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The secular rise in unemployment insurance exhaustions and what can be done about it

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The Secular Rise in Unemployment Insurance Exhaustions and What Can Be Done about It

Upjohn Institute Working Paper No. 11-177

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ABSTRACT

Over the past several decades, the rate at which regular unemployment insurance recipients run out of benefits before they have found jobs, even in a strong labor market, has been gradually rising. For example, in 1973, 27.4 percent of UI recipients exhausted their benefits; in 2007 (with a similar unemployment rate) 35.6 percent exhausted. This paper documents the increase in the exhaustion rate, along with the parallel rise in long-term unemployment; examines the consequences; and reviews what has been learned about the efficacy of various approaches for reversing, or at least halting, the trend.

The research on the rise in long-term unemployment and UI exhaustions suggests that, even after the labor market recovers from the recent recession, some UI recipients will have a difficult time finding a new job, while others will want to avoid going back to work as long as they can receive benefits. The

dual challenge, then, is to ensure that 1) workers who could benefit from employment services received those services, and 2) UI recipients do not abuse the system by failing to actively search for work. The evaluations reviewed in this paper point the way to policies and programs that can meet that challenge. In particular, strengthening job search requirements and increasing job search assistance would address both goals; the Worker Profiling and Reemployment Services program provides a good framework for these activities. In addition, evidence from experiments conducted in the 1980s suggests that financial inducements for unemployed workers to search for work more intensively or to accept job offers they might otherwise have rejected can also be effective. Finally, for individuals whose skills are no longer in demand, mixed results from the evaluations of public training programs underscore the importance of directing participants to courses that are appropriate for their interests and abilities and that match the needs of employers in their community.

JEL Classification Codes: J64, J65, J68

Key Words: unemployment insurance, unemployment duration, job search assistance, worker profiling, employment services, public training programs, employment subsidies

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The federal-state unemployment insurance (UI) program was created as part of the Social Security Act of 1935 to provide *temporary* income support and to help stabilize the overall level of economic activity by providing weekly cash benefits to jobless workers. Program outlays increase as unemployment rises, thereby providing funds to potentially offset reductions in incomes and consumer spending that otherwise would occur. Benefits are financed through special state and federal payroll taxes on employers. Currently, most states set their maximum duration at 26 weeks.

While the recent recession and its aftermath have necessarily focused policymakers' attention on actions to offset the hardships caused by a more than 9 percent unemployment rate, this paper focuses on an issue likely to reemerge once the labor market has recovered: the secular rise in UI exhaustions. Over the past several decades, the rate at which regular UI recipients run out of benefits before they have found jobs, even in a strong labor market, has been gradually rising. For example, in 1973, 27.4 percent of UI recipients exhausted their benefits; in 2007 (with a similar unemployment rate), 35.6 percent exhausted.

This paper documents the increase in the UI exhaustion rate, along with the parallel rise in long-term unemployment; examines the consequences; and reviews what has been learned about the efficacy of various approaches for reversing, or at least halting, the trend. The main findings are as follows:

- Since the mid-1970s, the percentage of UI recipients exhausting their entitlement to regular benefits has increased by between three and four percentage points per decade, after adjusting for fluctuations associated with cyclical variation and the implementation of temporary benefit extensions. The average duration of UI receipt has risen by almost one

week per decade. These trends are partly due to an increase in the percentage of job losers who are permanently separated, rather than temporarily laid off. But parallel trends in long-term unemployment among new entrants and reentrants into the labor force suggest that the secular rise in UI exhaustions is part of a broader transformation in the labor market.

- The adverse consequences of long-term unemployment and exhaustion of benefits can be severe for the unemployed workers themselves, for the overall economy, and for government budgets. Many of the workers who lose jobs and run out of UI benefits see their family incomes fall below the poverty line. Moreover, when they do return to work, many of them earn less in their new jobs than they did in their old ones and may never resume their previous earnings trajectories. Long periods of involuntary unemployment by experienced workers also mean that a portion of the nation's productive capacity is not being used and additional outlays for UI benefits must be made.
- A substantial body of research indicates that strengthening job search requirements and increasing job search assistance can reduce the duration of unemployment compensated by the UI system. Experiments conducted in the 1980s showed that providing financial inducements for unemployed workers to search for work more intensively or to accept job offers that they might otherwise have rejected can also shorten durations. In addition, results from program evaluations suggest that selective use of retraining to help unemployed workers acquire new skills can increase their subsequent earnings; however, it is important to direct participants to appropriate courses and to ensure that job opportunities will follow from the retraining.

