

GROWTH and EMPLOYMENT



An Alternative to Layoffs: Work Sharing Unemployment Insurance

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The Work Sharing Unemployment Insurance (WSUI) program in California allows businesses to avoid layoffs by spreading reductions in hours of work across employees with the state's unemployment insurance (UI) system compensating affected workers with prorated UI benefits. This program permits firms and workers to maintain their employment relationships, thus, retaining their investments in human capital; and a firm bears no penalties for using WSUI because its benefits affect UI tax rates in exactly the same way as regular UI. This report examines which firms rely on WSUI, how they use it, and which workers are affected. The employers and workers utilizing the program are those expected to benefit most from this alternative to traditional UI. WSUI firms, for example, are typically larger, older, and more likely to be unionized and operate *continued inside...*

An Alternative to Layoffs: Work Sharing

The purpose of this article is to examine the use of the Work Sharing Unemployment Insurance program in California during the state's most recent recession.



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in the manufacturing sector than non-work sharing firms. WSUI claimants tend to be older and better paid than those collecting regular UI benefits, implying higher skill levels. Despite the attractiveness of WSUI to particular types of firms and workers, several competing factors make WSUI a less appealing option to layoffs. Use of WSUI can be expected to generate larger amounts of UI benefits for firms, and some affected workers may not prefer WSUI because it imposes reductions in pay that can be avoided by acquiring alternative full-time employment. Although many regard WSUI at the forefront of labor policy, less than one percent of California firms with UI claims participated in the program during the most recent recession.

Introduction

When a California business faces a decline in demand for its products and services that lowers its required labor inputs, it can avoid laying off employees by sharing the loss in hours across workers and having the state's unemployment insurance (UI) system compensate them for lost earnings with prorated benefits. This innovation in the UI system, called the Work Sharing Unemployment Insurance (WSUI) program, has existed in California for more than 25 years. Many in the public policy community view this program at the forefront of labor policy because it offers firms the option of maintaining employment levels and, thus, potentially provides more jobs during times of economic downturns. Despite the apparent advantages of WSUI, merely 0.9 percent of California firms that generated UI benefits during the most recent recession chose to use the program. Such low utilization rates suggest that some firms that could benefit from WSUI are probably not using it. Alternatively, it may imply that the WSUI

The views expressed in this brief are those of the authors and do not necessarily reflect the policies of the Employment Development Department or the State of California.

Unemployment Insurance

program does not offer as attractive an option as policymakers believe.

Nuts and Bolts of Work Sharing

Consider a firm that must reduce its labor inputs by 20 percent due to a downturn in demand for its products. Without a WSUI plan, the firm would layoff 20 percent of its employees, each of whom could then collect UI benefits while searching for new employment. If, on the other hand, the firm initiated a WSUI plan, it could reduce each of its workers' hours by 20 percent per week, with each worker receiving 20 percent of the UI benefits he or she would be eligible for if completely laid off. Like traditional UI, work sharing plans last for six months (26 weeks), and all benefits paid through WSUI plans are charged to the firm according to the experience rating rules of the standard UI program. Consequently, WSUI benefits affect a firm's UI tax rate in the exact same manner as traditional UI benefits; it does not matter for UI tax calculations whether a firm generates \$1,000 in UI benefits through work

sharing or layoffs.

To enact a WSUI plan in California, a firm must follow certain legislated guidelines.¹ First, the firm must submit an application to California's Employment Development Department (EDD). Second, the loss in work must involve at least two employees, comprising at least 10 percent of the employment at the firm or affected unit. Also, the loss in wages and hours must be at least 10 percent per worker. Third, each participating worker must be eligible to receive UI benefits under regular UI legislation.² Finally, if the affected workers are covered by a collective bargaining agreement, then the firm must obtain the approval of the bargaining agent.

WSUI seems like an attractive option for a firm and its workers in the face of a decline in labor inputs. Use of WSUI means that more workers remain employed and the firm retains valuable employees. This feature helps the firm and its employees maintain their investments in human capital, and it permits both parties to avoid

the other hiring and firing costs associated with layoffs. Moreover, it appears that the firm incurs no more in UI tax costs by using WSUI, as opposed to layoffs, to achieve an equivalent amount of labor input reduction.

