INSTITUT FÜR ARBEITSMARKT- UND BERUFSFORSCHUNG
Die Forschungseinrichtung der Bundesagentur für Arbeit

Online Magazin IAB-Forum

“Short-Time Compensation is underutilized in the United States”

27. June 2023 | Jutta Winters

During the Covid-19 pandemic, governments around the world responded with a variety of labor market policy tools to prevent job losses. The United States focused primarily on two such programs: Short-Time Compensation and the Paycheck Protection Program. In this interview, Till von Wachter, Professor of Economics at the University of California, will give some insights into the American approach and the lessons learned from applying the programs.

Did your country have any kind of job retention scheme during the Covid-19 pandemic to cushion the employment effects of economic crises?

During the Covid-19 pandemic, the United States had two programs focused primarily on job retention, Short-Time Compensation (STC) and the Paycheck Protection Program (PPP). Under the STC program, employees whose hours are reduced by 10 to 60 percent can qualify for pro-rated Unemployment Insurance benefits.

PPP provided low-interest loans to small businesses to help maintain pre-pandemic compensation and employment. The loans were forgivable if 60 percent of the proceeds covered payroll costs.

In addition, the United States broadened Unemployment Insurance eligibility and increased both benefits up to $600 per week and durations by an additional 53 weeks. While the policy goal of Unemployment Insurance is not primarily job retention, workers unemployed during the pandemic reported that they expected to return quickly to work and many ended up returning to their previous employer. The extensions also subsidized partial Unemployment Insurance receipt while workers reduced hours at their current or at another employer.

When were these two job retention schemes introduced?

In the United States, Short-Time Compensation is an optional program administered by 27 out of 50 states as part of their Unemployment Insurance program. It started in California in 1978, was enacted at the federal level in 1992, and as of November 2022, 27 states had permanent, operational STC programs. The only state to introduce STC during the pandemic was Wyoming.

The Paycheck Protection Program was a temporary program enacted during the pandemic and had three rounds of federal funding and disbursement. The federal government distributed $349 billion in April 2020, $320 billion between April and June 2020, and $284 billion between December 2020 and May 2021.

> In the United States, Short-Time Compensation is an optional program administered by 27 out of 50 states.

What are the objectives of the schemes?

Short-Time Compensation is an alternative to layoffs for employers experiencing a reduction in available work. STC preserves employees' jobs and employers' trained workforces during times of lowered economic activity. By allowing employers to reduce hours of work for a larger group of employees it is meant to prevent permanent layoff of a smaller group of workers.

The Paycheck Protection Program (PPP) was meant to provide small businesses with the cash-flow assistance they needed to maintain their payroll, hire back employees who may have been laid off, and cover applicable overhead. If the employer maintained its payroll, then the portion of the PPP loan used for covered payroll costs, interest on mortgage obligations, rent, and utilities would be forgiven.

How did the maximum duration for which the benefits are paid change during the Covid-19 crisis?

Typically, STC claimants are eligible for up to 52 weeks of benefits although actual maximum duration varies by state. Since a worker's benefit amount under STC is the same as under Unemployment Insurance, the benefit extensions during the pandemic also affected STC claimants. Furthermore, to incentivize use of the program during the pandemic, the federal government reimbursed state governments for the full costs of STC up to 26 weeks.

For PPP loans, qualified small businesses were allowed to apply for two separate loans and apply for forgiveness within 10 months after the last day of the covered period or repay 10 months after the original disbursement.

What are the eligibility criteria of the scheme and how were they changed?

To qualify for STC, a firm must submit a plan for approval to the relevant state agency showing that they have reduced the hours for impacted employees between 10 and 60 percent and will continue to provide health and retirement benefits.

Furthermore, in order to receive STC benefits, employees must be deemed eligible for regular Unemployment Insurance. State Unemployment Insurance requirements vary, but generally an applicant must meet a minimum income threshold and actively search for work. As a result of the minimum income requirements, among others, workers with lower earnings are often ineligible for benefits.

During the Covid-19 crisis, federal legislation gave states discretion in enforcing job search requirements, expanded eligibility to self-employed workers, and allowed businesses to rehire previously laid-off workers at part-time under STC.

To be eligible for PPP loans, a business typically has to have fewer than 500 employees, but businesses may also qualify via other criteria set by the Small Business Administration. The federal government targeted PPP loans to small businesses and adjusted requirements to exclude large wealthy companies.

Has the benefit level also been changed during the pandemic?

The STC benefit level is mainly a function of prior earnings, and does usually not depend on individual demographics or characteristics. Before the pandemic, California's average replacement rate was 41 percent, but during the pandemic, the federal government provided a $600 weekly supplement to all STC recipients, increasing the average replacement rate to 162 percent.

> Before the pandemic, California's average replacement rate was 41 percent, but during the pandemic, the federal government increased the average replacement rate to 162 percent.

What was the maximum take-up rate in 2020 and in 2021?

STC claims represented about 4.9 percent of all Unemployment Insurance claims where STC was available at the peak in 2020 and 1.9 percent at the peak in 2021. A few states – such as Michigan, Washington, and Oregon – substantially scaled STC enrollment ranging from 25.8 percent to 41.9 percent of all Unemployment Insurance claims. In 2021, these numbers decreased to range from 2.4 to 10.9 percent.

For PPP, the Cleveland Federal Reserve estimated that around 70 percent of small businesses received a loan.

How is the support scheme financed?

STC benefits are usually financed through state unemployment trust funds which draw from payroll taxes levied on employers. A firm's Unemployment Insurance tax rate is experience rated, i.e., calculated based on the firm's history of layoffs and use of Unemployment Insurance.