THE UNEMPLOYMENT INSURANCE SYSTEM: ITS ORIGINS AND STRUCTURE

Unemployment insurance is by far the largest public program offering assistance to unemployed workers. Authorized by the Social Security Act of 1935, the program eases labor market transitions by providing temporary income support to workers who lose their jobs and are looking for work. Because the number of recipients automatically increases in periods and places with high unemployment, the UI program also helps to dampen cyclical fluctuations in aggregate income and bolster purchasing power in hard-hit communities.

Although the general principle that a proper role of government is to provide temporary unemployment benefits to workers who lose their jobs is widely accepted, there is little consensus for deciding how long “temporary” should be. The Committee on Economic Security, established by President Roosevelt in 1934 to develop recommendations for what became the Social Security Act the following year, suggested that states establish a maximum duration of between 15 and 30 weeks of benefits, recognizing that not everyone would find work within that time. They based their recommendations on estimates of the number of weeks that could be afforded with varying illustrative tax rates and other program parameters:

While the maximum benefit periods...are mere approximations, they very clearly indicate that on a contractual basis, benefits can be paid only for periods which, to many people, will seem short....While unemployment compensation is far from being a complete protection, it is a valuable first line of defense for the largest group in our population, the industrial workers ordinarily steadily employed. Unemployment compensation should permit a worker, who becomes unemployed, *to draw a cash benefit*

*for a limited period during which there is expectation that he will soon be reemployed....*¹ [emphasis added]

The Social Security Act left it up to the states to determine how many weeks unemployed workers would be allowed to receive benefits, as well as most other terms of the program.

Initially states set the maximum duration of benefits between 12 and 20 weeks, with 16 weeks being the most common duration.² By the early 1960s, most states had increased the maximum duration of regular benefits to 26 weeks, where it remains today.³

Not everyone who is unemployed is eligible for UI benefits, nor do all those who are eligible choose to participate.⁴ Except in periods of weak labor markets, workers who lose their jobs constitute about half of all unemployed people, with the remainder being job seekers entering or reentering the labor force and job seekers who left their previous job voluntarily. Because the UI program is designed to help involuntary job losers, it generally excludes most entrants, re-entrants, and voluntary job leavers, as well as workers who lost their jobs because of misconduct. Also, because the UI program usually provides benefits for no more than 26 weeks, job losers with very long spells of unemployment eventually become ineligible for benefits. Before the

¹Report reprinted in Project on the Federal Social Role (1985). The committee's position was that unemployed workers who did not find a job after a limited period should be offered public employment, rather than indefinite cash assistance. That entitlement would be available to no more than one member of a family or household and only to workers who were dependent upon their own earnings (p. 31).

²Blaustein (1993). The maximum durations in 1937 appear on pp. 165 and 180.

³Key provisions of state UI programs are summarized in U.S. Department of Labor, Employment and Training Administration, Office of Workforce Security (2010).

⁴In a supplement to the Current Population Survey in 2005, individuals who said that they were unemployed but had not filed for UI benefits were asked why they had not done so. About half of those who had lost their jobs responded that they thought they were ineligible, mainly because they had an insufficient work history (Vroman 2009). A recent study by Ebenstein and Stange (2010) uses cross-state variation in changes in procedures to apply for benefits to examine the extent to which inconvenience played an important role in determining participation; they concluded that it did not.

recent recession, the number of recipients of regular UI benefits equaled about 35–40 percent of the total number of unemployed people and about 70–80 percent of the unemployed who lost their last job.

Both federal and state laws affect how UI benefits are provided to jobless workers.⁵ The federal government finances administration of the program, funds benefits for certain groups of unemployed workers, and provides general guidelines and some restrictions on the operation of state UI programs. Within the constraints of federal law, states develop benefit and tax structures to meet the needs of workers and employers within their boundaries. The states establish eligibility requirements for UI benefits, determine the duration and amount of regular UI benefits, and specify state payroll taxes that fund those programs. The outlays and revenues of the state programs are recorded in the federal budget.

Except in periods when the federal government enacts emergency measures, most UI benefits are paid by states, financed by payroll taxes on employers. These regular state benefits provide up to 26 weeks of assistance in nearly all states. The maximum potential length and the weekly amount of benefits for each worker are generally determined by his or her employment and earnings during a recent one-year base period, subject to state-specific limits. In 2007, the last year before the recent recession, about 7.5 million people received a total of \$33 billion in regular UI benefits. The average weekly benefit in that year was about \$290, which was about one-third of average weekly wages.

⁵For a more detailed description of the UI system, see U.S. Department of Labor, Office of Unemployment Insurance, Division of Legislation (2009).

