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Reforming Unemployment Insurance: Towards Greater Employment

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**Reforming Unemployment Insurance:
Towards Greater Employment**

by

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The first line of defense for workers laid off from their jobs has been Unemployment Insurance (UI). Unemployed workers usually qualify to receive benefits for a maximum of 26 weeks, and only if their unemployment is of no fault of their own. They must also show that they have been looking for reemployment. The problem with the system as it was designed is that it assumes that layoffs will be temporary and that in most cases workers will be recalled to their employers. With deepening recessions over the years, downsizing, and increasing numbers of plant closures resulting in greater permanent displacement, the UI system has increasingly found itself strained. Over the years, the average duration of unemployment has increased, and growing numbers of people have applied for extended benefits. Increasingly, fewer workers are on short-term layoff, and more and more are experiencing longer spells of unemployment. A system designed to provide temporary assistance to tide workers over until they are recalled is ill equipped to assist them with transitions from one type of labor to another. Because the UI system was an outgrowth of the disruption caused by industrial production, it would seem that UI needs to be reformed so that it can better meet the needs of an economy in transition -- from industrial to post-industrial or from production to information.

The changing nature of the global economy raises the question of whether an unemployment insurance system can do more for displaced workers than simply providing them with income maintenance. And indeed Congress has sought to address some of these issues by mandating through the "Unemployment Compensation Amendments of 1993" that new UI claimants upon filing be profiled according to their demographic characteristics and work history. Those identified as most

likely to exhaust regular UI are then targeted for job search assistance. Because the program hasn't been fully implemented, there is no way of knowing how successful it has been. But in demonstration projects conducted in a few states during the 1980s, it was found that dislocated workers receiving job search assistance did find work from one half week to four weeks more quickly. The average reduction in most states was about one week. There also appeared to be no effect on weekly wages (U.S. Department of Labor, 1995a). Initiatives like this are essentially early interventions which will offer some assistance to some of the UI population, and they indeed represent a positive first step. But for those who are truly long-term unemployed, obtaining employment an average of one week early isn't going to make a big difference.

At the same time, there is a hodgepodge of several different training programs targeted towards different groups of people, but none of them are specifically tied in with UI. And the programs which do exist are somewhat disjointed. In an effort to remedy this situation Congress is currently considering the "Workforce Development Act" which would consolidate Federal employment training programs, as well as create a new process and structure by which they would be funded. And while this might help to some extent, it would still remain separate and distinct from the UI system. At issue is whether it is possible for the UI system early on to assist displaced workers in obtaining reemployment.

The purpose of this paper is to argue the need for unemployment insurance reform. At a minimum the system needs to be tightened in such a way that it results in fewer layoffs. Beyond this, however, the system needs to be able to offer greater assistance to the growing population of the long-term unemployed. These are the ones who have been permanently displaced from their jobs because of either plant or company closure or changing technologies. And if they aren't the victims

of plant closure, they are likely to be the victims of corporate restructuring or "downsizing." In the last decade, this population has more than doubled. These people are part of a growing class of chronically unemployed for whom a policy response is essential. The logic of UI rests on the premise that individuals need to be afforded the opportunity to search and that given the opportunity they will find a job which best matches their skills and experience. But those who receive assistance longer than the norm call into question the underlying assumption that during this period an appropriate fit will emerge. Ultimately I argue that something other than merely extending long-term benefits needs to be done. To continue extending long-term benefits is to merely apply some of the same assumptions commonly made about the short-term unemployed to the long-term unemployed when the realities may in fact be different.

UI Labor Disincentive?

The Unemployment Insurance system is best characterized by its income maintenance function. Each state establishes a trust fund financed through premiums levied against employers. It offers laid-off workers critical income protection during temporary spells of joblessness, and by helping to protect the incomes of jobless workers it thus sustains ordinary spending habits. UI, therefore, has had the effect of giving the economy a needed boost during times of recession (Burtless, 1991). It is also distinguished from public relief in that it functions as an insurance system. This is an important value in as much as it enables recipients to maintain their self-respect, as well as it prevents them from sliding into destitution. By design, the system is supposed to contribute to reemployment. First, by placing limits on the weekly amount and the duration of benefits, it minimizes the disincentive to work, i.e. the preference for leisure. Secondly, by requiring recipients to engage

in a job search and to be available for work, it further reduces the disincentive to work (Blaustein et al., 1993).

Most state UI programs provide eligible unemployed workers with a monetary payment to replace some percentage of their previous wages. One justification for the payment of unemployment benefits is that it allows an individual to focus on searching for a new job (ACUC, 1995). At the same time, however, much of the literature also holds UI to be a source of moral hazard. Unemployment compensation may have a negative effect on the labor market because it causes the unemployed to be less willing to accept some job offers, as well as it may induce those in employment to quit to become unemployed. The rise in unemployment in Western Europe since the 1970s, and its persistence in a number of countries, is attributed in part to more generous levels of benefit payments (Atkins and Micklewright, 1991, p. 1679).

Feldstein has argued that the current system of UI provides substantial incentive for increased temporary-layoff unemployment; of all unemployment spells temporary layoffs account for 50 percent. UI essentially increases the duration of any given spell of unemployment, but it may also induce more very short spells of unemployment. His argument is that employers are more willing to lay off workers when they are confident that they will return when recalled. Similarly, employees are more willing to be laid off if they can be confident that they will be recalled. The average UI benefit replacement ratio resulting from current law can account for about half of temporary-layoff unemployment. He thus found that an increase in the UI benefit replacement ratio from 0.4 to 0.6 raised the temporary layoff unemployment rate by about 0.5 percentage points -- or 1/3 of the average temporary layoff unemployment rate of 1.6% in March of 1971 (Feldstein, 1978).

Similarly, Katz and Meyer found that employer recall policies were primary determinants of

durations of unemployment spells of individuals with non-negligible recall prospects. Those who expect to be recalled spend less time searching for jobs and have a lower finding rate than other UI recipients. Also the probability of leaving unemployment and finding new jobs increases greatly around the time that UI benefits lapse (Katz and Meyer, 1990). Contrarily, it is suggested that the reduced availability of UI benefits to job quitters might be expected to reduce the frequency of quitting because it increases the expected costs of leaving employment. If the denial of benefits does in fact reduce quitting, it would only underscore the voluntary aspect of quitters' unemployment and strengthen the argument that such unemployment shouldn't be compensated (Solon, 1984). But what about those who aren't on temporary layoff expecting to be recalled? Can those who are permanently closed out of their jobs afford leisure on the assumption that they will be recalled? Displacement differs from temporary layoffs in that those jobs that have been eliminated will never exist again (Martin, 1983).

To the extent that UI immunizes workers from risk, it affords them greater opportunity to search for jobs with an appropriate match between the requirements of available jobs and the skills, education, and training of the unemployed. In this regard, UI does offer some leisure. The income/leisure combination offered by most UI programs might be preferred by some UI recipients to the combination offered by a return to comparable employment. Consequently, some recipients may not be diligent in their search for work, or they may adopt criteria for accepting employment that are unreasonably high from society's point of view. This might result in a tendency to remain on the unemployment rolls for longer periods of time (Kelly, 1979). As Meyer has further found, higher UI benefits have a strong negative effect on the probability of leaving unemployment, but the probability of leaving rises dramatically just prior to when benefits lapse (Meyer, 1990).

Feldstein and Poterba explain the disincentive to intensively search for work in terms of workers' reservation wages -- the minimum wages that they will be willing to accept. The principal imperfection in modern labor markets, as they see it, is the downward rigidity of existing nominal wages. Consequently, the decline in marginal value of the product of an employee's labor is likely to cause temporary or permanent layoff, as opposed to a downward wage adjustment. Employees who lose jobs are likely to find that the wages at their next jobs are lower than the wages at their last jobs.

Through a comparison of reservation wages with wages of last jobs, Feldstein and Poterba attempt to show the distortions caused by the UI system. They assume that the probability of finding an acceptable job is likely to decline as the reservation wage exceeds the previous wage. The individual's private reservation wage is then said to be at least equal to his or her previous wage. From their sample of unemployed individuals, 24 percent indicated that they would accept a wage less than 90 percent of their last wage. An additional 11 percent were willing to accept from 90-100 percent of their previous wage. A further 27 percent indicated that they would accept any wage equal to or greater than the last wage, but nothing less. The cumulative percentage of reservation wage rates was less than or equal to 62 percent of their previous wages. The remaining 38 percent of the sample had a reservation wage greater than their previous earnings. About 1/4 of those who required a wage increase said they would accept an increase of less than 10 percent. Fully 28 percent of unemployed persons in the sample said they would only return to work if they received a wage which was 10 percent higher than their previous wage.

According to Feldstein and Poterba, the important reason for the high reservation wage ratios and the high fraction of individuals requiring a wage increase as a condition of reemployment is the

system of UI benefits. The Department of Labor only classifies one as unemployed if one is available for work and has made efforts to find a job within the past four weeks. But no limit is placed on the individual's reservation wage in defining a willingness to work -- hence unemployment status. Although UI reduces the cost of unemployment to the individual, it can raise the unemployment rate in several quite different ways. For the individual who is unemployed and looking for a job, the lower cost of unemployment implies a higher reservation wage, and therefore a longer period of unemployment. Among those who are employed, the low potential cost of unemployment induces temporary layoff in response to reductions in product demand -- even in response to seasonal fluctuations in employees' marginal revenue product (Feldstein and Poterba, 1984).

