

# *How Bad is Involuntary Part-time Work?*

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## **Involuntary part-time work and labor market slack**

When assessing the state of the labor market economists and policy-makers usually look at the unemployment rate. In recent years, observers have been paying increasing attention to involuntary part-time employment as an alternative and complementary measure of the amount of slack in the U.S. labor market. The rise of involuntary part-time employment during the Great Recession was as spectacular as that of unemployment, but while unemployment has already returned to pre-crisis levels, involuntary part-time work remains stubbornly elevated several years into the recovery.

Understanding the sources of the evolution of involuntary part-time employment seems key to attain a broader comprehension of labor market fluctuations, as well as their effect on workers' welfare. In our recent discussion paper we examine these two questions in detail.

## **Definition and comparison with unemployment**

The U.S. Bureau of Labor Statistics classifies individuals as involuntary part-time workers if they cannot find a full-time job or face slack demand conditions in their job. This definition underscores that workers in involuntary part-time employment face constraints in their desired labor supply, and establishes a useful parallel to the definition of unemployment (according to which, workers actively search for work but lack opportunities to do so). That parallel extends to other dimensions of workers' welfare, including income losses (and the availability of public insurance against it) and the allocation of non-market time to searching for a job or home production/leisure. Indeed, full-time workers who move to involuntary part-time experience a reduction in labor income (via a reductions in paid hours, hourly wages, or both), but, unlike those who end up unemployed, a large fraction of U.S. workers are not eligible to a public insurance mechanism to cover the associated income loss.

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## Cyclical dynamics

In the first part of the paper we characterize empirically the dynamic behavior of involuntary part-time employment. In a nutshell, we show that involuntary part-time employment is a remarkably transitory state and that most of workers who move in and out of that state come from or leave to full-time employment. We also document that the increase in the involuntary part-time rate observed during the Great Recession occurred by dint of a sharp increase in the probability of full-time workers to become part-time employed with their current employer.

The small duration of involuntary part-time employment spells seems to result from the dual nature of this labor market state. On the one hand, compared to unemployed workers, involuntary part-timers are much more likely to return to a voluntary form of employment in the next period. Since the pool of unemployed and involuntary part-time workers is similarly composed of workers with strong labor force attachment (male, in prime age, with low educational attainment and unmarried), this difference likely reflects labor demand factors. The fact that transitions between involuntary part-time and full-time work occur overwhelmingly at the same employer further suggests that workers are quickly put in part-time and brought back to full-time employment while staying in the same job. On the other hand, involuntary part-time work involves a more fragile employment relationship vis-a-vis those held by voluntary part-time and full-time workers. Not only are workers in such situation more likely to quit (if given the chance), but also they are more likely to be forced out of the job into unemployment (when and if demand conditions further deteriorate).

## Welfare implications

In the second part of the paper, we build on our empirical results to tackle the following question: How bad is involuntary part-time work compared to unemployment? Our tentative answer, grounded in a quantitative framework traditionally used to study the welfare costs of unemployment, is that involuntary part-time work is not as bad as unemployment from a worker's perspective. The key aspect governing that difference is the much higher probability to return to full-time employment faced by part-time workers. In our framework unemployed workers decide on how much search effort to exert to gain access to full-time employment. We find that, in a counterfactual world where part-time workers can only use the search technology available to the unemployed, they would need a very high level of search effort in order to mimic their actual probability to move to full-time employment.

We interpret this result as a premium in access to full-time work enjoyed by part-time workers. Using our calibrated model we ascribe a welfare value to that premium of about 5% of consumption during the first quarter of a part-time work spell.

## **Policy views**

As involuntary part-time work becomes pervasive in the U.S. labor market it is likely that related public insurance programs, such as short-time compensation schemes, will gain importance in policy debates. Our analysis focuses on the implications of involuntary part-time work at the individual level, but cannot judge its broader macroeconomic consequences. In our view, it is unclear whether public insurance targeted at involuntary part-time work would necessarily lead to gains in social welfare. To answer that question a number of key issues need to be taken into account. First, there may be a significant degree of moral hazard regarding the number of hours worked and the voluntary/involuntary nature of a reduction in the schedules of working hours. Second, there are fundamental interactions between the risks of involuntary part-time work and unemployment, and the existence of public insurance against the latter. Future work should consider the joint design of public insurance against unemployment and involuntary part-time work taking into account the distinct dynamic behavior of the two labor market states.