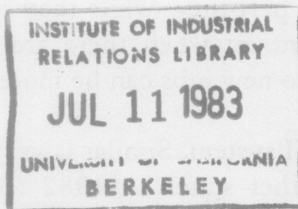


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A NEW UI SYSTEM IN CALIFORNIA

by David Stern

A series of recent California laws has transformed Unemployment Insurance (UI). It used to be simply a program to provide some cash for the unemployed. Now, in addition, UI in California is providing incentives for work-sharing instead of full-time layoffs, and is also supporting the direct cost of training programs. These new features of the UI program are still not well-known in California, far less outside the state.

Work-Sharing: How It Works - The work-sharing option was created by Senate Bill 1471 of 1978, sponsored by Senator Bill Greene (D., Los Angeles). If an employer informs the state Employment Development Department (EDD) that a group of employees are being put on a reduced work schedule, the new law allows those workers to collect prorated unemployment benefits **on top of** their part-time earnings. Under the old law, part-time earnings were **deducted** from the unemployment benefits for which a worker was eligible.

For example, suppose an employer has to make a 20 percent cut in payroll. One way to do this would be to lay off about one out of five workers. A worker on full-time layoff would be eligible for UI benefits of, say, \$120 a week. This is considerably less than the worker's usual earnings of, say, \$250 a week, which would be the amount of reduction in the employer's payroll cost if the worker is laid off full time.

Now another way to get a 20 percent reduction in total payroll cost would be to put all employees on a four-day week. If the employer told EDD that this work-sharing option was to be used, then the worker who would have collected \$120 a week on full-time layoff would now collect one-fifth of that, or \$24, for the one day a week he or she is not working. This would be added to the four days' worth of regular pay, which would be four-fifths of \$250, or \$200. So the weekly income of this employee under work-sharing UI would be \$224. That is \$26 less than full-time weekly earnings, but it is \$104 more than UI benefits on full-time layoff. And it is more than work-sharing would have provided under the old law. Before 1978, the \$200 part-time earnings would have been deducted from the \$120 UI benefit--leaving no UI benefit at all.

Of course, employees who would **not** be laid off are still going to receive less money under work-sharing than if they kept working full time while others were put on full-time layoff. But these workers now lose less by work-sharing than they would have lost under the old law.

From July 1978 through November 1982, EDD figures show a total of 4,485 work-sharing plans had been approved, covering 173,927 workers. But those numbers still represent only small fractions of the firms using regular layoffs and the employees collecting regular UI benefits. Work-sharing has begun to catch on, but it is still the exception, not the rule.

Where workers are part of a union, the law requires the union to approve the work-sharing plan before EDD can accept it. Through November 1982, EDD had accepted 607 work-sharing plans with union approval. Data for fiscal 1980 show the proportions of unionized employers and employees involved in work-sharing were about the same as the non-unionized proportions.

Advantages of Work-Sharing for the Economy - For the economy as a whole, work-sharing has two main advantages over full-time layoffs. First, as an alternative to **temporary** layoffs, work-sharing reduces the risk that experienced workers will become permanently separated from the firms where their experience is most valuable. Temporary layoffs frequently occur when business slows down. Most workers who have been temporarily laid off will return to their original employer when recalled. But many cannot afford to wait. Instead of trying to live on UI benefits, they take other jobs. A large fraction end up staying in these other jobs even though, on average, the new jobs pay less than their

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original jobs. Meanwhile, the original employer has to hire inexperienced people when business picks up again. This is a waste of human resources. Some employers recognize this: those who have used the work-sharing option in California say their main reason is "maintaining valued employees."

The other main advantage of work-sharing occurs when layoffs are the result of **permanent** reductions in the number of employees at a given location. Such cutbacks tend to be accelerated by economic recessions--but recessions are also the hardest times for the laid-off workers to find new jobs. Work-sharing allows all the workers in question to stay on the payroll part-time--while they seek other jobs--instead of some of them being dumped into full-time unemployment when there are no other productive opportunities for them. Under work-sharing, the transition to new jobs can be more efficient and less traumatic.

California was the first state to create a work-sharing option in its UI system. Similar laws have since been passed in Arizona and Oregon, and are being considered in other states. A 1982 federal law introduced by Rep. Patricia Schroeder (D., Colo.) directs the U.S. Department of Labor to provide technical assistance and develop model legislation for the states (this was passed as section 194 of the 1982 Tax Equity and Fiscal Responsibility Act).

UI as Support for Training -- California has also pioneered in the use of UI to support training for the unemployed. Senate Bill 1115 of 1980, also sponsored by Senator Bill Greene, took a first step by formally allowing unemployed individuals to collect benefits without having to comply with the usual job-search requirements--provided they are enrolled in a training program approved by EDD. Only a very small number of people have gone through the formal approval process--203 applied in the first year of the program and 459 the second year. But this law, nevertheless, marked a distinct change in the philosophy of UI.

A much more substantial change occurred in 1982 with passage of A.B. 3461, sponsored by Patrick Johnston (D., Stockton). This law allocates about \$55 million a year from the UI fund to pay the direct cost of training workers who are unemployed or are "likely to be displaced." No money has yet been spent. The new operation is to be run by a new Employment Training Panel, which had its first meeting in January 1983. The law directs the panel to favor programs which provide apprenticeships or upgrading for individuals who are already employed or are hired when training begins, and programs that provide training for which there is evident demand. The operation is designed to be as efficient as possible in training people for available jobs.

Conclusion -- The UI system in California is evolving into an instrument of active labor market policy. Organized labor has been involved in shaping the new system, and will continue to play an essential role in getting legislation passed and properly implemented. For instance, some employers in California still put workers on reduced schedules without filing a work-sharing plan--so employees miss out on UI benefits for which they could now be eligible. Unions can help publicize the new work-sharing option. They can also sponsor training programs funded by the new Employment Training Panel. In these and other ways, unions can use the new UI laws to prevent some unemployment, not just cope with it after it happens.

References -- Two publications available from the California Employment Development Department contain additional information. One is a pamphlet entitled "Work Sharing Unemployment Insurance . . . An Alternative to Layoffs." Another is the May 1982 report, *California Shared Work Unemployment Insurance Evaluation*.

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