An alternative explanation, however, is that those who have been closed out of a job may be in a state of denial. During the early days of their unemployment, they do not really believe that they are not going to return to their jobs. But as time passes they become more fully aware of this reality. Burtless has suggested that current knowledge of the impact of UI on labor supply is simply too fragile. "Neither theory nor available empirical evidence permits us to predict unequivocally the net effect of unemployment insurance on labor supply." By providing insurance to workers, UI offers something of value to people who become employed, and it may thus increase the attractiveness of market work. By supplementing the incomes of workers who become unemployed, it can slow down the process of reemployment. But without better empirical evidence than is currently available, it is impossible to predict which of these two basic effects will predominate. UI may increase the amount of economically productive job search. It might raise the average productivity of workers by improving the match between jobs and workers. In situations where there are two job vacancies and two unemployed workers, it can be economically productive to subsidize the workers so that they

sort themselves into the two jobs that maximize their joint output and earnings. This isn't to say that there aren't adverse consequences, rather there is insufficient evidence to make any grand sweeping categorical conclusions (Burtless, 1990, pp. 70, 82).

Feldstein and Poterba may in fact assume too much with regards to the motivation of the unemployed. It may be true that UI increases the reservation wages of those at the lower end of the income scale, but does it really have much of an impact for those at the top? What benefit could there be for a high income individual to sit at leisure at a fraction of previous pay over intensely searching for a replacement of previous wages? UI more closely approximates the previous earnings of those at the lower end of the scale. Because each state imposes a maximum benefit, the higher the previous income was, the less attractive UI becomes. What is not known from this study is who the unemployed are, i.e their demographics. Assuming that there is a reservation wage for each individual, what other factors might contribute to it? That is, previous income might be one factor in accounting for reservation wages, but education, tenure in the labor force, and other considerations might be others.

Atkins and Micklewright argue that there has been a failure to distinguish several different labor market states. Employment cannot be regarded as homogeneous. A temporary job in the black economy is not the same as a career position with a large enterprise. Work cannot be treated as a homogeneous state either. The unemployed person who returns to work may enter employment or self-employment. Employment may be full or part-time. There is a distinction to be made between "regular" and "marginal" jobs. Regular jobs are full time, covered by statutory employment protection, have the expectation of continued employment are part of the legal economy. They may also offer some prospect for promotion and may involve a substantial element of general or specific

training. Marginal jobs, on the other hand, may be temporary or casual; they may be dead-end jobs; they may be part of the black economy; and/or they may be home workers. Atkins and Micklewright maintain that the treatment of unemployment compensation in the literature has been unsatisfactory for three reasons: 1) In focusing on benefit levels, it has ignored other dimensions of unemployment compensation, whose effects may be more important; 2) It has taken too simplistic a view of the way in which unemployment benefits work in the real world; and 3) The exit from unemployment may have quite different consequences depending on the destination (Atkins and Micklewright, 1991, pp. 1685, 1721).

Unemployment does more than simply cause a disruption in people's income that can be partially compensated through UI benefits; it causes disruption in the structure and fabric of their lives that cannot be compensated no matter how generous the provision (Pappas, 1989; Buss and Redburn, 1983). The real issue is the design of the system given current realities, rather than its distortive impact on the behavior of the unemployed. Could it be better designed? The focus on reservation wages also diverts attention from the issue of whether there is a possible skills mismatch between those who are laid off and those jobs which are available. To find the appropriate match may take some time, and UI may offer some more breathing space.

Demographics

The unemployed population is by no means a homogeneous group. Those who are unemployed may be involuntarily unemployed, or they may have left their jobs for a variety of reasons. They may also be defined by their duration of unemployment. A consistent profile of the

general population of unemployed individuals can be constructed based on the Current Population Survey's (CPS) 1993 annual demographic file. This CPS micro data contain three records: personal, family and household. In the personal record, the sample consists of roughly 157,000 individuals. As most of these individuals will fall outside the relevant universe of those considered unemployed, I based the sample on those for whom the duration of unemployment variable applied. This still leaves a usable sample of 5,827 unemployed individuals. Because a concern for policy revolves around the long-term unemployed, I divided the usable sample into two groups: short-term unemployed as defined by a duration of 1 to 26 weeks and long-term unemployed as defined by a duration of 27 to 100 weeks.

The short-term population consisted of 4,646 individuals (79.7 percent), and the long-term unemployed population consisted of 1,181 individuals (20.3 percent). Within these categories there is also variation. It is important to note that among the long-term unemployed, more than one-third were without jobs for more than 53 weeks. Of the long-term unemployed, 37.7 percent were unemployed 27 to 40 weeks; 28.2 percent were unemployed 41 to 52 weeks; and 34.1 percent were unemployed 53 to 100 weeks. Of the short-term unemployed, 41.7 percent were unemployed 1 to 5 weeks; 36.5 percent were unemployed 6 to 14 weeks; and 21.8 percent were unemployed 15 to 26 weeks.

On the whole, the data would suggest that most of those who are unemployed either find reemployment or drop out of the labor force before 26 weeks, which in most states is the point of benefits exhaustion. This, however, does not dismiss the fact that over the last 25 years, the average weekly duration of unemployment has increased, as exemplified by Table I.

Table I Average Duration of Unemployment

1970	12.3
1971	14.4
1972	14.0
1973	13.4
1974	12.7
1975	15.7
1976	14.9
1977	14.2
1978	13.3
1979	13.1
1980	14.9
1981	14.5
1982	15.9
1983	17.5
1984	14.3
1985	14.3
1986	14.6
1987	14.6
1988	13.7
1989	13.2
1990	13.4
1991	15.4
1992	16.2
1993	15.6
1994	15.6
1995	15.5

Source: Tables provided by Lawrence H. Leith at the U.S. Department of Labor, Bureau of Labor Statistics.

Even though the long-term unemployed population in the 1993 CPS sample is only 20.3 percent, the number of those unemployed for more than 27 weeks has increased dramatically over the course of the post-war period. This trend can be seen in table II.

Table II Share of Long-Term Unemployment (Thousands)

Year	Civilian LF	unemployed	long-term unemployed	%unemployed	%long-term unemployed
1949	61,288	3637	263	5.9	7.2
1950	62,206	3288	352	5.2	10.7

1951	62,016	2055	136	3.3	6.6
1952	62,133	1883	83	3.0	4.4
1953	63,013	1834	79	2.9	4.3
1954	63,642	3532	325	5.5	9.2
1955	65,022	2852	330	4.4	11.6
1956	66,549	2750	231	4.1	8.4
1957	66,930	2859	241	4.3	8.4
1958	67,638	4602	682	6.8	14.8
1959	68,370	3740	565	5.5	15.1
1960	69,630	3852	458	5.5	11.9
1961	70,460	4714	804	6.7	17.1
1962	70,613	3911	580	5.5	14.8
1963	71,832	4070	550	5.7	13.5
1964	73,091	3786	480	5.2	12.7
1965	74,454	3366	349	4.5	10.4
1966	75,770	2875	237	3.8	8.2
1967	77,347	2975	177	3.8	5.9
1968	78,737	2817	155	3.6	5.5
1969	80,734	2832	133	3.5	4.7
1970	82,771	4093	240	4.9	5.9
1971	84,383	5016	522	5.9	10.4
1972	87,035	4882	561	5.6	11.5
1973	89,429	4365	342	4.9	7.8
1974	91,950	5156	384	5.6	7.4
1975	93,775	7929	1218	8.5	15.4
1976	96,158	7406	1344	7.7	18.1
1977	99,008	6991	1023	7.1	14.6
1978	102,250	6202	645	6.1	10.4
1979	104,961	6137	536	5.8	8.7
1980	106,940	7637	832	7.1	10.9
1981	108,670	8273	1162	7.6	14.0
1982	110,204	10678	1798	9.7	16.8
1983	111,551	10717	2545	9.6	23.7
1984	113,544	8539	1623	7.5	19.0
1985	115,462	8312	1277	7.2	15.4
1986	117,834	8237	1186	7.0	14.4
1987	119,865	7425	1037	6.2	14.0
1988	121,669	6701	807	5.5	12.4
1989	123,870	6528	643	5.3	9.8
1990	124,788	6874	697	5.5	10.1
1991	125,303	8426	1104	6.7	13.1
1992	126,982	9384	1935	7.4	20.6
1993	128,040	8734	1777	6.8	20.3

1994	131,056	7996	1623	6.1	20.3
1995	132,229	7410	1405	5.6	19.0*

* 1995 represents an average of the first six months of 1995

Source: calculations derived from tables contained in *Economic Report of the President*, Transmitted to the Congress February 1995 (Washington, Government Printing Office, 1995), p. 314; and tables provided by Lawrence H. Leith at the U.S. Department of Labor, Bureau of Labor Statistics

The long-term unemployment rates also vary according occupation: Some of this variation can be seen in the following table which covers 1994 and the first six months of 1995:

Table IIa Long-Term Unemployment According to Occupation

<i>Occupation</i>	<i>1994</i>	<i>1995</i>
Managerial and Professional Specialty	23.6	22.3
Technical, Sales and Administrative Support	19.8	17.2
Service Occupations	18.2	18.0
Precision, Production, Craft and Repair	20.2	17.3
Operators, Fabricators and Laborers	21.2	16.8
Farming, Forestry and Fishing	17.1	14.8

Source: These figures were provided by Peter Katton on the Bureau of Labor Statistics through a phone conversation.