A second level of UI benefits, funded equally by the federal and state governments, is available when the unemployment in a state exceeds certain thresholds. UI recipients in that state can then receive up to 13 additional weeks of benefits under the federal/state extended benefit (EB) program. That additional assistance becomes available, or “triggers on,” in two circumstances: 1) when the 13-week average of the insured unemployment rate (IUR) equals or exceeds 5 percent and is at least 20 percent greater than the average of that state’s IUR during the same 13-week period in the past two years; or 2) at the state option when the average IUR exceeds 6 percent, without the 20 percent factor. Most states now have that second option.⁶ States can enact an additional way of triggering on extended benefits, based on their total unemployment rate (TUR), but few states have done so.⁷

The Emergency Unemployment Compensation program enacted in June 2008 and amended several times authorizes a program that provides federally funded additional weeks of benefits to recipients who exhaust their regular UI benefits. Its enactment continued a long-standing pattern of providing temporary, federally funded benefits in response to cyclical downturns. At its peak, the program provided over one year of Emergency Unemployment Compensation benefits in high-unemployment states. In addition, it reimbursed states for 100 percent of their EB payments, rather than 50 percent, funded a \$25 increase in UI weekly benefit amounts, subsidized UI recipients’ COBRA health insurance premiums, and provided additional funds to states for administering these temporary increases in their workload.

⁶The IUR is computed by dividing the average number of weeks of unemployment claimed for a three-month period by the number of employees covered by the UI program. It differs from the TUR, which is based on a monthly survey conducted by the Census Bureau; the TUR is computed by dividing the number of unemployed individuals (who are not necessarily receiving UI benefits) by the civilian labor force.

⁷ Under the emergency program, the federal government is paying 100 percent of the extended benefits, thus providing a strong incentive for states to temporarily adopt the TUR trigger.

Spending for regular UI benefits follows a distinct cyclical pattern, as the number of unemployed workers receiving benefits rises and falls with the condition of the labor market. During or after several downturns (including the most recent one), spending on temporary programs to extend the duration of benefits accounted for a substantial share of total spending for benefits. Spending on the EB program, in contrast, largely ended by the early 1980s, after the eligibility criteria for states were tightened.⁸

THE RISE IN EXHAUSTIONS AND IN LONG-TERM UNEMPLOYMENT: TRENDS AND EXPLANATIONS

This section examines the secular rise in UI exhaustions and the parallel increase in the average duration of compensated unemployment. Part of the explanation for what has happened to UI recipients clearly lies in the increase in the share of UI recipients who have been permanently separated from their employers, rather than having been temporarily laid off. But increases in the duration of unemployment among groups not eligible for UI benefits suggest the presence of additional factors.

Documenting the Trends

Analysts commonly assess the ability of the UI program to help workers span periods without earnings with data on the percentage of regular UI recipients who collect all of the benefits to which they are entitled. The Labor Department calculates the exhaustion rate by dividing the

⁸The IUR threshold was increased from 4 percent to 5 percent and a national trigger was eliminated. In addition, the measurement of insured unemployment previously included recipients of extended benefits; excluding those recipients from the measurement reduced the length of time that a state's IUR remained above the threshold.

number of recipients who exhaust their entitlement to regular state UI programs over a 12-month period by the number of new recipients over a 12-month period lagged by six months. The lag is intended to reflect the length of time that new recipients could claim benefits.⁹ The exhaustion rate provides a convenient, easy-to-understand, albeit imperfect, indicator.¹⁰

By that gauge, there has been a secular decline in the program's adequacy. In view of the severity of the recent recession, it is not surprising that the exhaustion rate has been extraordinarily high during the past year two years—topping 50 percent in 2009 and 2010. More puzzling is that well before this recession began the exhaustion rate was already much higher than it used to be in normal times (defined here as periods in which the unemployment rate is below 6 percent). During the expansionary period of the 1970s, about one in four UI recipients exhausted their entitlement to benefits (see the solid line in Figure 1). By the late 1990s, with an even lower unemployment rate, the exhaustion rate had risen to one in three recipients.

Estimates from a regression analysis indicate that the exhaustion rate has been increasing at the rate of between three and four percentage points per decade. The regression estimates are based on annual data for the period 1973–2007. The percentage of UI recipients exhausting regular benefits was regressed on a linear time variable, the total unemployment rate (from the Current Population Survey [CPS]), the change in the unemployment rate from the previous year, and a

⁹For example, from July 2007 through June 2008, 8.25 million people began receiving regular UI benefits; from January 2008 through December 2008, 3.42 million people exhausted their benefits; thus, the Labor Department calculates that the exhaustion rate in 2008 was 41.5 percent (3.42 as a percentage of 8.25). Recipients are counted as exhausting their benefits when they have drawn the final payments of their original entitlements in a benefit year. That need not occur all in one spell. If, for example, a recipient was entitled to 26 weeks of benefits and used 10 of those weeks in one spell, then he or she would be recorded as exhausting after drawing the remaining 16 weeks in a second spell.

