WORK-LIFE PROGRAMS: ATTRACTING, RETAINING AND EMPOWERING THE FEDERAL WORKFORCE

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Testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia
Committee on Homeland Security and Governmental Affairs
United States Senate

May 4, 2010

Good afternoon Chairman Akaka, Ranking Member Voinovich, and distinguished members of the Subcommittee.

I am very pleased to represent the Council of Economic Advisers (CEA) at this important hearing. Today, I will focus my remarks on the main findings from the March 2010 CEA Report *Work-Life Balance and the Economics of Workplace Flexibility*, which I respectfully submit for the record. The Report discusses some of the changing patterns of the American workforce, the state of flexible work arrangements in our economy, and the economics of workplace flexibility. I will defer discussion of the Federal Government's work-life programs to my colleague from the Office of Personnel Management (OPM).

The CEA Report

The Evolving Needs of American Workers

In the CEA March 2010 Report, we discuss the motivation for providing workplace flexibility, document the prevalence of these practices, and consider the tradeoffs that employers face when forming their management practices. Over the past half century, American society has changed dramatically. Women have entered the labor force in growing numbers. Women comprise nearly one-half of the labor force, and in nearly one-half of households all adults are working. Families have increasingly relied on more than one earner to make ends meet.

And yet, children still need to be taken to the doctor, and elderly parents still need care. In 2008, approximately 43.5 million Americans served as unpaid caregivers to a family member over the age of 50. Nearly one-fifth of employed people were caregivers who provided care to a person over age 50. And, more adults older than 25 are attending school. The increasing demand for analytical and interactive skills—those largely obtained through post-secondary education—means it is all the more important and common for individuals to pursue additional education while also working. Because these changes have caused many workers to face conflicts between their work and their personal lives, they also inspire a need and desire for more flexibility in the workplace.

The Prevalence of Workplace Flexibility in the United States

In describing the prevalence of workplace flexibility in the United States we divide flexible workplace arrangements into three main parts: when one works, where one works, and how much one works (including time off after childbirth or other life events).

Overall, over one-half of employers report allowing at least some workers to periodically change their starting and quitting times. However, less than one-third of full-time workers report having flexible work hours, and only 39 percent of part-time workers do. This discrepancy between the employer and employee reports may be due to differences in data collection or because more employers would be willing to accommodate the needs of individual workers but these workers are not aware of it.

We also consider how the prevalence of flexibility differs across demographic groups. We find that among full-time workers, a similar percent of men and women report having flexible work hours. However, less-skilled workers have less workplace flexibility in terms of scheduling when they work than do more highly-skilled workers. For example, 15 percent of full-time workers with less than a high school diploma report having flexible hours, compared to 38 percent of full-time workers with a bachelor's degree or higher.

The Report explores two possible explanations for this pattern. First, some economists argue that flexibility is a form of compensation. Just as more-educated workers enjoy higher earnings and are more likely to have benefits such as employer-sponsored health care, they are also compensated with more flexibility. In addition, one study suggests that the nature and context of low-wage jobs—such as the need for around-the-clock coverage—may make giving flexibility to some low-wage workers more costly. To explore this issue more fully, the Report shows that occupations that have a high degree of flexibility, such as management and business and sales, also have a low percentage of workers with less than a high school degree; workers in occupations with a low degree of flexibility, such as construction, also tend to have a high percent of workers with less than a high school degree.

Flexibility in where to work is less common: only about 15 percent of workers report working from home at least once per week. The Report shows that 23 percent of employers were recorded as allowing some workers to work at home on a regular basis; only 1 percent of employers allowed most or all of their employees to do so. At the same time, it was more common for employers to report allowing employees to work from home occasionally.

Finally, most employers offer at least some workers the ability to return to work gradually after a major life event such as the birth or adoption of a child, although job sharing, where multiple workers share the responsibilities of one position temporarily, appears less widespread. In 2007, 29 percent of employers reported allowing some workers to share jobs, and 41 percent reported allowing at least some individuals to move from full-time to part-time and back again while remaining at the same position or level. A smaller percent of firms allowed most or all employees to take advantage of these forms of flexibility.

The Economics of Workplace Flexibility

The Report concludes by presenting an economic perspective on flexible workplace policies and practices. When deciding to embrace flexible arrangements, employers must balance the potential costs of these practices against potential benefits. In fact, one study finds that almost one third of firms cite costs or limited funds as obstacles to implementing workplace flexibility arrangements.

At the same time, the Report discusses the existing research on the effect of flexible workplace arrangements on reducing turnover and absenteeism, assisting with recruitment, improving health, and boosting productivity. We also present a number of case studies that highlight the benefits of flexible arrangements for firms in various industries and of various sizes. While some research suggests that flexible practices can improve productivity, more research could help us better understand the tradeoffs that employers face when adopting flexible arrangements.