What is interesting is that in recent years a higher percentage of managerial and professional specialty occupations have been suffering long-term unemployment. This can in part be attributed to the recent trends in corporate downsizing. Otherwise, it becomes clear that the percentage of long-term unemployed on average has increased dramatically from the 1949 to 1974 period to the 1975 to 1995 period. Despite a few peaks between 1949-1974, the percentage of long-term unemployed relative to overall unemployment rates was on average only half of what it was after 1974. Peaks can be explained in terms of recessions, but the averages rarely appear to return to prerecession levels. Rather the duration of unemployment appears to increase for more and more people, with each

recession setting a new benchmark.

In constructing a profile of the unemployed population, it is useful to know the age, educational level, industry, occupation, sex, unemployment insurance status, and the reason for unemployment. Because the goal is to understand the differences between the short-term and long-term unemployed populations, the standard set of demographic variables proves useful. Variables such as education and age do impinge on the issue of reservation wages. So too does marital status, as it may reflect the level of obligations which may either affect the imperative one views obtaining reemployment. Moreover, it is important to know just what types of people in terms of gender and race are likely to be affected more by long-term unemployment. These data show that there are some significant differences between the two populations.

On the age variable, the long-term unemployed population on average tends to be older. The age distribution can be seen in the table below:

Table III Age Distribution

<i>Age</i>	<i>Short-term</i>	<i>Long-term</i>
0 to 17	9.7	2.3
18 to 24	25.0	14.1
25 to 34	27.7	24.8
35 to 44	19.9	27.2
45 to 54	11.3	19.8
55 to 64	5.4	10.2
65 to 72	.8	1.3
73 and over	.3	.4

Among the short-term unemployed, over 50 percent falls into the 18 to 34 age cohort, whereas over 50 percent falls into the 25 to 44 age cohort among the long-term unemployed. Among the long-term unemployed, 52 percent fell into the 25-44 age cohort. The long-term unemployed are also more

likely to be men than women. Although in both categories unemployment among whites is higher than among other groups, the picture is different within racial categories. Within racial categories, a lower percentage of whites are long-term unemployed than are short-term unemployed, and a higher percentage of blacks are long-term unemployed than are short-term unemployed.¹

Table IV Distribution by Gender and Race

	<i>Short-term</i>	<i>Long-term</i>
<i>Gender</i>		
Male	58.9	65.3
Female	41.1	34.7
<i>Race</i>		
White	81.2	76.9
Black	14.3	18.0
American Indian		
Aleut Eskimo	1.9	1.2
Asian or Pacific		
Islander	2.0	3.0
Other	.6	.8

When it came to marital status, among the long-term unemployed 46.4 percent were married, whereas 45.8 percent of the short-term unemployed had never been married. Otherwise, higher numbers of the long-term unemployed were widowed (1.8% v. 1.5) and divorced or separated (17.5% v. 13.2).

One argument for longer durations of unemployment posits that there is a skills mismatch between the skills necessary for those jobs which exist and the skills of those who are unemployed.

¹ As this data doesn't present information about a group's unemployment relative to its presence in the overall population, categorical statements about which groups are more or less likely to be long-term unemployed simply cannot be made.

To the extent that skills are measured by educational attainment, the overall level of education would be expected to be lower among the long-term unemployed than among the short-term unemployed. But the results of the CPS data actually suggest the opposite. Among the long-term unemployed, the percentage of those who completed 12th grade with a diploma and those who had obtained more education including college was higher than among the short-term unemployed. Also the percentage of those with an education of less than a 12th grade education was lower among the long-term unemployed.

Table V Highest Grade Attained

<i>Attainment</i>	<i>Short-term</i>	<i>Long-term</i>
less than 12th grade	33.6	26.3
12th grade with diploma	35.3	38.1
some college, no degree	17.1	16.3
Higher education degree including B.A.	11.8	15.2
Advanced post-graduate degree	2.3	4.8

The higher age and higher education levels of the long-term unemployed does raise some disturbing questions. One might be inclined to suspect that age discrimination has an impact on the willingness of employers to hire individuals. But how do we account for the fact that the educational levels of the long-term unemployed are also higher? These variables alone might even add support to the theory of reservation wages. One would expect one's reservation wages to be higher based on both experience in the labor force and educational attainment. Those with higher levels of education are generally able to command higher wages. Those who are older with more experience in the labor

market have indeed become accustomed to higher wage levels. These factors alone, however, may not be the only source of higher reservation wages.

It is perhaps important to consider that general educational level and skills levels are not necessarily the same. Howell and Wolff, for instance, have observed that for nonsupervisory occupations, i.e those defined as clerical, blue-collar and service occupations, the correlations among job-based skills and educational attainment measures are substantially lower than supervisory positions. Rather, educational attainment would appear to be a much better measure of job-skill requirements for professional, technical and managerial workers (Howell and Wolff, 1991). Both industry and occupation would have an impact on the duration of unemployment as well. Tables V and VI present distributions of the short-term and long-term unemployed according to industry and occupation.

Table VI Industry by major groupings

<i>Industry Category</i>	<i>Short-term</i>	<i>Long-term</i>
Blue Collar/crafts production (manufacturing)	29.4	35.8
Sales and Trade	21.7	20.4
Service	11.8	13.6
Professional/specialty	8.6	8.6
Agriculture	3.7	1.0
Business (finance, invest- ment & real estate)	3.1	2.9
Public Administration	1.7	3.4
Blue Collar/service (transportation/communi- cations)	4.8	5.5
Armed Forces	.5	1.0
Not in Universe	14.7	7.8
Total	100.0	100.0

Table VII Occupation by major groupings

<i>Occupation Category</i>	<i>Short-term</i>	<i>Long-term</i>
Blue Collar/service	33.2	28.7
Blue Collar/manufacturing (precision, craft, operators Technical, sales & administrative support occupations	23.1	25.1
Managerial & professional specialty occupations	19.7	23.2
Armed Forces	8.9	14.2
Not in Universe	.5	1.0
	14.7	7.8
Total	100.0	100.0

It would be useful to consider these figures against the backdrop of Industry and Occupation trends for the thirty year period between 1960 and 1990.

Table VIII Occupational and Industrial Trends of Employed Persons 1960-1990

<i>Occupation</i>	<i>1960</i>		<i>1970</i>		<i>1980</i>		<i>1990</i>	
	% Emp	%LF	% Emp	%LF	%Emp	%LF	%Emp	%LF
Executive & Manager	8.4	7.8	8.8	7.7	10.4	9.6	12.3	11.3
Professional	11.2	10.3	15.1	13.9	12.3	11.3	14.2	13.2
Technical, sales & administrative support	21.6	20.0	25.1	23.1	30.3	24.1	31.7	29.3
Administrative support including clerical					17.3	15.9	16.3	15.0
Service occupations	11.1	10.3	12.8	11.8	12.9	11.9	13.2	12.2
Farming, forestry & fisheries	1.9	1.7	1.2	1.2	2.9	2.7	2.5	2.3
Precision, production, craft & repair	13.5	12.5	13.7	12.7	12.9	11.9	11.3	10.5
Operators, fabricators & laborers	23.4	21.7	22.1	20.4	18.3	6.8	14.9	13.0

Industry

Agriculture, forestry

& fisheries	6.7	6.2	3.7	3.4	3.0	2.7	2.7	2.5
Mining	1.0	0.9	0.8	0.8	1.1	0.9	0.6	0.5
Construction	5.9	5.5	6.0	5.5	5.9	5.4	6.2	5.8
Manufacturing	27.1	25.1	25.9	23.9	22.4	20.7	17.7	16.3
Transportation, comm- unication & other public utilities	6.9	6.4	6.8	6.3	7.3	6.7	7.1	6.6
Wholesale trade	3.4	3.2	4.1	3.8	4.3	4.0	4.4	4.1
Retail trade	14.8	13.7	20.1	18.5	16.1	14.8	16.8	15.6
Finance, insurance & real estate	4.2	3.9	5.0	4.6	6.0	5.6	6.9	6.4
Services	8.5	7.8	7.8	7.2	8.4	7.7	9.4	8.7
Professional & related services	11.7	10.8	17.7	16.3	20.3	18.7	23.3	21.6
Public administration	5.0	4.6	5.5	5.1	5.3	4.9	4.8	4.4

Labor force

Size	69,877,481	82,897,433	106,084,668	125,182,378
Percent growth		18.6	28.0	18.4

Source: Author's calculations based on data in Bureau of the Census, U.S. Department of Commerce, *United States Summary: General Social and Economic Characteristics* PC(1)-1C 1961; PC(1)-C1 1972; PC80-1-C1 1983; and 1990 CP-2-1 1993 (Washington, Government Printing Office)

What the decennial data show is that while those employed as a percentage of the labor force in many industries and occupations have declined, particularly in blue collar manufacturing jobs, and some have remained constant, relative to labor force size, there have been significant declines. Against this backdrop, the higher percentages of unemployment for both groups in blue collar industries and occupations such as production, precision and craft merely reflect the trends. Given the decline in the nation's industrial base, one would expect more long term unemployment in manufacturing industries and occupations. Ironically, the percentage of long-term unemployment under the managerial & professional category is 5.3 percent higher for the long-term than it is for the short-term unemployed.

Trends in corporate restructuring in recent years may partly account for this. But it may also be that these people will naturally have higher reservation wages.

On the issue of why they were unemployed, there were significant differences between the two groups of unemployed. The variation can be seen in Table VI.

