

The Effect of the Recession of 2008 – 2011 on Work Benefits and Social Insurance Expenditures: An International Comparative

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Abstract

Work benefits in the United States are relatively unregulated by international standards and are treated more as elements of an employment contract than as a basis for the social protection of workers. That wage and salary rates vary with unemployment levels has been well established, but a question remains as to whether the offering rate of work benefits including paid time off, healthcare and retirement benefits also varies with economic cycles. Using data from the Bureau of Labor Statistics and the World Bank, the article examines whether changes in direct compensation are commensurate with changes in benefit expenditures throughout an economic cycle and whether growth and contraction in national expenditures on social insurance have an inverse relationship with growth and contraction in national GDP. Changes in expenditures on direct benefits and social insurance costs in the United States are compared with the same measures in twenty other countries.

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1 Introduction

U.S. History

Work benefits are said to promote job satisfaction and inspire worker loyalty which, in turn, leads to better financial performance for the companies that offer them [1]. Some forms of work benefits can be traced to America's colonial era. During and after the Revolutionary War, pensions were awarded to soldiers who had served for a minimum term or were disabled in the line of duty as well as to the widows of those who had been killed in service [2]. In 1798, Congress established one of the nation's first healthcare benefits by creating a network of hospitals for the care of merchant seamen [3]. But work benefits as Americans have come to know them first began to take shape in the latter part of the 19th century in Germany.

In 1883, Otto von Bismarck, the first chancellor of Germany, oversaw the establishment of "illness" insurance for workers; the cost of medical care and wages for up to 13 weeks of absence from work was split between employers and employees [4]. Bismarck went on to launch programs for accident insurance [5] and for pensions for those aged 70 and over [6]. While Bismarck was most closely aligned with industrialists and large commercial interests, he had the political savvy to forward legislation that met some of the demands of the then rising Socialist party and, in doing so, temporarily stall their growth [7]. Whatever his intention, Bismarck did establish the first set of work benefits for laborers in modern times.

These interests crossed the Atlantic to the United States, but only after several decades had passed. In the early 1900s, Eugene Debs founded the Socialist Party in the United States and attempted five times to seek the U.S. presidency; at his highest popularity in 1916 he garnered approximately six percent of the popular vote [8]. The platform on which he ran called for limits to workdays and workweeks, federal inspections of factories and mines, minimum wages and the abolition of child labor [9]. While Debs was not personally successful in adding these reforms to the national agenda, they would eventually take hold. As a response to the collapse of the stock market in 1929 and the dawning of the Great Depression, President Franklin Roosevelt was able to do so as part of his "New Deal" legislation [10]. The economic exigency of the 1930s provided the impetus for the widespread acceptance of labor rights.

The second event that was to further the growth of work benefits in the U.S. was World War II. While the Great Depression saw an abundant supply of labor and few jobs, the pendulum had swung in the opposite direction during the Second

World War. With much of the young male population taken by the armed forces and factories needing to supply the war effort, wages began to climb as firms competed for the then scarce labor resources. The bidding process got more complicated. In reaction to the rising price of labor, Congress passed legislation to freeze wage and salary levels [11]. Exempted from these wage and price controls, however, were work benefits, and organizations began using them as an enticement for new recruits [12]. In 1940, health insurance plans covered approximately 21 million workers in the United States; by 1950, that number had grown to 142 million [13]. Benefits offerings had become entrenched in the workplace.

In more recent decades, however, the accessibility of work benefits to American employees has begun to decline.

Table 1
Access to Selected Benefits, 2014 versus 1984
Establishments with 100 or More Workers
Percent of Civilian Labor Force

	<u>1984</u>	<u>2014</u>	<u>Change</u>
Retirement benefits	82	85	+3
Healthcare benefits	97	85	-12
PTO – Holidays	99	81	-17
PTO – Vacations	99	79	-20

Sources: Bureau of Labor Statistics. *Employment Benefits in Medium and Large Firms*, June 1985, Bulletin 2237; Bureau of Labor Statistics. *Economic Benefits in the United States* – March 2014, USDL-14-1348

Since the 1980s, defined benefit plans have been largely replaced by defined contribution (401k) plans. Healthcare benefits largely switched from managed care to consumer-directed programs. Absences from work are less frequently segmented into vacation, holidays and sick leave and are often packaged into a single inclusive “paid time off” bundle. In sum, workers are being made to be more individually responsible for their retirement and healthcare, and for managing their own time away from work.

