Between Overworked and Out of Work

Instead of having 10 percent unemployment, what if we worked 10 percent fewer hours?
by Dean Baker
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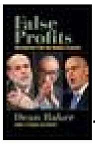

The following is excerpted from *False Profits: Recovering from the Bubble Economy.* PoliPointPress, 2010.

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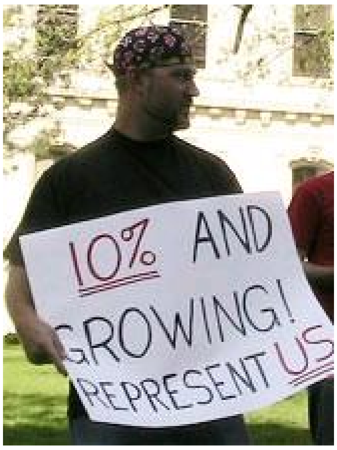

In April 2009, unemployed construction workers rallied in Indiana in support of unemployment insurance. By subsidizing employers who offer paid time off, governments could help spread available employment to more workers.

Photo by Kaitlin DeCero

One way to view a period with an extreme shortfall in demand, like the housing crash recession or the Great Depression, is as a period in which we don't know what work we want people to do. Given the levels of demand in the [current] economy, 10 percent of the workforce would go unemployed. We can develop stimulus packages in an effort to find at least somewhat useful ways to employ our excess labor force. If good projects can be placed on the stimulus list, this route can be an effective way to reach full employment.

However, we can also go in the opposite direction. If we lack enough useful ways to employ our workforce, we could simply work less. Instead of having 10 percent of the workforce unemployed, we could have the whole workforce employed, but working 10 percent fewer hours. If everyone got paid the same as when they worked 10 percent more hours (a situation that we can bring about using government money, because of a shortfall in demand), everyone should be better off and we will have eliminated unemployment. The real world will never be this simple, but we can follow this logic to try to bring the economy to full employment by shortening working hours and leaving total pay unchanged.

Reducing unemployment through a reduction in average work hours can be accomplished by giving a tax credit to employers to give their workers paid time off, which can take the form of paid family leave, paid sick days, paid vacation, or a shorter work week. This tax credit would both provide short-term stimulus and an incentive to restructure workplaces in ways that are more family friendly. It is likely that many workplaces will leave in place changes enacted to take advantage of this tax credit long after the credit has expired.


No Vacation Nation
Along with paid vacation, we're missing out on happiness, better health, and a more sustainable society.

The amount of money designated for a credit should be modest, but still enough to cover a substantial period of paid time off for a typical worker. Something in the realm of $3,000 per worker would be sufficient to cover approximately 150 hours of compensation for a median wage earner, or 7.5 percent of the time of a worker employed for 2,000 hours a year. In the interest of equity and to limit the opportunities for gaming, the credit should also be limited to cover no more than 10 percent of a worker's time. (The credit can also be limited by employer size, although the more firms that are eligible, the more stimulus it could provide.)

Not all employers will opt to take advantage of this tax credit, for it will require some restructuring of work arrangements. However, many employers will see it as an opportunity to provide valuable benefits to workers at little or no cost to themselves. If a substantial number of employers opt to take advantage of this tax credit, the impact on employment could be substantial.

How Paid Time Off Would Boost Employment

The arithmetic on this is very straightforward. Suppose employers of 100 million workers reduced work time by 5 percent. Demand would be little changed, because most workers are still getting paid the same in spite of their shorter hours. If workers are putting in 5 percent fewer hours, and demand remains unchanged, employers should want to hire roughly 5 percent more workers, or 5 million workers.

In addition, increased employment will lead to a secondround effect. Assuming that the net increase in wages is roughly equal to the money paid out for the tax credit, and that the government pays out $250 billion a year (100 million workers at $2,500 each), the wage bill will increase by $250 billion.

If workers spend 50 percent of this money on domestic products, roughly $125 billion in additional demand would be created. This additional demand would translate into 1 million more jobs, for a total increase in the employment of 6 million workers.

The net cost per job on this policy ends up being considerably lower than other forms of stimulus. If the stimulus increases GDP by $380 billion (as discussed above), this should lead to an increase in tax revenue and a reduction of transfer payments (for example, unemployment insurance) of approximately 25 percent of this amount, or $90 billion. This leaves a net cost of $290 billion ($380 billion minus $90 billion).

If the policy creates 6 million jobs at a cost of $380 billion, the net cost per job is $26,000, which compares very well with other forms of stimulus being considered. A paid-time-off tax credit also has the advantage that it can take effect almost immediately and would require very little bureaucracy or oversight. Direct government spending, for example on health care or infrastructure, directly increases employment and provides a boost to the economy. However, President Obama's stimulus package has already pressed the limits in expanding many areas of government services. Substantially increasing spending beyond the amounts appropriated in the last stimulus would not be easy. By contrast, employers would have incentive to move quickly to take advantage of a time-limited paid-time-off tax credit, for the sooner they acted the more they would benefit.

Enforcement should be relatively easy because the government can require a public posting on the Internet for all employers who take advantage of the tax credit. This would mean that they would have to identify the paid time off that they were giving to workers.

With many Americans either unemployed or overworked, incentives for employers to offer paid time off could help provide balance.

Photo by Ed Yourdon

The employees of any company receiving the credit would know whether they were getting the benefit indicated. In other words, if the employer claimed to give workers paid family leave, workers would know whether or not this was true. Presumably, workers would report employers who wrongly claimed the tax credit. Such accountability should substantially reduce the risk that employers will defraud the government.

Possible Long-Term Benefits of a Paid-Time-Off Tax Credit

Labor practices in the United States have diverged sharply from those in other wealthy countries over the last three decades. During this time other countries have passed laws requiring that workers get several weeks of paid vacation each year—in addition to paid family leave and paid sick days—but workers in the United States still have no such legal guarantees. Tens of millions of workers have no paid time off whatsoever.

A government tax credit that largely covers the cost for paid time off will encourage employers to experiment with alternative work arrangements. Any such tax credit will presumably be temporary (two years would be a reasonable target, given the severity of the downturn), but if the new arrangements prove better for workers and employers, many employers will opt to keep them even after the tax credit has expired.

In this way, the tax credit may go far toward making some benefits universal, such as paid family leave or paid sick days, and moving the United States in the direction of a shorter work year.