Nevertheless, there are compensating factors that can make WSUI a less attractive option for firms and workers. UI costs incurred by a firm will likely be higher under work sharing than through layoffs. This is because only about 35 percent of unemployed workers collect UI benefits, whereas one can expect that most workers who agree to work share will draw benefits.³ From the firm's perspective, then, WSUI guarantees that a prescribed amount of UI benefits will be generated, in contrast to the uncertainty inherent with layoffs.⁴ WSUI also may not be the most desirable option from the workers' perspective. Because the workers asked to participate in WSUI are typically the firm's most valued employees, they are the individuals who are most likely to be able to find new full-time employment quickly. Any

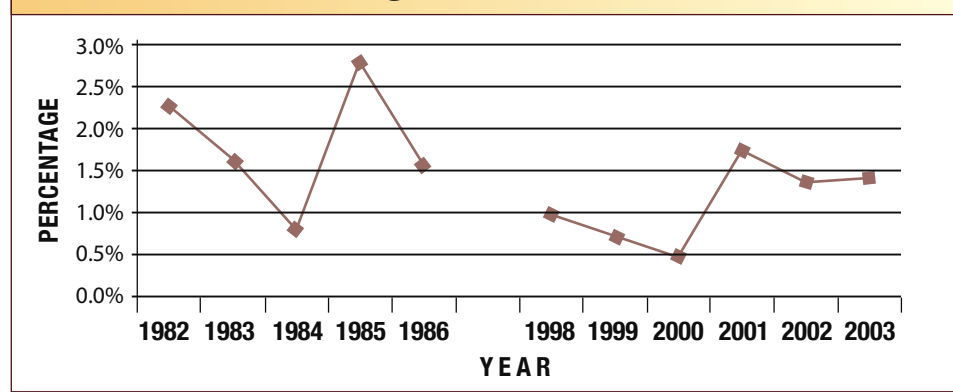
loss in income resulting from WSUI may easily be regained by finding new employment.

Widespread Use in Europe, But Not in the U.S. or California

Use of work sharing by firms is widespread in Europe. Many European countries—including Belgium, Denmark, France, Germany, Italy, and Sweden—have legislated work sharing UI programs.⁵ Some of these countries—France, Germany, Italy, and Sweden—have also substantially raised the costs to firms of laying off workers by legislating employment protections that include advance notification requirements, mandatory severance payments, and collective bargaining over dismissal.⁶ Work sharing UI programs and employment protection create strong incentives for firms in Europe to use reductions in hours of work rather than layoffs to adjust labor inputs.

None of the 18 states with WSUI programs in the U.S. penalize firms through their UI systems for selecting full-time layoffs,⁷ and only a

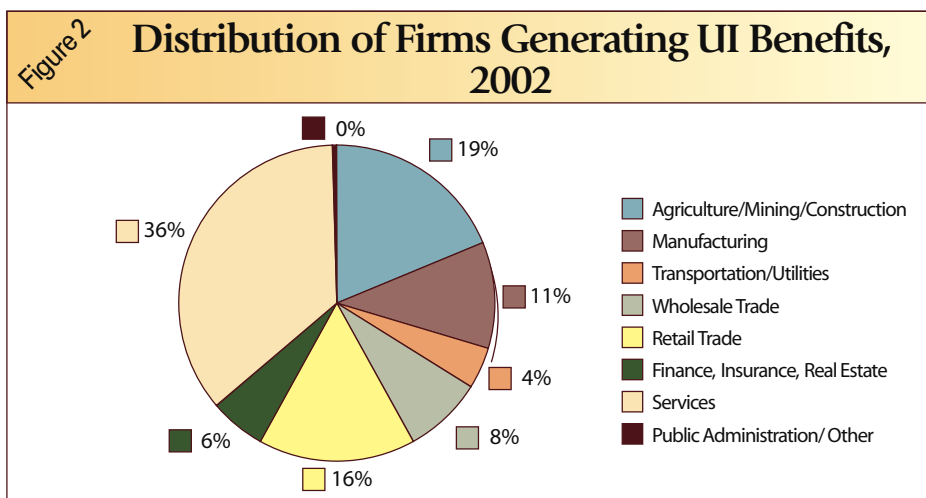
Figure 1 Percentage of Weeks Compensated by UI Due to Work Sharing, 1982-1986 and 1998-2003



few states penalize certain firms for using WSUI.⁸ In the majority of states, UI taxes depend only on the amount of UI benefits paid and not on whether payments come in the form of regular or work sharing benefits. Yet, very few firms rely on WSUI in these states. The most recent cross-state comparison of work sharing shows that only three of the 17 states with a WSUI program in 1994 had more than 0.2 percent of firms with active UI accounts apply to use the program (Arizona, California, and Washington). In three other states, less than 10 firms applied to use the WSUI program (Arkansas, Iowa, and Massachusetts) and even fewer actually used the program.⁹ Lastly,

only four states had more than 100 firms apply to use work sharing (Arizona, California, New York, and Washington).¹⁰