However, many firms have not adopted such practices. As I mentioned earlier, less than one-third of full-time workers report having access to flexible work hours. If these practices generate such large economic benefits for both workers and firms, why do more workers not have access to them?

One possible explanation is that the relative costs and benefits of these practices differ across and within firms. Economic theory suggests that the firms with the greatest (net) gains to adopting flexible practices should be among the first to embrace them. Existing studies of the effect of flexible arrangements come from firms that have already adopted these practices. Therefore, the evidence mentioned earlier may overstate the economic benefits that firms that have not yet adopted flexible arrangements would enjoy. Moreover, from a strictly economic perspective, if firms maximize profits, those that find such policies improve their profitability would adopt them while those that find them too costly would not. In this case, there would be no economic gains to additional firms adopting such policies.

That said, there is still an economic rationale for why additional firms and the U.S. economy could benefit from wider adoption of flexible workplace practices. There is a growing literature that suggests not all firms adopt the most efficient practices, especially in less competitive industries. Economists argue that one factor that may contribute to the incomplete adoption of the best management practices is lack of information. Due to the changing nature of the labor force, it is likely that the best practices from years ago do not provide enough flexibility for today's workforce. If firms today are failing to adopt flexible arrangements, encouraging supervisors at firms to reevaluate their management practices in light of the evolving demands of workers can make both the firm and the workers better off.

In addition, wider adoption of such policies and practices may well have benefits to more firms and workers, and for the U.S. economy as a whole. For example, some economic models have emphasized that firms may be reluctant to offer benefits packages that are particularly attractive to workers for whom the benefits are most costly to provide. If a similar dynamic operates with flexible workplace arrangements, then too few employers may offer such arrangements and those that do will pay a higher cost. In addition, on average, adopting flexible practices likely encourages labor force participation among those workers that would otherwise find it too "costly" to work or invest in workplace skills. Taxpayers and society as a whole benefit from having productive individuals in the workforce because they are more likely to make contributions in the form of taxes. As another social benefit, allowing workers to work during atypical hours can reduce the commuting time for other workers, which may not be taken into account by a profit-maximizing manager.

Lessons for the Federal Government's Work-Life Programs

The CEA Report provides (at least) two lessons for the Federal Government's efforts to implement work-life programs. First, the benefits of workplace flexibility documented in the report – including reduced absenteeism, improved recruitment and health, and higher productivity – mean that properly implemented flexible arrangements may make both the Federal workforce and the Federal Government better off. In addition, the existing research on the costs and benefits of flexibility can also help guide our evaluation of these policies. Second, it is important to emphasize that flexible work programs can be both formal and informal. Rules that give employees the ability to work from home or at non-traditional times will have limited effect if workers feel that using these practices would stigmatize them. In fact, across the U.S. economy, fewer than half of all workers who report having a flexible schedule also report being enrolled in a formal, employer-sponsored flexible time program.

I begin my remarks on flexible work arrangements in the Federal Government by discussing telecommuting. The CEA Report discusses how telecommuting has helped employees in the Executive Office of the President (EOP) balance work and family responsibilities and this is also discussed in the testimony provided by the Office of Personnel Management. An important benefit to allowing employees to work remotely is that it can not only help recruit the most talented employees but can also reduce the burden on commuters.

The second area on which I will focus my remarks is on the OPM's new Results Only Work Environment (ROWE) pilot program. As discussed in the CEA report, ROWE is perhaps the ultimate form of workplace flexibility. Under this regime, workers are evaluated based on what they produce rather than the number of hours they work. This environment permits workers to choose when, where, and for how long they work, as long as they are sufficiently productive. This level of flexibility is not practical for all circumstances; for example, one large employer adopted these practices for headquarters employees but not for retail store employees. Moreover, in many cases, the output of workers is difficult to measure directly. When output cannot be easily measured, some managers find it helpful to focus on both results and inputs when evaluating an employee's performance. OPM has established a ROWE pilot program, which adapts ROW concepts (to the extent possible) within the framework of laws and regulations governing Federal employment. Nearly 400 employees within OPM, coming from a range of occupations and backgrounds, will be included. These employees were chosen to represent the diversity of positions within the Federal Government. I look forward to seeing the results of this pilot program so that we can better understand the costs and benefits of ROWE within the Federal Government.

Conclusion

To conclude, the CEA Report on workplace flexibility finds that flexible arrangements may promote healthier, happier, and more productive workers, which in turn may help firms' bottom lines. However, a factor hindering a deeper understanding of the benefits and costs of flexibility is a lack of data on the prevalence of workplace flexibility arrangements, and more research is needed on the mechanisms through which flexibility influences workers' job satisfaction and firm profits to help policy makers and managers alike.

Thank you for holding this important hearing. I would be happy to address any questions that you may have.