¹⁰One problem especially relevant to this paper is that the availability of extended UI benefits to individuals who exhaust their regular benefits in periods of high unemployment is likely to induce more people to exhaust during those periods. For discussion of the pros and cons of using the exhaustion rate as a measure of the UI program's adequacy, see Woodbury and Rubin (1997).

dummy variable that took the value of one in years in which a federal extension of benefits was in force for at least half of the year. The unemployment rate variables are included to (imperfectly) control for the effects of conditions in the labor market on the exhaustion rate; the federal extension dummy is included because the availability of additional benefits lessens the financial incentive to actively search for work and to accept less desirable jobs.

As reported in the first column of Table 1, I estimate that the exhaustion rate increased by 0.33 percentage points per year during the estimation period. Alternative specifications were run in which the unemployment change was omitted, the extension dummy was omitted, or the years in which a federal extension was in force were deleted. In each case, the estimated trend was between 0.3 and 0.4 percentage points per year.

Table 1. Regression Estimates for Trends in Regular Unemployment Insurance**Exhaustions, Average Duration, and First Payments, 1973–2007**

| | Exhaustion Rate (Percent) | Average Duration of UI Receipt (Weeks) | First Payments as Percentage of Covered Employment |
|-----------------------------|---------------------------------|--|--|
| Year | 0.33** (0.04) | 0.09** (0.01) | −0.14** (0.02) |
| Unemployment Rate | 1.50** (0.39) | 0.66** (0.11) | 0.41* (0.15) |
| Change in Unemployment Rate | 1.05* (0.41) | 0.09 (0.11) | 1.24** (0.16) |
| Federal Extension Dummy | 4.00** (0.95) | 0.47 (0.25) | 0.78* (0.36) |
| R ² | 0.80 | 0.79 | 0.92 |

NOTE: Each regression was estimated with annual UI administrative data and data from the CPS for 1973–2007. The exhaustion rate is expressed as a percentage of first payments lagged six months. The unemployment rate is the total unemployment rate from the CPS. The federal extension dummy takes the value of one in years in which a temporary extension was available to exhaustees of regular benefits in at least half of the year and zero in other years. Each equation includes a constant term.

* and ** respectively indicate statistical significance at the 0.05 and 0.01 levels.

The rise in the exhaustion rate is part of a long-term trend in the average duration of UI receipt (see Figure 2). In the early 1970s, the average duration was about 13 weeks, compared with about 15 weeks before the recent recession. The average duration has been increasing at the rate of almost 0.1 week per year (see the second column of Table 1).

Roughly half of that increase was associated with a higher exhaustion rate. For example, the average duration of UI receipt in 2007 was about two weeks higher than it was in 1973 (15.2 weeks versus 13.4 weeks), while the increases in the average duration of claimants who exhausted and those who did not exhaust were each about two-thirds of one week. The rest of the increase in duration was associated with an eight-point rise in the percentage exhausting.¹¹

A parallel development has been a long-term decline in the first payment rate—that is, the number of individuals receiving an initial regular UI payment during a year, expressed as a percentage of employment covered by the program. Accordingly, a smaller share of the workforce has been receiving UI, but that share has been receiving benefits over longer spells. As shown in Figure 3, workers used to enter the system more frequently, as measured by first payments as a percentage of covered employment. Regression analysis similar to what was described earlier indicates that first payments as a percentage of employment has fallen by about 0.1 percentage points per year (see the final column of Table 1).

¹¹Administrative statistics reported by the Labor Department indicate that the average duration of the exhaustees increased from 22.5 weeks to 23.1 weeks. I calculated that the average duration of the non-exhaustees increased from 9.9 weeks to 10.8 weeks. Had the percentage exhausting not increased from 27.7 percent to 35.6 percent, the average duration would have risen from 13.4 weeks to 14.2 weeks, rather than to 15.2 weeks.

Could Changes in the UI Program Be Responsible for the Increase in Exhaustions?

Although it is unclear why UI spell durations and the exhaustion rates have increased, it seems unlikely that the UI program itself is responsible. To be sure, the states and Congress have changed the UI program in many ways in the last 30 years, but only one change seems likely to have increased UI durations and the exhaustion rate. States have moved to systems that allow UI claimants to file by telephone or over the internet—that is, without ever visiting an office and coming into contact with UI personnel. Many observers believe this change has depersonalized the process of claiming and receiving benefits, made claimants feel less responsible for seeking reemployment, and hence lengthened unemployment spells.