An International Perspective

Most other countries regulate work benefits more thoroughly than the United States. In the U.S. benefits are considered a part of compensation, something to be bargained for; in most other countries they are more heavily regulated and used as a form of social protectionism[14]. Among the 160 countries monitored by the

International Labour Organization, only Kiribati, Laos and the United States do not mandate that full time employees be given paid vacation or paid holidays each year [15], [16]. Only Papua New Guinea and the United States award the parents of newborn or newly adopted children unpaid (as opposed to paid) time off for the occasion [17]. And social security payments in the United States are at a lower replacement rate than they are in almost every other industrialized country [18]. The social protections envisioned by the International Labour Organization [19] assume that it is a national responsibility to provide basic income security for new mothers and older persons, as well as health care services for citizens at a reasonable cost.

2 Research Question

If the purpose of the regulation of work benefits is for social protection, programs such as unemployment insurance, social security and other forms of providing services to those who are unemployed or underemployed should surge during times of financial stress, that is, there should be an inverse relationship between changes in a nation's Gross Domestic Product (GDP) and expenditures on social insurance programs. Other benefits, such as contributions to retirement savings, the costs of paid time off and contributions to health care should fluctuate commensurately with total compensation. If benefit payments were to fluctuate disproportionately to total compensation, the pattern would suggest that the employment market is less sensitive to changes in benefit levels than it is to changes in direct compensation and that work benefits are being used as a managed part of compensation rather than a form of social protection.

To assess these contentions, two hypotheses are proposed:

1. Changes in direct compensation are commensurate with changes in benefit expenditures throughout an economic cycle.
2. Growth and contraction in national expenditures on social insurance have an inverse relationship with growth and contraction in national GDP.

3 Methodology

To measure these hypotheses, a sample of industrialized nations was selected. The U.S. Bureau of Labor Statistics (BLS) monitors the compensation, direct benefit and social insurance payments for the manufacturing sector in thirty nations. Historical data on the Gross Domestic Product of these nations was available from the World Bank. While the list of nations used by the BLS for comparison includes developed as well as developing economies, notable by their

absence are some of the world's largest economies including the Russian Federation, China and India. The nations studied by the BLS are, however, a representative sample of comparable economies and formed the pool on which the hypotheses were tested. Four nations were eliminated from the list as the BLS noted discrepancies in the data collected from period to period rendering their use unreliable.

The assessment period was from 2004 to 2012, as it included a full economic cycle of growth (2004 – 2008), contraction (2008-2011) and growth (2011 – 2012) that was felt in most of the developed nations around the globe. The five nations that did not experience periods of contraction during the 2008 – 2011 time frame were also eliminated from the pool.

For each of the twenty-one remaining nations, the respective pay, direct benefits and social insurance expenditures were measured for each nation's manufacturing sector in local currencies for the test period. Annual changes in these three categories of expenses were calculated. Similarly, the annual change in gross domestic product as measured in local currencies was calculated. Local currencies were used in both cases to eliminate the effect of changes in foreign exchange rates. Changes in pay, direct benefits and social insurance expenses were then matched to changes in GDP. Changes in the level of pay and direct benefits were correlated across changes in the economic cycle; similarly, changes in social insurance expenditures were correlated with changes in GDP. The results of the measurements appear in Table 2.

4 Results

Using Dancey and Reidy's [20] categorization of the strength of correlation, pay and benefits were strongly correlated in fourteen of the twenty-one nations studied, moderately correlated in one, and weakly correlated in another four. In two countries, Japan and the United States, no correlation was found. It may be noted, however, that although not statistically significant, the relationship between changes in pay and benefits in the United States was negative for the period.

Using the same categorization for the correlation of expenditures on social insurance with changes in the gross domestic product, no correlation was found in three nations, a positive correlation was found in seven nations (two weak, four moderate, and one strong) and a negative correlation was found in thirteen nations (nine weak and four moderate).