Of these, California is one of the largest users of WSUI and therefore a prime state on which to concentrate examinations of the program. More firms in California applied to use WSUI in 1994 than in the other 16 states combined (2,070 versus 1,739). Only Washington had a larger percentage of firms apply for WSUI plans (0.40 percent versus 0.27 percent).¹¹ Additionally, California was the first state to legislate a WSUI program, enacting the program in 1978, a good four years earlier than other states. The following discussion examines



recent administrative UI data from California to describe which firms use WSUI, how they use it, and which workers are affected.

Patterns of Work Sharing in California

California has seen a small change in the extent of work sharing over the past two decades. **Figure 1** presents the percentage of weeks compensated by UI attributable to work sharing for the periods 1982-1986 and 1998-2003. In the early 1980s, the WSUI program accounted for between 0.9 percent and 2.8 percent of the weeks compensated by UI. Slightly lower percentages of weeks compensated by UI (0.5 percent to 1.8 percent)

have been due to work sharing over the past six years. The difference in use between these two periods is mostly due to differences in the economic climates. In particular, California's unemployment rate was much lower in the last six years (reaching a high of 6.7 percent in 2002 and 2003) than it was between 1982 and 1986 (when the 1986 rate of 6.7 percent represented the lowest of the period).¹²

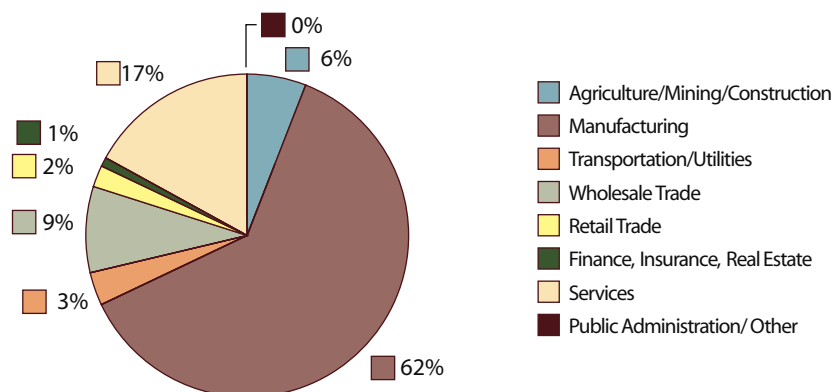
A clear trend depicted in **Figure 1** is that WSUI accounts for a greater percentage of weeks compensated by UI during recessions. For example, the percentage of weeks compensated by UI due to WSUI more than tripled as a result of the 2001 recession. A similar trend is

revealed for firms, which use WSUI more intensely during economic downturns. In particular, the percentage of firms that used WSUI doubled after 2001 (not shown). Together, these findings show that the most recent recession did not only witness an increase in the number of firms using WSUI, but it also saw an increase in how intensively firms used the program.

The most widely known fact about firms that use WSUI is that they are disproportionately likely to be in the manufacturing industries.¹³ **Figures 2 and 3** present the major-sector industrial distributions of firms that generated UI benefits and firms that used WSUI during UI fiscal year 2002. Although the manufacturing sectors accounted for only 11 percent of the firms that generated UI benefits in 2002, they accounted for 62 percent of the WSUI firms. Whereas only 0.9 percent of the firms that generated UI benefits used WSUI in 2002, about 5.5 percent of the manufacturing firms used WSUI in 2002. The only other major industrial sector in which firms were more

Figure 3

Distribution of WSUI Firms, 2002



likely than the average to use WSUI was wholesale trade, which accounted for 8 percent of firms generating UI benefits and 9 percent of WSUI firms.