Otherwise, changes in the UI system in recent decades would be predicted to shorten UI spell lengths and UI exhaustions, not shorten them. For example, the Worker Profiling and Reemployment Services system, which was adopted in 1993, has identified workers who are likely to exhaust their benefits and required many to participate in a job search assistance program. Existing evidence (reviewed below) suggests strongly that profiling has reduced unemployment duration and UI exhaustions. Moreover, UI benefits have become less generous over the years, reducing the incentive to remain unemployed: Between 1973 and 2007, the percentage of earnings replaced by UI fell from 36 percent to 34 percent, nonwage compensation like health insurance became more costly (implying that UI replaced even less in comparison with total compensation), and UI benefits have been taxed as income since 1979.

We can point to additional evidence that the UI system itself is probably not responsible for the increased duration of UI receipt: Trends in long-term unemployment are similar for workers who are likely to receive UI and those who are not. Figure 4 plots the percentage of long-term

unemployed workers (workers unemployed for 27 weeks or more as a percentage of all unemployed workers) during 1973–2009 for four groups of workers: 1) involuntary job losers, 2) voluntary job leavers, 3) labor force reentrants, and 4) new labor force entrants. It seems clear that long-term unemployment has trended upward for all four groups, even though only workers in the first group are likely to be eligible for UI. (Long-term unemployment for job losers differs from the other three groups only in that it varies more over the cycle.)

Table 2 reports estimates of these trends based on the same specifications used to estimate trends in UI exhaustions. As shown in the first column, the percentage of unemployed job losers out of work more than six months increased by about 0.3 percentage points per year during the 1973–2007 period. The estimated trend for job leavers is similar, while the trends for unemployed people who had reentered or recently entered the labor force were larger (0.55 percentage points per year and 0.43 percentage points per year).

Figure 5 shows that, between 1973 and 2007, long-term unemployment among job losers increased sharply from 10.5 percent to 15.3 percent of all unemployed. Among job leavers, reentrants, and new entrants, the increases were even greater. Figure 5 also shows that long-term unemployment among teenagers—very few of whom are eligible for UI—more than doubled between 1973 and 2007.

Table 2. Regression Estimates for Trends in Unemployment Lasting 27 Weeks or More as a Percentage of Unemployment, by Reason Unemployed, 1973–2007

| | Job Loser | Job Leaver | Reentrant | New Entrant |
|-----------------------------|-------------------|------------------|------------------|------------------|
| Year | 0.28** (0.03) | 0.26** (0.03) | 0.55** (0.05) | 0.43** (0.06) |
| Unemployment Rate | 3.54** (0.31) | 1.82** (0.32) | 1.18* (0.50) | 1.02 (0.55) |
| Change in Unemployment Rate | −2.07** (0.33) | −0.52 (0.33) | −1.07* (0.52) | −1.08 (0.57) |
| Federal Extension Dummy | 3.78** (0.76) | 1.74* (0.77) | 0.63 (1.21) | 0.39 (1.32) |
| R ² | 0.91 | 0.76 | 0.80 | 0.68 |

NOTE: Each regression was estimated with annual UI administrative data and data from the CPS for 1973–2007. The dependent variable in each regression is the percentage of the

unemployed individuals in that group reporting that they had been unemployed at least 27 weeks when surveyed; it is not the completed spell. The unemployment rate is the total unemployment rate from the CPS. The federal extension dummy takes the value of one in years in which a temporary extension was available to exhaustees of regular benefits in at least half of the year and zero in other years. Each equation includes a constant term.

* and ** respectively indicate statistical significance at the 0.05 and 0.01 levels.

Potential Explanations for the Rise in Long-Term Unemployment

Researchers have identified changes that have contributed to the rise in long-term unemployment. These changes can be grouped under three headings: demand, supply, and mismatch.

Demand-Side Sources

One change that clearly affected job losers has been the increased tendency for employers to permanently terminate workers, rather than to temporarily lay them off with the expectation that they would be recalled. Burtless (2008) documented that increase and attributed it to changes in the industrial mix (especially the decline in manufacturing), as well as possibly changes in employers' practices. In 1973, 68 percent of unemployed job losers had been permanently separated. In 2007, it had increased to 72 percent. (In 2009, over 80 percent of unemployed job losers had been permanently separated, which is much higher than it had been in previous recessions. It is too soon to determine whether this represents a long-lasting shift or something unique to this recession.)

The rise in permanent separations, rather than temporary layoffs, is important here because workers who are no longer attached to an employer are obviously more likely to take much longer to become reemployed. In 2007, for example, about 3 percent of the unemployed workers surveyed by the CPS who reported that they were on temporary layoff had been unemployed for more than half a year; 20 percent of the job losers who were not on temporary layoff had been unemployed that long.¹² Since most people who become eligible for UI benefits are workers who

¹² Since 1994, the CPS has disaggregated the job losers who were not on temporary layoff into two categories: those who completed temporary jobs and those who were permanent job losers. Because those who completed temporary jobs are a small portion of the total and have also been permanently separated from their last employer, I do not

have either been permanently separated or been temporarily laid off, the shift toward permanent separations would directly lead to an increase in the duration of UI benefit receipt.