Table 2
 Correlation of Changes in Pay and Direct Benefits
 & Correlation of Changes in Social Insurance Expenditures with Changes in Gross
 Domestic Product Across an Economic Cycle
 2004-2012

<u>Nation</u>	<u>Changes in Pay and Direct Benefits</u>	<u>Changes in Social Insurance Expenditures and GDP</u>
Austria	.995	-.235
Belgium	.822	.173
Brazil	.996	-.024
Canada	.999	.412
Czech Republic	.507	-.168
Denmark	.280	.381
Finland	.939	-.434
France	.292	-.246
Germany	.317	-.183
Greece	.989	-.681
Hungary	.961	.120
Ireland	.866	-.309
Italy	.122	-.627
Japan	.080	-.027
Netherlands	.778	-.273
New Zealand	.859	-.120
Portugal	.824	.099
Singapore	.807	-.124
Slovakia	.997	.841
United Kingdom	.957	.412
United States	-.050	-.199

5 Analysis

The first hypothesis, which correlated the levels of pay and benefits across an economic cycle, was demonstrated. In fourteen of twenty-one countries studied, the correlation between the two was strong, and it was moderate or weak in another five. In four countries – Austria, Brazil, Canada and Slovakia, the correlation was nearly perfect. In Japan to some degree, but even more strongly in the United States, pay is disassociated with work benefits. In most countries,

benefits are regulated – including mandatory minimum levels of paid time off and paid time off for illness or for the birth or adoption of a child [21]. Whether this stems from regulation or from custom and practice, direct benefits are treated as a relatively inseparable part of compensation.

In Japan and to a larger extent, in the United States, work benefits are treated as a separable part of an employment contract. While in Japan there are a minimum number of paid vacation days and holidays for qualifying full time workers, there is no corresponding law or regulation in the United States that mandates paid time off. On two occasions – in 2009 and 2013, Representative Alan Grayson of Florida brought the “Paid Vacation Act” to the House of Representatives. The bill would have required all firms with 100 or more employees to offer a one week paid vacation to their full-time employees. On both occasions the bill was referred to the House Subcommittee on Workforce Protections and no further action was taken.

Further, a change in the cost of retirement benefits can be traced to the Revenue Act of 1978, which established 401K plans. Between 1979 and 2011, defined benefit retirement plans, or pension plans, declined from being held by 62 percent of the workforce to 7 percent. At the same time, the number of participants in defined contribution plans – 401k plans – increased from 16 to 69 percent of the workforce[22]. It should be noted that a 401k plan is a “benefit” – a form of indirect compensation paid to an employee – only to the extent that the employer makes a contribution to it.

There are plusses for employees to this system – they are owned by the employee; unlike pensions, they vest immediately, and they are transportable from job to job. There are also plusses for employers – any year’s contribution to employees’ retirement plans can be managed – that is, increased or decreased. Using a 401K plan, as opposed to a pension plan, replaces a fixed amount of overhead with a discretionary expense.

By international standards, work benefits in the United States are relatively unregulated. Organizations based in the United States have more latitude than those based in other countries to specify the benefits that attach to employment and to manage their ongoing contributions to those benefits.

The second hypothesis, which correlated changes in expenditures for social insurance with changes in each nation’s GDP could not be substantiated based on the analysis performed here. While an inverse relationship between social insurance expenditures and GDP was seen in a majority of countries, a substantial minority of countries saw a positive correlation between social insurance expenditures and GDP. This suggests that some nations may be using social insurance programs to supplement labor earnings during times of economic crisis,

but others spend labor-based revenues as they are earned on such programs. Further analysis should compare the specific programs for which social insurance revenues are collected and spent in the countries that have a positive correlation between the two factors with those that have an inverse relationship between them.

6 Conclusion

Work benefits are treated very differently in the United States than they are in much of the rest of the world. Whether through regulation, the presence of strong collective bargaining or custom and practice, work benefits have become a form of social protection in most other countries. In the United States, work benefits are but one aspect of a negotiable employment contract.

Moreover, there are no national laws mandating paid time off in the United States – for vacation, for holidays, for illness, or for the birth or adoption of a child. The shift from defined benefit to defined contribution plan retirement benefits has enabled organizations to treat this as a managed expense rather than a fixed overhead cost. This gives organizations an additional flexibility in managing costs during a financial crisis. During an economic downturn, organizations may impose limits on work benefit expenses as a coping mechanism for declining revenues.

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