Despite the clear between-sector differences in the use of WSUI, almost nothing is known about the within-sector differences in use.¹⁴

Table 1 presents distributions of the manufacturing firms across two-digit Standard Industrial Classification (SIC) codes for firms that generated UI benefits and firms that used WSUI during 2002. Drilling deeper into the industrial classification system allows us to be more specific about which types of firms use the program and which do not.

Within the manufacturing sectors, the industries that comprised the largest percentages of work sharing firms were electronics producers, industrial machinery producers, fabricated metals producers, instruments manufacturers, and furniture manufacturers. Firms in these industries were also more likely than the average manufacturing firm to use WSUI. Other industries in which firms were more likely than the average to use WSUI include primary metals manufacturers, leather producers, rubber and plastics producers, and paper products makers. Many of the jobs in these industries require workers to learn skills that are not acquired

in high school or college, such as operating specific pieces of machinery or fabricating unique products.

Construction is another industrial sector exhibiting interesting work sharing patterns. Although only 0.4 percent of the construction firms that generated UI benefits used WSUI in 2002 (compared to 0.9 percent of all firms), the majority of work sharing construction firms were special trade contractors, as opposed to general building or heavy construction firms. Specifically, special trade contractors comprised only 65 percent of the construction firms that generated UI benefits in 2002, but more than 80 percent of the construction firms that used WSUI. The biggest users were plumbers, heating and air-conditioning firms, and electricians. Similar to manufacturing jobs, the skills required by jobs in these trades are often learned through apprenticeships or lengthy on-the-job training, meaning that the cost of hiring new workers can be high for firms in these trades.

In addition to the clear differences in the likelihood of using

Table 1 Industrial Distribution of Non-Work Sharing and Work Sharing Manufacturing Firms in California, Fiscal Year 2002

	% of All Firms in Group	% of All Firms in Group with UI Charges	% of All Firms in Group that Work Share	% of Firms in Group with UI that Work Share	% of Work Sharing Firms in Group
Food and Kindred Products	5.8%	6.1%	0.8%	1.3%	1.5%
Textile Mill Products	1.2%	1.1%	1.0%	1.7%	0.4%
Apparel	11.3%	10.9%	0.4%	0.7%	1.5%
Lumber and Wood Products	5.2%	5.5%	1.2%	1.9%	2.0%
Furniture	3.6%	3.6%	4.2%	6.8%	4.8%
Paper Products	1.3%	1.5%	3.9%	5.3%	1.5%
Printing and Publishing	13.6%	11.1%	1.0%	1.9%	4.2%
Chemical and Petroleum Products	3.5%	3.3%	1.3%	2.3%	1.5%
Rubber and Plastics	3.7%	4.2%	3.9%	5.6%	4.5%
Leather	0.5%	0.5%	3.8%	5.8%	0.5%
Stone, Clay, Glass, and Concrete	2.6%	2.7%	2.8%	4.4%	2.3%
Primary Metals	1.7%	1.8%	6.9%	10.5%	3.7%
Fabricated Metal Products	9.5%	10.0%	4.9%	7.6%	14.5%
Industrial Machinery	14.3%	14.6%	3.9%	6.2%	17.4%
Electronics	8.2%	9.6%	10.6%	14.6%	27.1%
Transportation Equipment	4.0%	4.3%	1.8%	2.8%	2.3%
Instruments	4.9%	4.8%	5.1%	8.3%	7.8%
Miscellaneous Manufacturing	5.1%	4.2%	1.6%	3.2%	2.5%
Total	100.0%	100.0%	3.2%	5.2%	100.0%

Note: Calculations by authors using California state administrative unemployment insurance data.

WSUI that exist among and within industrial classifications, there are also significant differences across firms that do and do not use WSUI. As shown in **Table 2**, firms that used WSUI in 2002 were much larger on average than those that did not. Specifically, the average employment of firms that used WSUI was 239 employees, whereas the average size of firms that generated UI charges but did not use WSUI was only 40 workers. This difference in employment is

well known in the work sharing UI literature, and it has characterized California's program since its inception.¹⁵

Firms that use WSUI are also older than nonusers, as measured by their initial date of liability for UI benefits.¹⁶ **Table 2** provides the distribution of work sharing and non-work sharing firms across four age brackets and shows that only 14 percent of non-work sharing firms that generated UI benefits in 2002 had more than 25 years

of liability, and roughly half had less than 11 years. In contrast, only 27 percent of WSUI firms had fewer than 11 years of liability for UI benefits and almost 31 percent had more than 25 years. Older and larger firms are more likely to have human resources departments to assist with the administrative burden of WSUI.

