Proposal for a U.S. National Emergency Short-Time Compensation (STC) Program During the COVID-19 Crisis[1]

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Executive Summary

In light of ongoing layoffs and high predicted rates of unemployment, the U.S. should adopt a National Emergency Short-Time Compensation (NESTC) program to help stabilize workers in their jobs, allow firms to flexibly respond to evolving labor market conditions, and enable the economy to quickly restart once the emergency is over. As is currently the case for state STC programs, the program would allow workers to receive pro-rated unemployment insurance benefits when firms cut hours instead of laying off.

While modeled on current state short time compensation (STC) programs, the NESTC program adopts successful strategies from European countries that allow the U.S. to respond much more flexibly to a national emergency than is currently the case and help prevent unnecessary surges in layoffs and unemployment.

The proposed National Emergency STC program has the following key features:

- Congress sets common, simplified eligibility and benefit parameters.
- This allows firms or payroll processors to calculate and directly pay benefits to workers.
- Firms apply using simple national NESTC forms and submit weekly reimbursement requests to state unemployment insurance (UI) agencies.
- Firms get reimbursed by their state UI agencies, with the USDOL reimbursing the states.
- During national emergencies, hours reductions can be as high as 100%.
- Benefits would be about 75% of normal hourly wages up to about 75% of the national average.
- Firms could rehire laid-off workers at reduced hours.

The program would be managed by the U.S. Department of Labor (USDOL), while states make payments and conduct necessary audits. Thus, NESTC would ensure that funding reaches workers and that participating firms abstain from layoffs. States and USDOL have the necessary data and experience to successfully administer a NESTC program.

While the CARES Act fully funds existing state STC programs and encourages adoption of new programs, the program take up rate has been very low because of lack of automation and

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restrictive benefit parameters. Lack of take up risks exacerbating layoffs and foregoing important savings to UI trust funds.

In contrast, a NESTC program would allow the U.S. to access the full benefits of an STC program, including:

- Hold workers in place with their employer instead of flooding UI offices.
- Give firms substantial flexibility to adjust hours to changing market conditions.
- Allow rapid and substantial scaling of STC participation during crises.
- Help ensure workers receive benefits and firms abstain from layoffs.
- Harness experience from existing state and European STC programs.

Once established, a National Emergency STC program would greatly enhance the U.S. ability to respond to future national emergencies and large recessions.

The Issue

The American Short-Time Compensation (STC) program is a method of keeping workers job-attached in a time of declining demand by paying pro-rated unemployment insurance (UI) benefits for a reduction in hours worked. Having an effective STC program would be particularly important during a national emergency when, as now, unemployment can reach a catastrophic level. STC programs help prevent large-scale layoffs, stabilize the labor market, avert long-term costs of job loss, and help the economy restart once the emergency is over.
Currently, the U.S. STC program is a state option. Employers can apply to participate in the program if they want to want to reduce the hours worked per week of some or all of their employees in lieu of layoffs. While 28 states currently have STC programs, it is not widely used. The modest use is likely caused by a lack of knowledge about the program, the states' limited promotion of the program, difficulty in applying for and receiving benefits, and administrative issues including the lack of STC automation in state UI agencies, in contrast to the highly automated regular state UI benefits program.

STC programs have seen little take up during the COVID-19 crisis, despite the fact that the CARES Act made them substantially more generous.[2] For the week ending April 4, there were 6.6 million regular state UI benefits claims, but only 16,452 STC claims, or 0.3 percent of total claims. Hence, states have been unable to take advantage of substantial savings to their Unemployment Trust Fund state accounts allowed by the STC program and are likely to incur large debts to fund regular UI benefits.

By contrast, STC in Europe is widely used during recessions, replacing a significant percentage of prior wages and salaries. European STC is also much easier to administer because employers

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[2] Claims on existing STC programs are paid for by the federal government, STC claimants can receive $600 on top of their UI benefits, and funding to administer the program was provided.

administer the program themselves, paying the STC benefits, and are reimbursed by the national government. Currently STC is used in at least 16 European nations to protect employers from going out of business, maintain workers' purchasing power, and stimulate the national economies (Muller 2020).

