U.S. employers do it much more than they need to.

Even when business is slack, there's an alternative to cutting jobs: Companies could reduce hours, spreading the pain across all their employees. Too often they don't, because an anomaly in the country's arcane [unemployment-insurance](#) system supports firing people.

Here's the problem: If you cut 10 percent of your workers, they qualify for unemployment insurance, but if you keep all your workers and cut their hours by 10 percent, there's no parallel insurance. By treating the two actions differently, the government tilts the playing field toward cutting people rather than hours.

A little-noticed [provision](#) in the Middle Class Tax Relief and Job Creation Act, which President [Barack Obama](#) signed into law in February, aims to change the situation. The idea, known as work sharing, is that you can get partial benefits when your company cuts part of your job. Because the prorated compensation will make workers less reluctant to accept shorter hours, economists reason that it is likely to shift the incentive from firing people to cutting hours.

It's one of those rare win-win reforms. For workers, it means avoiding the despair of joblessness. For employers, it means that when weak demand next hits, it will be easier to hang on to the investments they have made in finding, hiring and training the right people.

Permanent Impairment

Research has [shown](#) that job losses during a recession can [permanently impair](#) people's prospects as skills atrophy and motivation wanes, hurting them and also causing losses for businesses and the broader economy. Some studies show that the future annual earnings of the unemployed fall by [thousands of dollars](#), and that the effect persists for decades. Staying in the workforce, even with reduced hours, [mitigates](#) these long-term losses.

We don't have to wait for the next recession to reap the benefits. Right now, businesses are trying to figure out if demand is likely to stay strong enough for long enough to justify paying the upfront costs

of hiring. Because this new policy makes it more likely that they can keep these workers around even if the economy falters, the initial investment is more likely to meet a cost-benefit test.

The policy can boost recoveries, too. If employers reduce hours instead of headcount during recessions, they can easily increase hours again when demand returns, avoiding the upfront costs and complications of hiring new workers.

The [experience](#) of [Germany](#) offers good evidence that work sharing yields a more resilient workforce. During the Great Recession, the country experienced a similar decline in output as the U.S. Yet [unemployment](#) rose by only about half a percentage point, and quickly snapped back, thanks in large part to work-sharing programs. In the U.S., the [jobless rate](#) increased by more than five percentage points and has yet to recover.

The full benefits of the German program may not transfer easily to the U.S., where unions and collective bargaining are less dominant. A more relevant example might be [Canada](#), where a work-sharing program helped limit the recessionary increase in [unemployment](#) to about 2.5 percentage points. The country has since reversed about half of that loss.

Sadly, the U.S.'s federal-state hybrid system has struggled to get work sharing off the ground. Each state needs to enact legislation authorizing the reform. Perhaps more importantly, they must spend money to administer the program and teach businesses that cutting hours is now a better option. So far, few have succeeded.

The legislation passed in February attempts to kick-start the process by authorizing a temporary federal program and providing states with seed money. In the longer run, though, work sharing can succeed only if state governments are committed to it.

The example of [Rhode Island](#) demonstrates that it can be done. The state administers a work-sharing program that, during the depths of the recession, meant that more than 15 percent of people receiving unemployment compensation had kept a foot in the workforce. Although the state's [jobless rate](#) remains high, it almost certainly would have been worse without the program.

The Great Recession has reminded us how painful unemployment can be. It doesn't have to be quite so bad. Shared sacrifice would mean less sacrifice.

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