Another major difference between firms that use WSUI and firms that do not is the likelihood of unionization. As **Table 2** shows, approximately 19 percent of firms that used WSUI in 2002 were unionized, whereas only 9 percent of non-work sharing firms were unionized.¹⁷ Although people often think of unions as preferring temporary layoffs (via seniority) to hours of work reductions, unions generally support WSUI, and the data confirm this. In fact, unions supported the adoption of the work sharing legislation in 1978.¹⁸ WSUI helps unions preserve membership during temporary demand shocks, while still allowing seniority-preserving layoffs to occur subsequently, if necessary.

Table 2 also shows that firms using WSUI paid their workers higher average earnings than non-work sharing firms. In particular, the average pay of WSUI firms in 2002 was roughly \$39,100, compared to approximately \$34,300 in non-work sharing firms. These higher payments could be the result of WSUI firms' greater degree of unionization or their larger workforces.¹⁹ Alternatively, firms using WSUI may employ higher-skilled work forces.

One of the most surprising differences between firms that do and do not use WSUI is that firms that use the program are more likely to rely upon the UI program in general.²⁰ This can be seen by comparing the normalized UI benefits statistics in Table 2. Normalized UI benefits are defined as the amount of UI benefits generated by a firm, divided by its taxable payroll. As the table shows, WSUI firms had average normalized UI benefits of 10.2 percent in 2002, whereas non-work sharing firms had normalized UI benefits averaging only 5.8 percent. This implies that firms

	All Non-Work Sharing Firms	All Non-Work Sharing Firms With UI Charges	Work Sharing Firms
Number of Firms	615,224	230,128	2,091
Average Employment (# workers)	18	40	239
Average Pay	\$31,446	\$34,352	\$39,166
Percentage Unionized	3.5%	8.7%	19.1%
UI Tax Rate	2.5%	2.8%	2.9%
Normalized UI Benefits	2.2%	5.8%	10.2%
Last Year's Normalized UI Benefits	1.3%	2.5%	2.4%
Normalized WS Benefits			3.4%
Firm's Years of UI Liability:			
% 0 to 5 Years	40.3%	30.5%	13.0%
% 6 to 10 Years	20.0%	21.0%	14.2%
% 11 to 25 Years	29.2%	34.0%	41.9%
% 26 Years and Over	10.5%	14.4%	30.8%
Avg. # Work Share Workers per firm			24
Avg. # Work Share Weeks per firm			223

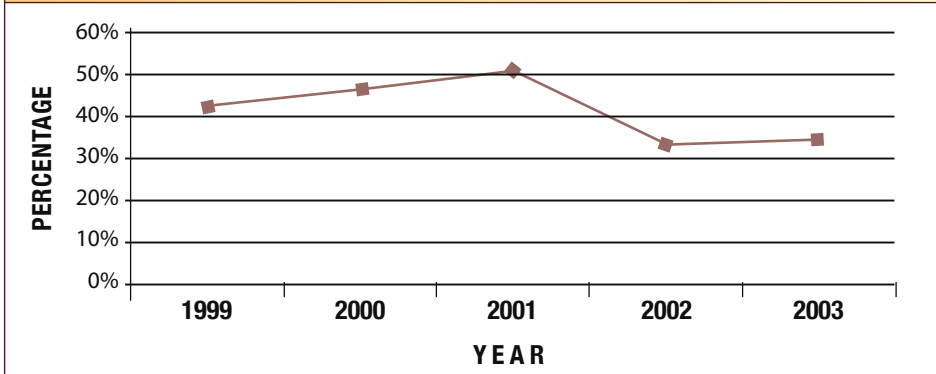
Note: Calculations by authors using California state administrative unemployment insurance data.

using WSUI generated significantly more dollars of UI benefits than their non-work sharing counterparts. This disparity in normalized UI benefits is much greater during recessions (such as in 2002) than during economic expansions. Between 1999 and 2001, for example, the difference between work sharing and non-work sharing firms in normalized UI benefits was only 0.1 to 2 percentage points; during the recession in 2003, the difference was almost 10 percentage

points.