Proposal to Adopt a National Emergency STC Program

Why adopt a new National Emergency STC program? A new National Emergency STC program in the United States would be far more efficient and extensive than the current state STC programs, and it could be implemented rapidly. It could keep businesses solvent, keep workers attached to their employers instead of becoming unemployed, and substitute, in part, for much of the regular UI benefits for unemployed workers as well as for the federal loans to small and large businesses. It could be used by employers both for workers still employed, as well as for workers who already have been furloughed. It would be overseen by the U.S. Department of Labor (USDOL) but administered by the state UI agencies. Same as existing STC programs during the COVID -19 crisis, the national STC program would be federally funded from general revenues. Congress would have to enact authorizing legislation making this National Emergency STC program part of the UI program by amending the Social Security Act and the Federal Unemployment Tax Act. (STC was made part of the UI program in the 1990s.)

How would the program operate? USDOL would develop the rules of the program, (e.g., the application process, maximum percent reduction in hours allowed, maximum benefit payment amount, benefit eligibility). A set of common and simplified rules would allow employers to establish their workers' eligibility and their benefit levels. A simple one-page application for employers to submit that would indicate how many workers there are in an employer's affected unit, the percent reduction proposed, etc. USDOL also would develop a simple form for firms to submit regarding weekly STC benefits paid and requests for reimbursement.

States would act as agents of the federal government, just like they are for other federal programs, including Unemployment Compensation for Federal Employees and Ex-Service Members, Emergency Unemployment Compensation, Trade Readjustment Allowances, and Disaster Unemployment Assistance. The advantage of having the states act as agents of the federal government is that the states already have a payment mechanism in place for similar UI programs, and they would be better able to reimburse employers than USDOL would. The states already are accustomed to acting as agents of USDOL. By contrast USDOL has no experience making direct UI payments.

A national response the Covid-19 and other future emergencies administered within the existing UI system has several key advantages over temporary solutions administered by the Small Business Administration or the Internal Revenue Service. Since a key concern during the crisis is providing income assistance to workers, institutions whose main purpose is to assist workers and the unemployed are best equipped to deal with the many aspects of intervening in the labor market. The state workforce agencies have decades of experience in helping to administer nationwide unemployment, training, and other labor force programs. In addition, states have the appropriate data that allow them to assess the magnitude of payments based on firms' quarterly payroll. States and USDOL also have the ability and data to audit firms and to help ensure requested funds are properly disbursed to workers. For these reasons, European programs are also generally run by national labor or employment agencies sometimes, but not always, in conjunction with national UI programs (Messenger and Ghosheh 2013).

Employers would pay STC and request reimbursement from their states weekly or monthly. States would reimburse employers for the STC paid, and, in turn the federal government would reimburse states. States would report activity and payments to USDOL and conduct program audits. Like other federal UI programs, National Emergency STC would be paid from the Federal Unemployment Benefit Account, i.e., from federal general revenue.

Since a majority of employers use payroll processing firms to manage their payroll, payroll processors could be involved in assisting their clients to calculate benefits and eligibility, disburse benefits, and obtain reimbursement. Given many payroll processors serve many employers and operate nationally, this could help with streamlining implementation as well as with potential audits.

A National Emergency STC program would ensure that workers receive a large portion of their wage and salaries each week. By contrast, a wage supplement program proposed by Senator Josh Hawley would have IRS pay large increments of employers' weekly wage bill with no assurance that workers would receive these payments.

The following are suggested parameters for the program: National Emergency STC would be available for reductions in hours previously worked, up to 100 percent. The benefits formula would pay 75 percent of normal hourly wages up to 75 percent of the national average hourly wage (computed annually by the Bureau of Labor Statistics). Firms would be allowed to rehire workers they had laid off or furloughed within a window after the implementation of the start of the National Emergency STC. Participation in the program would not trigger a UI benefit year for workers, such that workers would retain their full rights to receive in case of future potential layoffs. As with Emergency Unemployment Compensation, Congress would determine the duration of emergency benefits under all UI programs.

Creating a Permanent National Emergency STC Program

A National STC program would be available not only during a period of a declared National Emergency, but also when the national unemployment rate is equal to or greater than 10 percent.[3] Retaining a National STC program would encourage job attachment even during

[3] Congress may wish to set an unemployment rate trigger at a different level or may want to have a graduated trigger that makes the STC replacement rate, maximum payment amount, and duration of payments vary as unemployment increases. It may also want to use the National Emergency STC program to replace current state STC programs.

periods of low employment or periods of high but less-than-catastrophic unemployment and would ensure that the program is in place when a national emergency occurs.