Table IX Reason for Unemployment

<i>Reason</i>	<i>Short-term</i>	<i>Long-term</i>
Job losers, layoff	16.3	6.8
Other job losers	36.5	60.7
Job leavers	10.6	8.5
Re-entrants	22.0	16.2
New entrants	9.7	5.9
Not in Universe	4.9	1.9
Total	100.0	100.0

Overall, the long-term unemployed population is characterized by greater involuntary unemployment, 67.5 percent as opposed to 52.8 percent of the short-term unemployed. This difference is critical considering that the principal criterion for qualifying for unemployment insurance is that unemployment be involuntary. But the other significant difference between the two groups is the number of people who are considered "other job losers." Job losers who are on layoff may expect to be recalled to their old jobs according to variations in the business cycle. The category of other job losers, however, most likely represents those who are permanently displaced -- those who have no prospect whatsoever of being recalled back to their old jobs. A higher percentage of the short-term unemployed consider themselves to be on temporary layoff, and thus expect to be recalled. There would appear to be considerably fewer illusions to that effect among the long-term unemployed. These statistics tend to correspond to overall trends that involuntary job loss has become less

temporary and more permanent.

Every few years the Bureau of Labor Statistics conducts a survey of workers defined as displaced. The BLS defines displaced workers as "persons 20 years and older who were released from jobs because their plant or company closed or moved, there was insufficient work for them to do, or their position or shift was abolished (BLS, 1994, p. 1)." Others define displacement by contrasting it with temporary layoffs: whereas layoffs hold out the prospect of being recalled, displacement holds out no such prospect. By this definition, displacement due to plant or firm closure means that the job will never return (Martin, 1983). According to the BLS survey of worker displacement during the early 1990s, about half of those who lost their full time jobs during the period from 1991 to 93 were reemployed in full-time jobs by February 1994 and had earnings equal to or greater than those on their lost job. Although 53 percent of those reemployed full time reported earning the same or more than their jobs which were lost, those in transportation, public utilities, construction and manufacturing were more likely to find new jobs at substantially lower wage rates. Their new compensation was likely to be 80 percent or less than their lost jobs. But many others were either employed part-time, unemployed, or simply out of the labor force altogether. Those with the highest rates of displacement were those without substantial experience with their employers. And persons with less than three years of tenure made up half of the total 9 million displaced workers, whereas they comprised only about one-third of all workers. The greatest number of displacements occurred in the manufacturing industry, with 1.5 million factory workers being displaced between 1991 and 1993.

According to Jacobson et al., the earnings losses of displaced workers should be defined as the difference between workers' actual earnings and what they should have received had those events

which led to their displacement never occurred. By this definition, then, the displacement effect is potentially larger than the earnings change from immediately prior to the separation.. Their study found that the earnings of high-tenure workers declined substantially when they were separated. During the quarter prior to their job loss, displaced workers in the weakest local economies had earnings losses of approximately \$500 larger than those in the strongest local economies, and the gap widened to approximately \$750 per quarter after displacement. Moreover, the gap was found to have remained the same into the fifth year following job loss. According to their findings, job loss was associated with substantial earnings losses even in the strongest labor market. For the period of 1980 to 1986, losses to dislocated workers averaged about \$9,000 or 40% of their predisplacement wages. And even though these losses did decline slightly over time, they never fully disappeared. During the fifth year following the initial separation, workers' losses still averaged approximately \$6,500 or 25% of former earnings (Jacobson et al., 1993). "As a result, the average present discounted value of the earnings losses during the period from three years before to six years after separation amounts to approximately \$50,000 (Jacobson et al., 1993, p. 137) ."

These findings would certainly suggest the need to have some type of retraining program which will work to ensure that replacement wages will be similar. Also according to the BLS survey, 61 percent of the displaced workers received UI, and of those who received UI, slightly more than 40 percent exhausted them. The proportion of displaced workers who exhausted their benefits was lower in the early 1990s than it was during the 1980s when the U.S. economy was feeling the effects of back-to-back recessions (BLS, 1994). Most people who are laid off find reemployment within twenty seven weeks. But if a considerable proportion of those who do find reemployment either work in different occupations at reduced wages or as contingent workers, then the system isn't helping them

to find the appropriate match. If there is a gap in terms of skills, the system might need to be reformed so as to help them develop marketable skills. The system is merely equipped to provide temporary relief and to move people off the UI rolls as quickly as possible. And this simply obscures the real issues of whether the system could actually do more to either find reemployment which best matches the skills they have to offer with those required by employers, or help them to obtain the skills necessary to obtain the type of employment which will enable them to continue living by the standards they have become accustomed to.

For those who were displaced between January 1991 and December 1993, the plant or company having closed or moved proved to be the number one cause of job loss. A distribution can be seen in the following table:

Table X Reason for job loss

	<i>Number</i>	<i>Total</i>	<i>Plant or company closed or moved</i>	<i>insufficient work</i>	<i>position or shift abolished</i>
Total					
Total, 20 years +	4,473	100.0	42.3	29.9	27.7
20 to 24 years	153	100.0	45.5	36.3	18.2
25 to 54 years	3,540	100.0	41.4	30.5	28.1
55 to 64 years	611	100.0	47.2	25.4	27.4
65 years and over	169	100.0	40.8	29.5	29.7
Men					
Total, 20 years +	2,614	100.0	40.9	33.0	26.1
20 to 24 years	77	100.0	43.7	42.2	14.1
25 to 54 years	2,097	100.0	40.7	32.8	26.4
55 to 64 years	383	100.0	42.9	31.0	26.0
65 years and over	57	100.0	---	---	---
Women					

Total, 20 years +	4,473	100.0	42.3	29.9	27.7
20 to 24	153	100.0	45.5	36.3	18.2
25 to 54	3,540	100.0	41.4	30.5	28.1
55 to 64	611	100.0	47.2	25.4	27.4
65 years and over	169	100.0	40.8	29.5	29.7

White

Total, 20 years +	3,859	100.0	41.2	30.2	28.6
Men	2,291	100.0	40.2	33.1	26.6
Women	1,568	100.0	42.7	25.9	31.4

Black

Total, 20 years +	427	100.0	51.4	25.3	23.3
Men	219	100.0	50.7	25.2	24.0
Women	209	100.0	52.1	25.3	22.6

Hispanic

Total, 20 years +	361	100.0	49.2	35.5	15.4
Men	243	100.0	44.9	42.0	13.1
Women	118	100.0	58.0	21.8	20.2

Source: BLS, "Worker Displacement During the Early 1990s," News Release (September 14, 1994), Table 2.

The BLS survey results also reveal that a significant number of workers are laid off because of insufficient work or the position or shift was abolished. These statistics suggest a couple of different conclusions. If positions or shifts are abolished because of insufficient work, when added to those who are laid off because of insufficient work, a compelling argument could be made for measures aimed at reducing the number of layoffs. If, on the other hand, positions or shifts are abolished because of either downsizing or technological change, those who lose their jobs within this category are essentially no different from those who lose their jobs either because the plant closed or the company moved. Moreover, it would appear that minorities are affected more by plant closures.

These jobs aren't going to return, and the issue is what can be done to prepare workers for those occupations and industries that may take their place. If the abolition of position or shift represents some combination, the implication points in the direction of a two-tier policy approach; one which distinguishes between the short-term and the long-term unemployed.

The question remaining, however, is how many unemployed workers actually receive unemployment insurance. According to the Feldstein reservation wage theory, UI will prolong periods of unemployment because it effectively enables unemployed workers to maintain higher reservation wages. Were this to be a compelling argument, it would have to follow that unemployed workers are collecting UI. This, however, is not borne out by the data. According to a study by the Center on Budget and Policy Priorities, the proportion of unemployed workers receiving UI always exceeded 40 percent prior to the 1980s. Between 1980 and 1994, there was fluctuation, ranging from a low of 31.5 percent in 1987 and 1988 to a high of 51.1% in 1992. But from May to December of 1994, only 32.5 percent of unemployed individuals received unemployment insurance benefits in an average month. At the same time, the number of long-term unemployed increased (Nichols and Shapiro, 1995). The microdata from the CPS 1993 annual demographic file actually showed the percentage to be even lower. Among the short-term unemployed, only 23.2 percent were receiving UI, whereas 76.8 percent were not. Among the long-term unemployed 43 percent were receiving UI, whereas 57 percent were not. On the one hand, we would expect a higher percentage of the long-term unemployed to receive UI because a greater percentage of them are involuntarily unemployed. On the other hand, we would expect to see a lower percentage of the long-term unemployed receiving UI because they have by and large passed the point of benefit exhaustion. That there is a significant percentage of long-term unemployed receiving UI suggests that they are most likely receiving

extended benefits which raises some interesting policy implications. And yet, the question remains: if as much as 52 percent of the short-term unemployed are involuntarily unemployed, why is the rate of UI recipiency less than half of that?

This question might easily be answered simply by looking at the proportion of job losers to job leavers, new entrants and re-entrants. But when these categories were excluded from the sample, the survey showed among those who were involuntarily unemployed in the short-term category, only 37.1 percent were receiving UI, whereas 62.9 percent were not. Interestingly, when these same categories are excluded from the survey, the number of long-term unemployed covered by UI actually rises. Among those who were involuntarily unemployed in the long-term category, 55.3 percent were receiving UI, whereas 44.7 percent were not. As most states restrict regular UI to no more than 26 weeks, it must be concluded that this 55.3 percent are receiving some type of extended benefits.