During recessions, firms that participate in WSUI use the program for a smaller percentage of their labor adjustments than during economic expansions. Figure 4 shows the average percentage of UI benefits generated by WSUI firms due to work sharing grew from 42 percent to 51 percent between 1999 and 2001. After the start of the recession, though, WSUI only accounted for about 34 percent of UI benefits generated by those

Figure 4 Average Percentage of UI Benefits Due to Work Sharing for WSUI Firms, 1999-2003



firms. This suggests that firms using WSUI do not typically use it for the majority of their labor input adjustments, especially during recessions.

If firms do not use WSUI for all of their labor input adjustments, which workers do they ask to work share and which workers do they lay off?²¹ Table 3 presents a comparison of UI claimants that did and did not use WSUI in 2000. The most noticeable difference in the table is that WSUI claimants earned more than the non-work sharers before and after their claim. Prior to the claim year (2000), WSUI claimants earned roughly 20 percent more than non-work share claimants. After

the claims, this earnings difference grew to 40 percent. Because UI weekly benefit amounts (WBA) are functions of previous earnings, work sharers were also eligible to receive approximately \$20 more per week in UI benefits than non-work sharers. Furthermore, work sharers were more likely to be of a prime earning age—between 35 and 64 years of age. These facts—that WSUI claimants are older and earn more than non-work share claimants—suggest that WSUI firms ask their more valuable workers to participate in work sharing.

In addition to being higher paid, WSUI claimants also collect benefits for fewer weeks on average. As Table 3 shows, WSUI claimants

collected benefits for about seven fewer weeks than non-work sharing UI claimants. Of the 9.7 weeks of average UI collection by WSUI claimants, only 7 of the weeks were due to WSUI, meaning that the average WSUI claimant spent a few weeks on full-time unemployment. As a result, WSUI claimants only collected \$330 of the \$800 in total UI benefits while using WSUI.

Concluding Comments

The patterns of WSUI use in California reveal that those firms and workers drawing upon this program comprise groups that one might expect to benefit most from the alternative to traditional UI. Workers collecting WSUI are older and better paid than those claiming regular UI benefits, consistent with the notion that employees participating in WSUI tend to be those with higher skills and who are more closely tied to particular firms. WSUI claimants collect benefits for fewer weeks on average than their counterparts in the regular UI program, suggesting that WSUI is used more when firms

experience temporary, rather than long-term, downturns in product demand. From the employer side, firms utilizing WSUI are typically much larger, older, and more likely to be unionized than non-work sharing firms. These firms also pay higher average earnings per worker than non-work sharing firms and disproportionately come from the manufacturing sector. Finally, firms taking advantage of the WSUI program make greater use of the regular UI program as well.

In light of the apparent attractiveness of WSUI to particular types of firms and workers, the question of why the WSUI program is used so little is not easy to answer. On one hand, WSUI offers firms and workers the advantage of avoiding the costs and disruptions in employment relationships. Further, the tax structure of WSUI in California makes firms indifferent as to whether its workers claim benefits from the regular or work sharing UI. However, these appealing features must be balanced against the compensating factors that can make WSUI less

Table 3 Comparison of Unemployment Insurance and Work Sharing Claimants in California, 2000

	UI Claimants	WS Claimants
Number of Claimants	1,028,070	13,269
Average Eligible Weekly Benefit Amount	\$170	\$191
Average Actual Weekly Benefit Amount	\$156	\$71
Average Weekly WS Benefit Amount		\$48
Average Total Benefits	\$2,617	\$800
Average Total Work Share Benefits		\$330
Average Weeks Eligible for UI	24.6	25.5
Average Actual Weeks UI	16.6	9.7
Actual Weeks Work Share UI		7.0
Average % of Work Weeks Lost to WS		26.4%
Median % of Work Weeks Lost to WS		20.0%
Average Earnings (2000\$):		
1998 Earnings	\$19,341	\$25,033
1999 Earnings	\$21,802	\$26,297
2000 Earnings	\$19,274	\$26,465
2001 Earnings	\$16,240	\$24,751
2002 Earnings	\$16,445	\$23,041
% Female	42.8%	35.6%
Age (years):		
% Under 24	10.7%	7.2%
% 25 to 34	26.2%	21.9%
% 35 to 44	29.6%	32.6%
% 45 to 54	21.2%	25.2%
% 55 to 64	9.8%	11.8%
% 65 and Over	2.5%	1.3%

Note: Calculations by authors using California state administrative unemployment insurance data. All claimants had benefit years that began in 2000.

attractive. Because only a fraction of employees who are laid off will collect UI benefits, firms can expect total claims to be lower if they choose to lay off workers instead of selecting work sharing. Moreover, some affected workers may not prefer the WSUI option to layoffs because it imposes a reduction in pay and they may have opportuni-

ties for alternative jobs at full-time hours and earnings. Although the tradeoffs in these positive and negative features of WSUI are difficult to assess, the fact that less than one percent of employers rely on work sharing leaves little doubt that most firms perceive WSUI's prospective costs to outweigh its benefits.