Also on the demand side, changes in the skill mix required by employers and more rapid shifts in demand associated with technological innovations and trade could have increased the length of time it takes employers to fill job openings. A recent study by Autor (2010) documents what he calls a “polarization” of job opportunities over the past three decades, with employment growth concentrated in relatively high-skill occupations, such as managerial jobs, and in relatively low-skill occupations, such as protective services and food preparation; occupations in the middle, such as routine production line jobs that could be automated, have grown the least.

Likewise, employers may have become more cautious in their hiring practices because the costs of making a mistake have risen or the composition of employment shifted toward sectors that normally take longer to fill job openings. An employer might be more careful about filling job openings in which the new hires would need to undergo costly on-the-job training. They may also be more cautious if they fear that it would be costly to fire the workers if their performance becomes unsatisfactory.

Supply-Side Sources

On the supply side, changes in the demographic composition of the labor force and in the resources available to unemployed workers could have resulted in longer unemployment durations. Particularly important is the aging of the Baby Boom generation (individuals born between 1946 and 1964). In 1973, the oldest boomer was only 27. By 2007 they were mostly in

distinguish between the two categories. Both groups are much more likely to experience long-term unemployment than are workers on temporary layoff. In 2007, about 16 percent of those who completed temporary jobs and 22 percent of permanent job losers had been unemployed more than half a year.

their late forties or in their fifties. Although older workers are less likely than younger workers to become unemployed, those who do become unemployed tend to have a more difficult time finding jobs. In 2007, for example, data from the CPS indicate that 23 percent of unemployed persons ages 45 and older had been unemployed more than half a year, compared with 18 percent of younger unemployed persons. Moreover, older job-seekers are probably more likely than younger ones to end their spell of unemployment by leaving the labor force rather than finding jobs.

The aging of the labor force is of special relevance because, as Bureau of Labor Statistics staff projected in 2009, workers ages 55 and older will be the fastest growing part of the labor force in the 2008–2018 period. This is both because of the aging of the boomers and the expectation that the increase in the labor force participation rate of this age group in recent years would continue (Toossi 2009). The BLS projected that the size of the labor force ages 55 and older would increase by about 3.5 percent, while the number of workers under age 55 would be barely above its level in 2008.

An earlier study by Abraham and Shimer (2001) that examined the rise in long-term unemployment from the 1970s through the 1990s highlighted the role of women's increased attachment to the labor force. Women who lose their jobs and do not immediately find another one are less likely than they used to be to drop out of the labor force.¹³ However, this would not explain the rise in long-term unemployment among men.

¹³ That study also pointed to changes in the household survey on which the estimates of unemployment length are based. However, changes in that survey could not account for the rise in the duration of UI spells and in exhaustion rates, both of which are measured from administrative data rather than from household surveys.

In an analysis of unemployment duration trends from 1976 through 2004, Valletta (2005) focuses on the previously cited increase in the duration among labor force reentrants and entrants, along with the increase in the fraction of job losers who were permanently separated. It is unclear why the unemployment durations of new entrants and reentrants have increased more than those of job losers and voluntary leavers.

Increases in the share of unemployed people who can afford to take longer to find new jobs and who believe that the payoff to additional job-seeking is worthwhile could also result in longer unemployment durations. A job loser with an employed spouse is generally in a much better position than one who is not living with any other earners. Thus the growth in two-career marriages could have contributed to longer durations.

Based on a job search model that they developed, Mukoyama and Sahin (2009) demonstrated that an increase in wage dispersion could have accounted for much of the increase in average duration in recent years. Their main idea is that the expected returns to job-seeking activities are larger when there is more variation in the wage rate of workers with similar skills. To the extent that within-group wage inequality has increased, the average duration of unemployment should have increased because the rewards for additional searching for better opportunities would be higher.

A Growing Mismatch

Finally, some of the rise in long-term unemployment could simply reflect a growing mismatch between the characteristics of job-seekers and the characteristics that employers are seeking. For example, even though the educational attainment of the labor force has been rising, increasing returns to education suggest that the demand for more educated workers has been rising even

more. A growing gap between other types of harder-to-quantify skills supplied by job-seekers and the skills demanded, such as the kinds of problem-solving skills discussed by Autor (2010), would also increase durations.

It is clear that UI benefit recipients in recent years (prerecession) have collected benefits for longer periods than they did in the past and that an increase in the fraction of job losers who were permanently separated, rather than temporarily laid off, is partly responsible. But other changes affecting the labor market, including ones that are less easily quantified, are also at work. Regardless of the cause, the consequences of this trend can be severe for the unemployed workers, for the economy, and for government budgets.