Policy Implications

The demographics of the unemployed would appear to lead toward two opposing conclusions. The first is to simply leave the system as it is. There are perhaps two arguments for this: 1) Because most of the unemployed population that does receive UI does so for less than 26 weeks, there may be no real imperative to fundamentally alter its basic thrust -- the provision of basic insurance. And 2) as most of the unemployed do not collect UI, the use of the UI system as a vehicle for offering greater assistance may be limited in its effectiveness. And yet, the fact remains that at least 20 percent of the sample is unemployed for more than 27 weeks, and given past trends it is reasonable to expect that the percentage will rise.

The second conclusion, then, is to reform the system so that it offers greater opportunity for

individuals to match their skills with those demanded by employers. This would point in the direction of offering training assistance so that the unemployed, particularly those who have been displaced from declining industries and occupations, have an opportunity to develop marketable skills. In other words, the system would, in addition to providing basic insurance, become a weigh station for individuals seeking to obtain the skills necessary to become more marketable. The national trends in recent years, coupled with the sizeable percentage of the unemployed in the sample, suggests the need to reach this conclusion rather than the first.

At the same time, however, because the unemployed population isn't homogeneous, policy must be two-tiered. A two-tiered approach would 1) reduce the incidence of layoff, and 2) would help the long-term unemployed to develop those skills which would make them marketable in today's economy. At a minimum, it must maintain the distinction between the short-term and long-term unemployed. To maintain this distinction means that it must do several different things. Until the 26 week cutoff, the system should function as an insurance program which enables individuals to have the opportunity to search for up to 26 weeks for a position that represents the best fit between their experience, skills, and credentials with those positions that are available. There should be a presumption in favor of the unemployed being afforded the opportunity to search for reemployment on their own. The system could then offer a little more assistance to the short-term unemployed by being tightened so as reduce the number of layoffs. Beyond this, the system can assist the long-term by tying the receipt of extended benefits to participation in some type of training program, either provided by the employer or obtained in the open market paid for by the system.

The First Tier

The first tier would consist of a set of measures aimed at reducing the incidence of closure. At a minimum, the system could be tightened by focusing on how the system is financed. In all other countries, UI benefits are financed by flat-rate payroll taxes, or out of general tax revenues. There is no connection between an individual firm's behavior and its tax liability. In the United States UI is financed through an experience rated payroll tax. Firms more likely to lay off their workers are bound to pay higher taxes. But as Robert Topel points out, the concept of experience rating of UI taxes has very little relation to the idea of experience-rated premiums in the insurance literature. Experience ratings are premiums levied against employers based on their history of layoff or the layoff patterns within their industries. An imperfect experience rating of UI taxes, however, is likely to encourage unemployment. Layoffs generate income for a firm's workers that has no corresponding cost for employers, thereby creating an incentive to compensate workers with UI rather than earnings. Unemployment thus becomes relatively more attractive. It implies that both the incidence and duration of temporary layoff spells is increased. Improving the experience rating involves alterations in the UI financing system that would make it more costly for employers to lay their workers off. Were employers to bear a greater cost for laying workers off, they might consider other alternatives.

At a minimum, then, there should be a more perfect experience rating. According to Topel, a reduction in the minimum tax rate to zero and a dramatic increase in the maximum rates would have two effects: 1) Unemployment subsidies would be sharply reduced. This might result in the industrial mix of employment and production not being so severely distorted. And 2) the primary source of wedge in layoff and rehire decisions would also be eliminated. This might have a strong impact on unemployment in general, especially temporary layoffs (Topel, 1990). It isn't clear as to how much

of a reduction in unemployment this would lead to, but it is believed that it could lead to a reduction. Anderson and Meyer have noted that the "main source of incentives of layoffs on the margin appears to be that the tax rates rise too slowly as benefit payments minus tax payments increase (Anderson and Meyer, 1993, p. S89)." Even if large corporations and multinational firms were to still find it more cost-efficient to pay the higher taxes while still laying off workers, smaller firms might still find it more difficult. Were nothing else to be done to UI and it was maintained as simply a program of income maintenance, there is no reason why the financing could not be restructured to reduce the incentive to layoff. This would in fact be the easiest reform.

Another step which should be taken as but one component of a larger package of UI reform proposals is some type of work sharing. The idea would again be to attempt to reduce the incidence of layoffs. Work sharing involves the payment of UI benefits to employees as partial compensation for the loss of hours worked. So instead of laying workers off, firms simply reduce their hours. Work sharing is considered "counter-cyclical," as program use intensifies during periods of economic decline and subsides when the economy improves. The principal objective of the program is to maintain employment levels during periods of economic decline. Work sharing essentially seeks to avert layoffs by redistributing unemployment within a firm rather than laying off workers. Work sharing consists of both primary and secondary objectives. The primary objectives are to maintain local, regional and industrial employment levels during periods of short-term adverse economic conditions, and to cushion the effects of permanent labor force reductions. The secondary objectives are divided into two categories: firm and employee. For the firm they are to assist firms to maintain their skilled labor forces intact, and to avoid the costs to employees and the economy associated with temporary layoff -- particularly the costs of recruiting and training new employees to replace those

who wouldn't return after the layoff period. And for the employee, the objectives are to assist them in maintaining their skill levels and work motivation, and to reduce the dislocation and uncertainty as a result of the layoff. Another objective is to permit a broader sharing of the burden of reduced employment activity and better income maintenance for those who would otherwise be laid off.

The basic concept underlying Work Sharing is to spread an overall reduction in working hours across all workers in a designated unit instead of a more traditional alternative of temporarily laying off a smaller number of workers. The lost wages are partially compensated by UI benefits -- approximately 60% of lost wages are covered by UI benefits. On the other hand, one of the more theoretical disadvantages is that of inappropriate adjustments. That is, some workers and firms may avoid more appropriate adjustment strategies because Work Sharing encourages them to avoid these more drastic, but perhaps arguably more appropriate strategies.

Work sharing has been experimented with in both Canada and California. In Canada, data suggests that 77 percent of employees who would have been laid off without work sharing maintained attachment to their original employer. Another 50 percent had been hired by a different firm shortly after the work-sharing period. In California, trends do indicate that workers using work-sharing UI tend to be older than those collecting regular UI, and that they also tend to primarily be employed in the manufacturing sector. Data from surveys of employers, union leaders and employees in California also indicate that fringe benefits were fully maintained for over 3/4 of participating employees. Though it isn't a full proof preventive for temporary and permanent layoffs, available data does suggest that these programs have prevented significant amounts of job separation among those employees confronted with the loss of employment. Moreover, data from both California and Canada provide a general indication that morale is higher than it would have been with layoffs. Responses

from California employees suggest that work-sharing programs support positive relations among co-workers and work group solidarity. Participating employees also generally believed that the program provided a greater sense of fairness. Data suggests that productivity under work-sharing is likely to be higher for most firms than with layoffs, but net productivity benefits are either neutral or minor for average participating firms. It should also be noted that some 93 percent of California employers said that they would use it again. Four percent said they weren't sure, and only two percent said that they absolutely would not (Best, 1988).

Still, beginning with UI costs, Work Sharing is more expensive than the layoff alternative. Canada estimated that there was a 33% cost disadvantage vis a vis layoffs using administrative data on all Work sharing UI payments. Approximately \$208 of UI payments were received by participants during and after the program (Insurance Program Directorate, 1993). According to Best, a major source of additional administrative costs arose from dealing with the UI system to gain approval for using work sharing and arranging the payment of benefits. Employers also had to plan work reductions and designate participating employees. They had to negotiate various details with unions and employee groups, adjust compensation and record systems, monitor affirmative action impacts, and make overall operational plans. And yet, a representative survey of 291 firms using California work-sharing UI programs during 1978 and 1980 found wage and salary costs for average participating firms to be 2.1 percent lower than would have been the case with layoffs (Best, 1988). Morand has suggested that work sharing would be key to strengthening and sustaining the UI system during the next half century. Though mindful of those studies indicating greater cost than traditional UI, he argues that work sharing can be cheaper to administer for workers, employers, and the system. It requires no job search to be policed or subverted. It keeps people out of Employment Services'

hair. It doesn't lead to denials and appeals. And it is the only labor market legislation which enjoys support from corporations and unions, as well as it appeals to all ends of the political spectrum. Because UI is publicly perceived as legislation for losers, work sharing may contribute to a more positive image, as well as enlarge the constituency of supporters to the extent that it encourages and subsidizes job preservation. Most workers aren't fired, but laid off. Work sharing thus encourages a rightful expectation that everyone willing to work will continue to do so (Morand, 1990).

Because 29.9 percent of those who have lost their jobs did so because of insufficient work, serious UI reform should consist of work sharing as one component. It would be particularly valuable for women who are even more vulnerable to layoffs because of their more frequent "last hired, first fired" status (Yoon et al., 1995, p. 45). Reform has to be designed to assist every member of the unemployed population. But steps to assist those who have been displaced and for longer periods of time should come after steps have been taken to first reduce the incidence of layoff. Therefore, the first prong of UI reform ought to consist of a more perfect experience ratings coupled with work sharing. At the same time, it ought to be acknowledged that work sharing wouldn't work for everybody. For those companies clearly determined to close for the purposes of transition, work sharing will be of little use. But some might be inclined to view it as a hindrance as it might effectively slow down the transition process. It is conceivable that work sharing might give both workers and their employers incentive to remain in jobs or industries which don't hold out prospects for the future. Work sharing might impede necessary labor market adjustment. For this reason work sharing would not be compulsory, rather it would be implemented on the basis of voluntary contracts. It must be presumed that employers who are free to join or not join would also be able to evaluate the future prospects of their industries. Firms might even be induced into entering into such a contract by being

offered a lower experience rating. But ultimately the decision will be for them to make.

