

Sharing the pain

Colin Read: Everybody's Business

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— While the economy begins to pick up, I expect job losses to rise to over 7 million over the next six months. Is there an alternative to resorting to layoffs to match employers' costs with their declining revenues?

Now, more than at any recession before, employers are trying to avoid layoffs by proposing wage reductions, reduced pension contributions and other benefits, and a greater scrutiny on employee-related expenses. Companies as varied as Costco and Wynn Resorts see the value in sharing the pain rather than concentrating it on the unlucky few.

Do these employee concessions make a difference? Absolutely. Here's why.

First, payroll reductions allow firms to match their costs with declining revenue.

Second, production is maintained. While reduced salaries decrease the buying power of employees, deflation from declining goods and commodity prices helps restore some buying power.

Third, sharing the pain is better than concentrating all the pain on the unfortunate few who lose jobs. These jobs are not likely to come back in our jobless recovery, if the last two recessions are an indicator. Layoffs in this recession are borne disproportionately by men, especially minorities and those with less education. There will be a large body of disaffected individuals who will be difficult to mobilize for retraining in the sectors like health and education that will grow.

Payroll cuts can take many paths. For instance, the movement from a 60-hour work week to a 50-hour work week at the turn of the last century, and the 40-hour work week a generation later, did not result in a 20 percent reduction in production each time.

Europe has introduced a 32-hour work week in some industries. While a further 20 percent reduction in hours and payroll costs was challenging for workers, the quality of life of a four-day work week mitigates the payroll reduction. And a shorter work week translates into higher productivity and morale. Of course, taxes fall too, so the actual take-home pay does not fall by 20 percent. Meanwhile, layoffs are avoided as some aspects of quality of life are enhanced.

Employers can simply lower wages without reducing hours. However, if there is decreasing demand for their products, employees are left with little to do. Imaginative employers and flexible employees can use this idle time for more training, retrofitting of new efficiency-enhancing innovations, and other techniques that will enhance productivity. Such a temporary redeployment of employees can counter a temporary decline in demand and sow the seeds of greater competitiveness once the recovery begins.

Each industry must be creative in this current environment. As an example, colleges typically teach on either a Tuesday and Thursday or a Monday-Wednesday-Friday schedule. Each class offered twice a week on the

Tuesday-Thursday schedule is typically 75 minutes long while the Monday-Wednesday-Friday classes are 50 minutes long. Either way, students receive 150 minutes of lectures per course each week.

Many colleges have recently adopted a schedule designed around a four-day week, with classes offered on a Monday-Wednesday or a Tuesday-Thursday schedule. Students and faculty alike would have an additional discretionary day for study, research and professional service without any loss in instruction time.

It is true that there would be fewer courses that can be offered on Mondays and Wednesdays because each class time is longer. However, it turns out that the number of sections that can be offered in a week only falls by 10 percent, with careful planning, even though one entire day is freed up. And a 10 percent decline in the number of sections that can be offered per week can easily be made up by increasing class size by just a few students.

This is an example of how morale and productivity can be increased while still affording reductions in heating and lighting costs and building maintenance, simply by thinking a bit unconventionally and departing from practices borne out of different realities.

Such creativity in the employment of our labor force also pays dividends in other ways. A more productive, flexible, and higher-morale workforce also makes easier the retention and recruitment of high-quality employees. And creativity may make our product more attractive and competitive in the market place, too.

Sometimes, it is our unwillingness to share in the pain that is causing the pain.

For instance, Brandeis University employees, at the behest of their president of the faculty senate, volunteered across-the-board wage cuts to avoid layoffs.

Ironically, many employees are opposed to sharing the pain. Even at Brandeis University, only 36 percent of the faculty supported the plan. Like much of what got us all into this mess, it is self interest trumping our shared interest. After all, we usually know who is going to draw the short straw. So long as we are not the unlucky person just hired, or the temporary worker, or the untenured or adjunct faculty member, we often feel no need to share in their pain.

Like any innovative response to new challenges, the greatest difficulty is in thinking creatively and embracing new approaches. When we fall back on old approaches to new challenges, it should not surprise us to find ourselves repeating the same challenges over and over again.

We need leadership, compromise, a willingness to be flexible and change, and a willingness to share in the pain if we are to escape a Groundhog Day-esque repetition that mires us in reduced competitiveness.

Colin Read runs Economic Insights, a local economics consulting firm, and has taught economics and finance for 25 years. He values your feedback and ideas, and can be reached at economicinsights@gmail.com.

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