Program parameters would be more restrictive during non-emergency periods. The reduction in hours could not be more than 80 percent and the benefit formula would pay 50 percent of normal hourly wages up to 66 2/3 percent of the average national wage. This approach of maintaining a more restrictive STC program during periods of lower unemployment is used by several European STC programs.[4] For example, Germany has a permanent national STC program available to firms with temporary demand reductions. Italy's regular STC program is a hybrid between a national and firm-based system, where firms' taxes contribute to an STC fund available in the case of layoffs. During COVID -19, Germany and Italy expanded eligibility and duration of STC benefits, and lowered firms' costs of participating in program.

Using this approach, when the next national emergency occurs, a National STC program would already be in place. Raising the wage replacement rates and hours reductions would be relatively simple. Having such an STC a program in place would greatly reduce the reaction and implementation time when another national emergency occurs.

Reaction to the Concept of a U.S. National Emergency STC Program

While the U.S. is now helping unemployed workers affected by the COVID-19 pandemic with a generous UI program, providing more benefits to more workers for a longer period of time, this approach has quickly exhibited important limitations. UI offices across the country have been flooded with regular UI claims, potentially slowing down the implementation of Pandemic Unemployment Assistance and the scaling of existing STC programs. As a result, many states' Unemployment Trust Fund accounts are at risk of running substantial and long-lasting deficits, and many valuable employment relationships risk being severed due to the crisis.
Many observers across the political spectrum have advocated for an expansion of federally funded STC during the Great Recession (e.g., Baker and Hassett 2010, Hassett and Strain 2014), which ultimately occurred belatedly in 2012. During the COVID -19 crisis, Congress' clear intent in the CARES Act was to substantially expand the program, but state-based programs have had difficulty scaling up during recessions.[5]

Several analysts have contrasted the U.S approach to the COVID-19 crisis to that of the many European countries that have sought to prevent unemployment in the first place. Advocates for the adoption of the European STC approach include the New York Times (March 27 editorial), David Brooks (April 4 PBS News Hour discussion), and The Economist (March 21 editorial).

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[4] For details on STC programs in Europe and their extensions during the COVID-19 crisis see https://www.etuc.org/sites/default/files/publication/file/2020-04/Covid_19%20Briefing%20Short%20Time%20Work%20Measures%2031%20March.pdf.

[5] See von Wachter (2020) for proposed changes within the current UI framework that would enable states to scale their own STC programs. These changes would have to be enacted by Congress.

The key benefits of expanding Short-Time Compensation programs highlighted by observers include the following:

- Prevent unnecessary massive layoffs due to short-term reductions in economic activity.
- Preserve valuable job relationships, prevent costly job search and hiring, and hence help the economy restart more quickly once the crisis is contained.
- Allow firms to gradually adjust to economic conditions through the evolution of the crisis. During recovery, reduce crowding in the labor market due to ongoing layoffs.
- Allow state workforce offices to focus on processing UI benefits and implementing Pandemic Unemployment Assistance quickly in face of economic hardship.
- Since Short-Time Compensation benefits are funded federally during Covid-19, prevent depletion of states' UI Trust Funds and ensuing long-term debts and increases in payroll taxes.
- Ensure that workers receive benefits and participating firms refrain from layoffs.

Empirical research suggests that national STC programs in Europe saved substantial employment during the Great Recession, and they are playing a major role in the European response to the crisis today (e.g., Cahuc 2019, Muller 2020). While every social insurance program may lead to some distortion (i.e., any program paying workers benefits in times of lower employment will lead to some excess reduction in work time), such distortions have been shown to be lower in recessions (e.g., Schmieder and von Wachter 2016). They are likely to be particularly low in times of national crises. Moreover, such distortions are not lower if firms receive payroll subsidies through the banking or tax system. In fact, they may be higher in so far it is harder to monitor firms that firms abstain from layoffs. Finally, a system that combines both UI benefits and Short-Time Compensation benefits is more equitable, since it spreads the burden of adjustment over a larger number of workers.

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