Endnotes—

¹For details, see the WSUI fact sheet: <http://www.edd.ca.gov/de8714bb.pdf>. In other states, WSUI rules are similar.

²UI eligibility is a function of a claimant's earnings during the base period. In many states, including California, the base period is defined as the first four of the last five completed calendar quarters.

³See Patricia Anderson and Bruce Meyer (1997), "Unemployment Insurance Takeup Rates and the After-Tax Value of Benefits", *The Quarterly Journal of Economics*, 112, p. 913; and Rebecca Blank and David Card (1991), "Recent Trends in Insured and Uninsured Unemployment: Is there an Explanation?", *The Quarterly Journal of Economics*, 106, p.1157.

⁴UI costs could, of course, be higher for the firms using layoffs if the laid off workers who do collect UI remain on benefits longer than they would have under the work sharing alternative. However, this possibility rests on the presumption that the firm chooses not to rehire laid off workers when it is capable of doing so.

⁵See the Mutual Information System on Social Protection in the EU Member States and the EEA (MISSOC) website: http://europa.eu.int/comm/employment_social/missoc/2003/index_chapitre10_en.htm.

⁶See OECD Employment Outlook, June 1999, OECD Publication Services, Paris.

⁷States with WSUI programs are: Arizona, Arkansas, California, Connecticut, Florida, Iowa, Kansas, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New York, Oregon, Rhode Island, Texas, Vermont, and Washington.

⁸Firms with a negative reserve balance are charged a surcharge of up to two percentage points in Arizona; in Kansas and Arkansas, they are excluded from using WSUI. Missouri and Florida increase the maximum tax rates for firms that use WSUI. See Berkeley Planning Associates and Mathematica Policy Research (1997), "Evaluation of Short-Time Compensation Programs: Final Report", U.S. Department of Labor, Washington D.C., Table C-1.

⁹Massachusetts numbers are from 1995.

¹⁰See Berkeley Planning Associates and Mathematica Policy Research (1997), Table A-1.

¹¹See Berkeley Planning Associates and Mathematica Policy Research (1997), Table A-1.

¹²See the U.S. Bureau of Labor Statistics (BLS) website: <http://data.bls.gov/labjava/outside.jsp?survey=la>.

¹³See John Lammers and Timothy Lockwood (1984), "The California Experiment", in *Short-Time Compensation: A Formula for Work Sharing*, Ramelle McCoy and Martin Morand, ed., Pergamon Press, New York.

¹⁴See David Gray (1998), "When Might a Distressed Firm Share Work? Evidence from the Short-Time Compensation Programme in France", *British Journal of Industrial Relations*, 36(1), p.43. Table 1 shows similar trends using French data.

¹⁵For numbers from the late 1970s and early 1980s, see Lammers and Lockwood (1984) and Fred Best (1988), *Reducing Workweeks to Prevent Layoffs*, Temple University Press, Philadelphia, PA.

¹⁶A firm's initial date of liability is not necessarily the date of its first hire.

¹⁷WSUI firms have unionization rates of up to 25 percent in other years (2000 and 2001). Unionization is obtained from surveys of UI claimants, and it measures the extent to which at least some of a firm's workers are covered by union contracts.

¹⁸See McCoy and Morand (1984), *Short-Time Compensation: A Formula for Work Sharing*, Pergamon Press, New York.

¹⁹See Steve Davis and John Haltiwanger (1991), "Wage Dispersion between and within U.S. Manufacturing Plants, 1963-1986", *Brookings Papers on Economic Activity*, Microeconomics, Vol. 1991, p.115.

²⁰This was first noted by Berkeley Planning Associates and Mathematica Policy Research (1997).

²¹There is also a third group of workers: employees who are neither laid off nor asked to work reduce hours.

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