CONSEQUENCES OF LONG-TERM UNEMPLOYMENT AND UI EXHAUSTION

Long-term unemployment and exhaustion of benefits have adverse economic consequences for the workers directly affected and for others as well. First, they are an indication that many workers who have lost their jobs are having considerable difficulty finding new ones, even when the economy is strong. They may have lost a major source of income and the opportunity to maintain or enhance their skills and future earning power. Second, each week that a worker is involuntarily unemployed may result in lost output for the overall economy and less revenue for governments. Finally, long-term receipt of benefits is costly to the UI system, as each additional week of benefits must be paid for—generally through taxes on employers.

Short-Term Impacts on the Income of Unemployed Workers

The immediate economic impact of long-term unemployment for the workers themselves is, of course, the loss in income. In normal times, UI benefits will replace a portion of lost earnings for no more than six months. Those benefits have been shown to play an important, often critical

part in maintaining the family income of recipients who experience a long-term spell of unemployment, particularly for those who did not have other wage earners in the family.

Research conducted at the CBO used data from the Survey of Income and Program Participation to track the income of workers who lost their jobs and began receiving UI benefits in 2001 or early in 2002 (CBO 2004).¹⁴ In that analysis, as well as in similar ones conducted for previous periods, “long-term UI recipients” were defined as people who received UI benefits in at least four consecutive months. About 40 percent of the recipients in the 2001–2002 study were not back at work three months after the end of their long-term spell.¹⁵

Figure 6, taken from the CBO study, depicts the family income of the UI recipients three months before their long-term UI spell began, in the midst of the spell, and three months after it ended; the top panel tracks the experiences of the recipients who had not returned to work and the bottom panel tracks those who had returned. It shows that the average family income of each group fell by about 40 percent while they were receiving UI benefits. Without those benefits, the losses would have been much greater.¹⁶ The long-term recipients who were back at work three

¹⁴The Survey of Income and Program Participation is a large, nationally representative longitudinal survey conducted by the Census Bureau. Because it contains detailed information about the activities and sources of income of each member of a household, it is an excellent resource for examining what happens to the incomes of workers who lose their jobs. However, because it was not designed to address detailed issues about the structure of the UI program, it lacks some information that would have been useful to have, such as the UI recipients’ maximum duration of UI payments and whether they exhausted their benefits. For further information about the data and limitations of this analysis, see CBO (2004, p. 10). The appendix of that report summarizes findings from similar studies based on estimates from previous periods.

¹⁵ Recall that the labor market was weakening during this period, which likely accounts for the low percentage who had returned to work. The biggest difference between the results in this study and those of a study based on data from the mid-1990s was that in the earlier period about 30 percent were not working three months later, rather than 40 percent.

¹⁶ For the recipients who were not working three months later (depicted in the top panel of Figure 6), average monthly income in the midst of the spell was about \$3,200, which was 63 percent of the \$5,100 income received before the spell began; about \$800 of that income was from UI payments. For the recipients who were working three months later (depicted in the bottom panel), average income in the midst of the spell was about \$2,600, which was 57 percent of their previous income of \$4,600; their average UI payment was about \$900.

months after their UI spells ended still had not fully recovered. They were earning about 85 percent of what they had been earning three months before their UI spells had begun.

Former recipients who did not find work soon after their benefits ended continued to incur substantial income losses. Average family income was about half of what it had been before they began receiving unemployment insurance. Most of their income was from the earnings of other members of their family. In addition (not shown in the figure), more than one-third of the former long-term UI recipients who had not returned to work had incomes below the poverty line (measured on a monthly basis), and 40 percent lacked health insurance.

For sole earners in a family, the income loss was much greater: almost 90 percent excluding UI benefits, or 65 percent including them. For such one-earner families, UI benefits represented two-thirds of their total income, compared with an average of about 20 percent for families with more than one worker.

Longer-Term Impacts on Workers' Earnings

The losses in income incurred by workers who have long-term spells of unemployment often continue even after they have returned to work. In addition to the immediate losses incurred by long-term unemployed, many of them will earn less in their new jobs than they did in their old ones and may never resume their previous earnings trajectories. Several studies based on data from the CPS provide estimates of the earnings trajectories of workers for up to three years after they lost jobs. Other studies used administrative data to track workers' earnings for longer periods.

Since 1984, a series of questions has been added to the CPS every other year to obtain information about adults who had been displaced from their jobs because their employers had closed down, reduced staff, or for similar reasons. The most recent information available is from responses of workers who reported that they had been displaced in 2005, 2006, or 2007. That survey found that in January 2008, nearly half of the workers displaced from jobs that they had held for at least three years but who were back at work in full-time wage and salary jobs were earning less than they had earned in their lost jobs.¹⁷ In addition, many of the displaced workers had either not found new jobs or were employed on part-time schedules.