The Second Tier

It is beyond this point in developing the second tier that there are a couple of different options. The choice of policy directions will invariably hinge on what assumptions are made about the motivation of those who are unemployed. If it is assumed that the unemployed, particularly the long-term unemployed, could find work if only they would readjust their reservation wages to current market realities, the solution may simply lie in reducing UI benefits so that workers will have no choice but to accept whatever jobs are available. One version of this is to tax benefits. But if, on the other hand, it is assumed that individual spells of unemployment are longer today than they were in the past because of technological and other structural changes, then the system must be prepared to offer considerably more.

Taxing benefits? It may be that because the educational attainment, as well as the age, of the long-term group is higher than the short-term group, so too is their reservation wage. Feldstein, for instance, has argued that because unemployment insurance and other labor market policies increase the rate of unemployment, UI, if it cannot be eliminated altogether, should be subject to higher taxes so that the UI net replacement rate will be less. As it currently stands, UI benefits, although they are subject to federal taxation, are not subject to the normal payroll deductions which would include Social Security, state taxes, and local taxes. As a result, an individual may receive a net replacement rate of more than 60 percent relative to potential net wages if the same individual was working. This is so despite the fact that gross replacement wages may only be 50 percent. Therefore, UI benefits should be subject to more taxation so that it will be less attractive (Feldstein, 1994).

Solon, for instance, found that the introduction of taxes on UI benefits for higher-income claimants -- those in families earning more than \$20,000 -- did reduce the mean duration on UI from 10.8 weeks in 1978 to 8.4 weeks in 1979. The large duration reduction among high-income claimants suggests the possibility that the introduction of benefit taxation did indeed affect unemployment duration. And yet, he concedes that the work-incentive effect wouldn't necessarily prove that benefit taxation is a good policy, as it would make UI less effective in its objective of insuring job losers against income reductions (Solon, 1985). But then, why assume that the duration rates were lower because of benefit taxation as opposed to maybe more jobs commensurate with their skills level being available in 1979 over 1978?

One problem with the idea of taxing UI benefits is the underlying assumption that jobs do exist. Certainly, if jobs don't exist, taxing benefits will have little impact, but to reduce the subsistence level of the unemployed. But even if it were true that jobs did exist, they may not represent an appropriate match between the skills which workers have to offer and those demanded by employers. Is there a social benefit to be derived from forcing professionals, for instance, to take jobs which they are clearly overqualified for? At the other end, any number of jobs will go unfilled because of skill deficiencies. Nevertheless, as a higher percentage of the long-term unemployed are in professional specialty occupations, it has to be assumed that their wages far exceed the benefits they would receive from the UI system. It isn't clear why these people would prefer not to work and to be on UI at a fraction of their previous wages. Is it possible that the jobs which do exist do not require the skills, experience, and credentials which they have to offer?

The fact that still 44.7 percent of the involuntarily long-term unemployed, as well as 62.9 percent of the short-term unemployed do not, or have not received UI would seem to present a

serious challenge to the whole theory of reservation wages, or at least the idea that it is UI which artificially inflates them. In other words, the idea that individuals have reservation wages is clearly plausible; the idea that UI necessarily boosts them would appear to be questionable. Moreover, the other demographics make it clear that most of the long-term unemployed are older white males who are married and family heads. It has to be presumed that they are the primary earners in their families. Therefore, it is hard to believe that there would be any incentive to remaining on UI at a fraction of their previous wages. In order for UI to boost reservation wages, they would have to collect UI. If their so-called reservation wages are high in the absence of UI, it has to follow that other forces are at work. If this is true, it isn't clear that taxing benefits would have any impact.

As Topel has pointed out, there is no apparent connection between social programs and rising joblessness. Rather the principal story behind rising joblessness is that spells of nonemployment have become longer. About two-thirds of the long-term increase in unemployment is accounted for by spells lasting six months or more. By contrast, the frequency of short spells -- those less than 15 weeks has remained fairly constant. Moreover, the data suggests that unemployment and nonparticipation are concentrated among persons with few currently marketable skills. An alternative interpretation, then, would be that those persons who are doing poorly today have lost valuable human capital (Topel, 1993).

Good reform of UI would not assume UI to be the source of unemployment, but would truly assist those who seek to be reemployed. Therefore, instead of taxing benefits which is essentially punitive, UI should offer the unemployed the opportunity to participate in some type of training program. The continued receipt of UI after 26 weeks could be made contingent on their willingness to engage in training. By waiting until 27 weeks of unemployment to impose such a requirement, the

system effectively continues to offer them the benefit of the doubt. It offers them the opportunity to at least see if they can find work on their own. In this vein, reform wouldn't represent a sharp departure from what the system was initially designed to do. It continues to uphold the fundamental premise of the program; that unemployment is the result of forces beyond one's control.

On the other hand, the current initiative, Worker Profiling, could be used as a point of departure for assisting the long-term unemployed much earlier on. The Worker profiling and reemployment service system, as it is called, is an early intervention approach aimed at providing dislocated workers with the reemployment services to help speed their return to productive employment. Once it is fully implemented, it will identify those claimants most likely to exhaust their regular UI, and are thus likely to need job search assistance in order to make a successful transition.

The system is to envisaged to work as follows: The first UI payment triggers the profile which is based on the following criteria: recall status, union hiring hall agreement, education, job tenure, change in employment in previous industries, change in employment in previous occupations, and local unemployment rate. Claimants either on recall or covered by union agreement are usually excluded. Those who remain are then assigned a probability of long-term unemployment on the basis of a statistical model. It is expected that states will employ a general structure which will begin with the profile. Then to the extent that services are available, those "identified" claimants will either be immediately referred to service providers or placed in a selection pool from which a referral may later be made. Services begin with an orientation session advising claimants on the availability and benefit of reemployment assessment, and if appropriate an individual assessment of each claimant's needs is made. Based on this individual service plan, which is viewed as a compact between claimant and service provider, the claimant may be referred to reemployment services tailored to the individual's

needs. Services would generally be in the form of workshops on writing resumes and interviewing, as well as identifying whatever other needs the displaced might have so that they can become more marketable. Those who are referred are then required to participate as a condition for further receipt of UI benefits (Department of Labor, 1994).

Worker profiling could serve the purpose of triggering the second-tier of UI reform more quickly than the actual point of benefit exhaustion. Instead of simply offering job search assistance to those “identified,” the system might actually require participation in training much earlier on. In the New Jersey Unemployment Insurance Reemployment Demonstration Project (NJIRDP), for instance, which served as the experimental basis for the larger Profiling policy, three treatments were employed: job search assistance(JSA) only JSA combined with training or relocation assistance, and JSA combined with cash bonuses for early reemployment. Overall each treatment reduced the amount of UI benefits received both in the initial benefit year and in subsequent years. Though a relatively small number of claimants in the JSA plus training or relocation treatment received on-the-job training, those who did had a significantly higher earnings than did the assessed JSA only claimants in all quarters following the first quarter after the claim date. It was found that on-the-job training had both a substantial and statistically significant impact on earnings and weeks worked throughout the six-year follow-up. The estimated impact on earnings was equal to \$9,000 to 15,000 per year, and the estimated impact on additional weeks worked was twelve to eighteen . By contrast, the JSA only group did do better than the control group, but not as well as the subgroup of JSA plus training that received on-the-job training. Here it was estimated that members of this group increased their earnings by an average of \$608 relative to members in the control group. With an another \$128 in additional fringe benefits, the total increase was equal to \$736 in compensation (Department of

Labor, 1995b). Therefore, with the addition of some type of serious training component to the Worker profiling system, the UI system could be transformed from an insurance system into a powerful mechanism for reemploying dislocated workers.

Though it isn't clear that retraining would assist all of the long-term unemployed, there is reason to believe that it could still be beneficial to a significant number of that population. Although a larger number of professionals tend to fall into the long-term unemployed group than among the short-term, 64.4 percent of the long-term unemployed still has obtained no more than a twelfth grade education. Moreover, those industries which are expected to experience growth in the next decade will require a higher degree of skills than the blue collar manufacturing and service industries from which still a sizeable percentage of long-term unemployed workers appear to have been displaced from.

According to the Bureau of Labor Statistics, the U.S. labor force is expected to increase by 24 million from 1992 to 2005, from 127 million to 151 million. Slightly more than 51 million are expected to enter the labor force, with about 28 million representing the replacement for those workers who leave due to death, retirement and other reasons. Virtually all job growth is expected to be in the service-producing industries. Approximately one third of all jobs created are expected to be in health, business and social services. The fastest growing jobs will be in professional specialties, managerial and technical occupations -- those that would require the most education. And yet, the fastest growing major occupational group requiring little education will be the service worker. The seven fastest growing occupations are health and computer related -- positions requiring higher skill levels (BLS, 1993). Those trends can be seen below in Table X.