In March 2020, the United States Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act which provided 100 percent reimbursement of STC benefit costs to states with existing programs, up to a maximum of 26 weeks. It was up to the discretion of states whether to suspend experience rating for STC use or more generally Unemployment Insurance use during the pandemic.

The CARES Act and subsequent extensions also provided full federal funding for PPP loans. Loans rejected for forgiveness were paid by the responsible firm.

> It was up to the discretion of states whether to suspend experience rating for STC use or more generally Unemployment Insurance use during the pandemic, and several states did so.

Are there any measures to avoid misuse and deadweight losses by supported firms that actually do not need financial support?

The tax treatment of Short-Time Compensation program benefits is the same as that of traditional Unemployment Insurance benefits: states levy payroll taxes on employers at a rate which depends on the firm's use of unemployment benefits.

During the pandemic, several states elected to exempt employers from experience rating, such that taxes were not a function of the amount of STC use. Partly this was because the federal government was paying for STC benefits, and partly because abuse was less likely in a recessionary environment.

PPP was a relatively untargeted program and was criticized for disbursing funds to businesses who did not need financial support. One estimate of PPP program impacts found that only 23 to 34 percent of PPP dollars went to workers who would have otherwise lost their jobs.

Did the support system in your view slow down the necessary reallocation processes in the economy?

It is unlikely that either job retention scheme prevented the natural reallocation of jobs because of the unique nature of the pandemic-driven recession. In fact, the recall rate to previous employers among the unemployed was larger than in previous recessions and the rate of industry change was lower.

Is there a financial incentive for employers to offer on-the-job training for their employees while receiving support?

Neither STC nor PPP offered explicit financial incentives for on-the-job training. However, under the STC programs, workers may participate in a training program while not working full-time.

> While use of Short Time Compensation was limited, it was effective in retaining jobs and supporting wages.”

Have there been incentives for benefit recipients to look for a new job?

By the rules of the program, STC claimants are discouraged from looking for new jobs and must remain available to their employer to return to full-time work.

How would you judge the general effectiveness of the STC and PPP schemes?

While use of STC was limited, it was effective in retaining jobs and supporting wages. Because administration and awareness of the program has been a historical challenge, the federal government offered program improvement grants to states seeking to strengthen their program during the pandemic and for future recessions.

Despite the significant deadweight loss, the $800 billion PPP program somewhat helped cushion the employment effects of the pandemic. But program administration and oversight by the federal government was a challenge; the program has been criticized for limited scrutiny for loan forgiveness.

When were the special rules that applied during the pandemic phased out? How was the termination justified?

For the STC program, federal reimbursement ended on 31 December 2020. This is consistent with prior recessions when the federal government temporarily stepped in to help states weather recessionary moments and incentivize use of the STC program. Other special rules, such as temporarily waiving the impact of STC on a firm's experience rating, varied by state.

Federal extensions to unemployment insurance duration ended on 4 September 2021 as scheduled in the initial authorization. Benefits were not extended further because of political pressure related to inflation and the concern that unemployment benefits lower job search activity.

> Firms have been known to systematically challenge the legitimacy of unemployment claims of their workers out of concerns for the impact on their payroll tax rate.

Is there a political debate on the scheme's element of experience rating?

The current degree of experience rating is imperfect, i.e., a firm's payroll tax rate increases with Unemployment Insurance benefit use only up to a maximum. This limits the system's ability to automatically balance its funding over the business cycle, and leads to persistent cross subsidies across sectors and firms. At the same time, firms have been known to systematically challenge the legitimacy of unemployment claims of their workers out of concerns for the impact on their payroll tax rate. Imperfect experience rating helps to limit this incentive.

Which lessons can be learned from the use of STC and PPP during the Covid-19 crisis in the United States?

More research is needed on the use and efficacy of Short-Time Compensation programs in the United States. Lessons learned from other countries indicate that the program has the potential to retain jobs and sustain wages during temporary shocks, acting as a force to stimulate the economy and prevent labor market crowding. STC is underutilized in the United States and more concerted efforts by state governments and business and employer organizations to increase program awareness among employers would increase program take-up.

Personal details

Till Marco von Wachter is Professor of Economics at the University of Calfornia, Los Angeles. His research fields or interests are Labor Economics, Economics of Aging, Personnel Economics, and Macroeconomics.

Literature

Bell, Alex; Hedin, Thomas J.; Schnorr, Geoffrey; von Wachter, Till (2020): An Analysis of Unemployment Insurance Claims in California During the COVID-19 Pandemic.

Borawski, Garrett; Schweitzer, Marc E. (2021): Which Industries Received PPP Loans?.

Autor, David; Cho, David; Crane, Leland D.; Goldar, Mita; Lutz, Byron; Montes, Joshua; Peterman, William B.; Ratner, David; Villar, Daniel; Yildirmaz, Ahu (2022): The $800 Billion Paycheck Protection Program: Where Did the Money Go and Why Did It Go There? Journal of Economic Perspectives, 36(2), 55–80.

Rodriguez, Gustavo; Segal, Kara; von Wachter, Till (2022): Short-Time Compensation in the U.S. and California from 2000 to 2022: A Descriptive Analysis of Program Incidence and Worker Outcomes.

doi: 10.48720/IAB.FOO.20230627.02

Cite article

Winters, Jutta (2023): “Short-Time Compensation is underutilized in the United States”, In: IAB-Forum 27th of June 2023, https://iab-forum.de/en/short-time-compensation-is-underutilized-in-the-united-states/, Retrieved: 21st of May 2026

Zitationshinweis

Jutta Winters (2023): “Short-Time Compensation is underutilized in the United States” , In: Online Magazin IAB-Forum 27. June 2023, https://iab-forum.de/en/short-time-compensation-is-underutilized-in-the-united-states/, Abrufdatum: 21. May 2026

Lizenzhinweis