Table XI Employment Projections, by Occupation

Occupation	Employment (1,000)				Percent Change 1992-2005		
	1992	2005			Mod- erate	High erate	
		Low	Mod- erate	High			
Total, all occupations	129,099	139,007	147,482	154,430	14.8	21.8	27.5
<i>Fastest Growing</i>							
Home health aids	347	794	827	835	128.7	138.1	140.6
Human service workers	189	429	445	451	127.6	135.9	139.2
Personal and home care aids	127	283	293	296	122.0	129.8	132.0
Computer Engineers & scientists	211	409	447	485	93.9	111.9	129.2
Systems analysts	455	891	956	1,001	95.7	110.1	120.0
Physical & corrective therapy assistants and aids	61	113	118	119	84.6	92.7	95.1
Physical therapists	90	163	170	173	80.2	88.0	91.4
Paralegals	95	166	176	180	75.8	86.1	89.8
Occupational therapy assistants and aids	12	20	21	21	70.5	78.1	80.1
Electronic pagination systems workers	18	29	32	33	65.1	77.9	84.0
Teachers, special education	358	594	625	648	65.9	74.4	81.0
Medical assistants	181	296	308	313	63.5	70.5	73.0
Detectives, except public	59	94	100	104	60.1	70.2	76.8
Correction officers	282	452	479	503	60.0	69.9	78.1
Child care workers	684	1,100	1,135	1,183	60.6	65.8	72.8
Travel Agents	115	167	191	196	45.2	65.7	69.9
Radiologic technologists and technicians	162	252	264	267	55.4	62.7	64.6
Nursery (farm) workers	72	110	116	123	53.1	62.0	71.3
Medical records technicians	76	118	123	125	54.4	61.5	63.6
Operations research analysts	45	67	72	75	50.1	61.4	68.0
Occupational therapists	40	61	64	65	52.9	59.6	62.5
Subway and streetcar operators	22	33	35	37	48.1	57.2	64.9
Legal secretaries	280	415	439	447	48.3	57.1	59.9
Teachers, preschool							

and kindergarten	434	646	669	682	48.9	54.3	57.2
Manicurists	35	54	55	56	51.2	54.1	58.3
EEG technologists	6	9	10	10	46.6	53.8	55.4
Producers, directors, actors, and entertainers	129	190	198	205	47.0	53.5	58.7
Speech-language pathologists and audiologists	73	105	110	113	44.6	51.3	55.7
Flight attendants	93	121	140	144	30.3	51.0	55.5
Guards	803	1,138	1,211	1,255	41.7	50.8	56.2
Nuclear medicine technologists	12	17	18	18	43.1	50.1	51.6
Insurance adjusters, examiners, and investigators	147	205	220	220	39.3	49.1	49.5
Respiratory therapists	74	104	109	110	41.4	48.3	49.9
Psychologists	143	204	212	222	42.1	48.0	54.7
<i>Fastest Declining</i>							
Frame wirers, central office	11	2	3	3	-77.4	-75.3	-74.7
Signal or track switch maintainers	3	1	1	1	-76.6	-74.6	-72.9
Peripheral EDP equipment operators	30	11	12	12	-62.6	-60.2	-59.0
Directory assistance operators	27	12	13	14	-54.9	-50.6	-49.4
Central office operators	48	22	24	24	-54.7	-50.3	-49.1
Station installers and repairers, telephone	40	18	20	20	-54.7	-50.3	-49.1
Portable machine cutters	11	5	6	6	-48.3	-40.1	-39.4
Computer operators, except peripheral equipment	266	151	161	168	-43.2	-40.1	-39.4
Shoe sewing machine operators and tenders	16	9	10	10	-46.3	-38.4	-35.8
Central office and PBX installers and repairers	70	41	45	46	-41.3	-35.6	-34.1
Child care workers, private household	350	220	227	242	-37.1	-35.1	-31.0
Job printers	15	9	10	10	-39.4	-35.0	-33.2
Roustabouts	33	20	22	32	-38.4	-33.2	-2.0
Separating and still machine operators and tenders	21	13	14	15	-37.0	-35.1	-31.0
Cleaners and servants, private household	483	316	326	347	-34.6	-32.5	-28.2
Coil winders, tapers & finishers	20	12	14	16	-41.2	-32.4	-22.1

Billing, posting, and calculating machine operators	93	62	66	68	-33.6	-29.5	-27.0
Sewing machine operators, garment	556	338	393	396	-39.1	-29.2	-28.7
Compositors and typesetters, precision	11	7	8	8	-30.7	-26.5	-23.3
Data entry keyers, composing	16	11	12	12	-31.7	-26.4	-23.8
Motion picture projectionists	9	7	7	7	-29.3	-25.8	-24.0
Telephone and cable TV line installers and repairers	165	117	125	134	-29.4	-24.4	-18.7
Cutting and slicing machine setters	94	68	73	76	-28.1	-22.6	-19.5
Watchmakers	9	7	7	8	-26.5	-22.6	-18.4
Tire building machine operators	14	10	11	12	-29.4	-22.3	-19.0
Packaging and filling machine operators and tenders	319	232	248	257	-27.1	-22.3	-19.4
Head sawyers and sewing machine operators and tenders	59	44	46	53	-25.7	-22.3	-10.3
Switchboard operators	239	177	188	194	-25.9	-21.3	-18.8
Farmers	1,088	831	857	914	-23.7	-21.2	-16.0
Machine forming operators and tenders, metal and plastic	155	112	123	133	-27.8	-20.8	-14.3
Cement and gluing machine operators and tenders	35	26	28	30	-25.7	-20.2	-12.7

Source: U.S. Bureau of the Census, *Statistical Abstract of the United States: 1994* (114th edition.) Washington, DC, 1994, p. 411

These projections would only tend to reinforce the current trends in what has come to be known as the two-tiered economy. Those working in low-skilled service occupations will find themselves in the low wage labor market, while those working in high-skilled occupations will find themselves in the high-wage labor market. What does clearly stand out, however, is that the fastest growing positions would appear to be skill intensive.

Viability of Training? There hasn't been a great deal of experimentation with alternative uses of UI money in the U.S., especially when it comes to training. Federal law does allow for the

continued receipt of benefits in some cases if enrolled in state approved programs. Still, what information does exist on the effectiveness of training programs is mixed. Currently, there is the Job Training Partnership Act (JTPA) which was passed in 1992 to replace the discredited Comprehensive Employment and Training Act (CETA). JTPA does provide job training and job search services for both disadvantaged and dislocated workers, but it no longer provides public service employment and cash stipends for workers receiving training. As of 1988, JTPA was providing about \$200 million annually at the state and local level for those workers permanently displaced from their jobs. Generally funds are used to provide classroom training, on-the-job training, and job search assistance to program participants (ACUC, 1995, p. 205). In 1992, JTPA enrolled 125,000 out of school youth aged 16-21. Slightly more than half were high school dropouts and the vast majority came from economically disadvantaged backgrounds. The average length of time in the program was five months, with an average cost of \$2800 per enrolled. The findings for the out-of-school component program were discouraging. JTPA produced no statistically significant positive effects for out-of-school youths, regardless of gender. These findings also held true over a two and one half follow-up period and for all the different strategies which were employed: classroom training, job search assistance, or a mix of less intensive services. Moreover, there were no reductions in either youth crime or welfare receipt (Department of Labor, 1995a, p. 13).

On the other hand, the results from Job Corps, the most intensive Federal training program provided to any civilian population, proved to be far more encouraging. As of 1993, Job Corps was enrolling about 62,000 new youth with approximately \$570 million in total outlays. The full Job Corps usually takes about a year to complete, but a substantial minority either end up dropping out or being dismissed with the first three months because of the difficulty of training and the strict code

of conduct enforced in Job Corps centers. Those youth enrolled in the Job Corps tend to be even more disadvantaged than the out-of-school youth in JTPA. More than 80% are high-school dropouts and three quarters have never worked before. It is a highly intensive, residential program that provides basic education, vocational skills and a wide range of supportive services. And upon completion of the program, job placement services are also provided. Over four years after graduating from the program, Corps enrollees were earning an average of \$1300 more per year than those in the comparison group. Whereas only 5% of control group members attained a high school diploma or GED, over 25% of Corps enrollees did. And by the end of the follow-up period, Corps participants were also twice as likely to attend college. Corps participants were also employed on average over three weeks more per year than those in the comparison group. Corps participants also required less government assistance -- they received on average two fewer weeks of welfare benefits and one less week of UI each year. Although Job Corps did not affect the overall arrest rate, it did appear to reduce the incidence of felony crime among participants. Because of the intensive nature of the program, it does lead to high up front costs. But the resulting benefits were estimated to substantially exceed the costs. Lifetime benefits to society from Job Corps training were estimated to be about 45% greater than program costs (Department of Labor, 1995a, p. 15).

Through a review of different programs, the U.S. Department of Labor has found that short-term training programs to be of little benefit, while long-term programs -- those lasting up to one year -- were. Moreover, those who enrolled in a Community College program also tended to do much better as well (Department of Labor 1995a). Further lessons can also be drawn from the Canadian experience. As part of its UI Developmental Uses program, Canada experimented with training programs, and found that they did have some beneficial results. To study the effects of training, the

Insurance Program Directorate looked at six categories of workers: Feepayers, Job Development, Job Entry, Skill Shortages, DIR, and non-trainees.

Feepayers were comprised of individuals who were paying for training on their own in approved courses restricted to designated skills shortages and language training. To qualify, recipients had to have been out of school for more than two years and their courses had to meet at least 25 weeks, but they couldn't exceed 52 weeks. Though they were to pay for the courses themselves, they would be able to draw UI while enrolled. In the Job Development program, clients must have suffered long-term unemployment which was defined as being unemployed for at least 24 weeks during the previous 30, and most of the clientele were women. The Job Entry program was for either women reentering the workforce after an absence of at least three years (job re-entry) or youth who were no longer required to attend school and who had little labor market experience. Such youth were defined as those who had been out of school for a minimum of three years and who had been unemployed for at least 26 out of 52 weeks (job entry). Priority, however, was to be given to high school drop-outs. Full-time courses couldn't last longer than 52 weeks, and part-time courses couldn't last longer than 1,820 hours. The Skills Shortages program applied to those who were "not job ready" and who didn't meet the criteria for other programs could be eligible if counselors felt that they could benefit from training. Training could last up to three years, but only those clients with a minimum of five years in the labor force could train for longer than a year. In the DIR program, clients either took training -- often in the evening -- which didn't interfere with their job search, or didn't inform authorities that they were involved in training while on UI. The results of these programs can be seen in the following table:

Table XII Comparison of Canadian Experimental Training Programs

	Pre UI earn- ings	Post- UI earn- ings	Place- ment- rate	Pre- average annual earn- ings	Post- aver- age annual earn- ings	Average age	Years of edu- cation	Average dur- ation of training
Fee payer	\$425	\$448	67%	\$16,375	\$18,719	32	13	34 weeks
DIR	\$427	\$420	61%	\$13,877	\$15,299	31	12	19 weeks
Job Devel- opment	\$361	\$383	58%	\$12,833	\$13,958	33	12	31 weeks
Job Entry	\$268	\$324	61%	\$8,016	\$12,113	31	12	27 weeks
Skills Short- ages	\$377	\$480	75%	\$18,775	\$24,245	28	12	19 weeks
UI- Only/ non- trainee	\$477	\$428	---	\$18,082	\$19,981	35	10	0 weeks

Overall, the study found that participants in the Feepayer and Skills Shortages programs were no more likely to become reemployed than UI-only groups. DIR, Job Development and Job Entry trainees were generally less likely than UI-only claimants to obtain a job after UI and/or training. Trainees, however, did require substantially less time -- 11-17 weeks depending on the training program -- than non-trainees to find a job following UI/training. Still, a modest but significant rise in the incidence of welfare receipt was observed for Job Entry and Job Development clients (Park et al., 1993).

What does become clear is that while training may be a short-term solution in that it may help

workers find jobs sooner, it isn't clear that it offers long-term gain in terms of offering higher income in the long term. That is, those who received no training, once reemployed, may catch up. And yet, the fact that long-term unemployment is becoming more of a problem suggests that something needs to be done to address the needs of the long-term unemployed. Perhaps the greatest problem with the idea of government training is that in addition to its high costs, it assumes that once workers have gone through a program, they will thus be ready to work in new industries. They don't necessarily take into account the skills demand of the employer.

If it is assumed that the long-term unemployed would find reemployment faster were they to have the appropriate skills, the answer may then lie in offering an incentive aimed at encouraging firms to offer on-the-job training. Firms which have specific skill requirements ought to be encouraged to hire and train them in a manner which meets their needs. This could be done in the form of tax credits or vouchers to be financed from the funds which currently finance extended benefits. These funds could be added to through a more perfect experience rating. A more perfect experience rating, then, would serve the dual purpose of helping to reduce the number of layoffs and contribute to the financing of a reform aimed at assisting the long-term unemployed.

The closest approximation of this are the employment bonus program trials in Illinois. In an effort to encourage workers to search more intensely for a job, \$500 bonuses were offered to employees once they found reemployment. In other trials, however, bonuses were offered to firms as a way to encourage them to hire workers. The employee trials showed that workers who were offered a bonus found reemployment faster than those who were not. Woodbury and Spiegelman found that the incentives created by the bonus -- paid out to 4,186 UI claimants -- reduced the state's regular benefits paid to the randomly selected treatment group by an average of \$158. It also reduced

the average number of weeks of insured unemployment by more than one week -- over the full benefit year -- compared with the randomly selected control group. Also where employers were offered bonuses to hire workers, workers also found reemployment faster (Woodbury and Spiegelman, 1987). One means by which UI could be linked to training might be through a bonus type program approach, modeled after those that offer payments to employers.

At the same time, the data on these experiments is inconclusive. In a more comprehensive review of these experiments, Meyer has suggested that cost-benefit analyses indicate that bonus experiments usually lead to small net losses for the UI program, and ultimately do not produce any overall societal gains. If, for instance, claimants are induced to find a job more quickly, the job they find may be less desirable. Although the bonus programs revealed there to be no adverse impact on earnings, it isn't clear whether experimental results can be directly applied to a permanent program. Meyer cites three sources for this uncertainty. The first is that if one group of individuals is encouraged to go back to work early, they may gain employment at the expense of others who are unable to get jobs. Secondly, with a permanent program, a different fraction of eligible claimants might apply for bonuses, thereby causing a change in the costs of the bonus offer. And thirdly, by increasing the financial reward for short UI spells, a permanent bonus would probably increase the number of people unemployed between job changes and increase the number of UI filers. Although bonus experiments do show that economic incentives do affect the speed with which people leave the UI rolls, they do not necessarily demonstrate the desirability of a permanent reemployment bonus program. On the contrary, simple cost-benefit analyses suggest that societal net benefits may be positive about one-half of the time, but they are negative in other cases. And they actually generate small losses for the system. Rather, reemployment bonuses make filing for UI much more valuable,

as claimants become more eligible for a large payment if they file and then find a job soon. The permanent adoption of a reemployment bonus could actually have important unintended negative effects, for it isn't clear just how such a program would affect the size of the claimant population (Meyer, 1995).

And as Davidson and Woodbury have noted because the bonus program makes it easier to fill vacancies, it might affect the job separation rate. The bonus program could make firms more prone to terminate workers for cause and less prone to create conditions that would lower the probability of voluntary quitting. Termination and voluntary quits create vacancies that are costly to fill, and because the bonuses reduce these costs, they should rise as a result. Davidson and Woodbury estimated that the bonus program wouldn't have a displacement effect on UI-eligible nonoffered workers, although in all cases there is some displacement of UI-ineligible. Still, the Illinois bonus program had virtually no effect on the earnings of those workers who were offered a bonus after reemployment (Davidson and Woodbury, 1993). What isn't clear from these bonus studies is whether employer-based bonuses would have the same impact. The presumption here is that more jobs would be available and that workers, because they would no longer be receiving extended benefits, would have no choice but to take them. The key difference, however, would be that instead of offering bonuses to simply hire workers, money is being offered to employers to invest in the development of human capital. This would represent a significant shift in emphasis from a system which was initially designed to offer no more than temporary assistance during periods of economic downturn. Another option would be to offer vouchers to the unemployed to pay for a training program of their choice, and that they would be required to participate if they would like to receive extended benefits.

The program could be structured along the lines of a voucher system in which vouchers would

be offered to employers who would hire and train workers. The extended benefits payments which now go to the long-term unemployed would then be offered to these employers who would use it as a subsidy for the wages they would pay these workers during the training phase. Another possibility for structuring such a program is to offer vouchers to employers who will hire and train workers, and then use the extended benefits payments as a subsidy to the wages workers might receive from their new employers during the training phase. This would, of course, be on the presumption that once these workers have been retrained for their new employers, their employers would then be in a position to pay them the prevailing market wage. This idea bears some similarity to any number of welfare proposals which would time limit benefits and then demand work. When it comes to unemployment policies, we have to presume that most would like to be reemployed, but that more assistance will be needed to both create the openings and to motivate them. To reduce the impact on the budget, those identified as likely to exhaust their benefits -- or likely to be in the long-term unemployed category -- on the basis of profiling would be required to participate right away in the second tier of the system.

While these ideas may be helpful to those who previously lacked education and training, they may still be of no consequence to those who are older, slightly better educated, and who have been displaced from more professional, specialty positions. For them, training isn't the answer. Rather, the role of policy must be to ease them into another context in which they can utilize their existing skills. As many of these individuals may have simply been "downsized" out of work, perhaps the system ought to be geared so as to ease them into consulting whereby they continue doing what they were doing, but in the service of several firms as opposed to one. Perhaps for them, the value of their extended benefits could be offered as a lump sum with the aim of assisting them to form their own

businesses.

Conclusion

UI reform has to result in a system which is ultimately flexible. Workers ultimately have to be offered the choice of the type of training they will engage in. But they may also need an additional push as well. Therefore, tying the receipt of extended benefits to a willingness to participate in some type of training would be useful. But the system would have to pay for the training. It is because the unemployed population isn't homogeneous that a two-tiered policy approach is essential. The first tier would seek to tighten the system by adopting measures such as a more perfect experience rating and work sharing in order to reduce the incidence of layoff. The second tier would extend beyond the first by assisting those who are going to be laid off, and who because they may be facing the prospect of long-term unemployment would need some additional training or retraining.

For the UI system to be suitable to the needs of a changing economy, it must do more than merely provide income maintenance on the outdated assumption that whatever jobs are lost will simply return with changes in the normal business cycle. The system has to recognize that unemployment is not the homogeneous category it might have been assumed to be during its inception in 1935. Increasingly, there is a distinction to be made between the short-term unemployed and the long-term unemployed, and the ranks of the long-term unemployed are growing. The goal of UI reform isn't merely to achieve greater efficiency in facilitating reemployment, but to enhance a core value of American society: work.

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