Several studies that used data from prior displaced worker surveys to examine the consequences of losing a job also estimated substantial losses in earnings. In a series of analyses, Farber (2005) found that the losses to displaced workers are even larger than they appear from such before-and-after comparisons because such comparisons do not take into account foregone wage growth. For example, in his analysis of the experiences of workers displaced in 2001, 2002, or 2003 from full-time jobs that they had held for at least three years, he estimated that those who found new full-time jobs earned an average of 13 percent less than in their lost jobs; taking into account foregone wage growth increased the estimated loss to 17 percent. Farber pointed out that losses of employer-provided health insurance and pensions add to these costs.

Research based on administrative data provides further evidence that workers who lose their jobs often incur long-lasting reductions in their earnings, especially workers who were long-term UI recipients. Couch and Placzek (2010) used data from the UI administrative records in

¹⁷BLS (2008, Table 7). About 25 percent had weekly earnings at least 20 percent below the weekly earnings in the jobs they lost; 20 percent had earnings below, but within 20 percent; 35 percent had earnings equal or above, but within 20 percent; and 20 percent had earnings at least 20 percent higher than in the lost jobs. These estimates do not include the reemployed workers whose new jobs were part-time or who were self-employed or unpaid family workers.

Connecticut to track the subsequent earnings of workers who had been continuously employed for at least six years and had separated from their employers after 1998. They estimated that six years after separation the average earnings of the reemployed separators were about 8 percent below those of comparable workers in Connecticut who had not left their employers.

Of particular relevance for this paper is that workers who had received any UI benefits incurred especially large long-term earnings losses. Six years after separation in Connecticut, re-employed UI recipients had an average earnings loss of 32 percent. UI recipients would be expected to have larger losses than others because workers who lose their jobs and immediately start new ones would not be eligible for benefits, and those who expect to find a new job quickly would be less likely to apply for benefits. Moreover, the size of the earnings losses was related to the length of time that they had collected benefits: six years after separation, the average earnings loss of workers who had received benefits for at least six months was almost twice as large as the average loss of workers who had received benefits for no more than three months.¹⁸

The estimated losses for Connecticut workers are smaller than earlier estimates by Jacobson, LaLonde, and Sullivan (1993) for workers who had separated from jobs in Pennsylvania in the late 1970s or early 1980s. That study was also based on UI administrative records. A much weaker labor market in Pennsylvania in that period is the mostly likely explanation for the difference.¹⁹

¹⁸ Web Appendix L of Couch and Placzek (2008), available at http://www.aeaweb.org/aer/data/mar2010/20060515_app.pdf.

¹⁹ Preliminary estimates from a study that used Social Security data to track the earnings trajectories of workers who lost jobs in mass layoffs also indicate that ten years later the average reduction in earnings of men who lost jobs during the weak labor market of the early 1980s was substantially larger than that of men who lost jobs in the stronger labor market later in the decade (Von Wachter, Song, and Manchester 2009). For a review of research on the short- and long-term effects of losing a job during a recession, see CBO (2010).

Impacts on the Economy and on Government Budgets

Long periods of involuntary unemployment by experienced workers also mean that a portion of the nation's productive capacity is not being used. Fewer goods and services are being produced and less income is available to be taxed. For example, 7.6 million workers received UI benefits for an average of about 15 weeks in 2007, which was about two weeks longer than the average duration of UI receipt in 1973. Had they, instead, been working for those two weeks and earning the average weekly wage in covered employment of about \$850, they would have earned an additional \$13 billion.²⁰ Even if they would have earned well below the average wage, the additional output would have been considerable.

Moreover, at least when employers have many job openings to fill, as they did before the recession, it is unlikely that additional weeks of employment for some workers would result in fewer weeks of employment for others. Such substitution is much more likely to occur in a slack labor market.

Short periods of unemployment may be necessary in a dynamic economy in order to reallocate resources to their most productive use. Indeed, one purpose of UI benefits is to help make it feasible for recipients to search the market more extensively than they might be able to afford without that source of income.²¹ In principle, those benefits enable more productive and longer-lasting job matches to occur than would be otherwise be the case. But it is unlikely that being unemployed for 26 weeks would be warranted very often on that basis.

²⁰That is, 7.6 million recipients times \$850 times 2 weeks.

²¹A study by Chetty (2008) estimates that the majority of the increase in unemployment duration associated with the availability of UI benefits can be attributed to UI's impact on allowing otherwise liquidity-constrained job-seekers to search the market more thoroughly, rather than to moral hazard.

Another important consequence of the rise in long-term unemployment is its enormous cost to the UI program. Again data from 1973 and 2007 provide a good illustration because in both of those years the economy was strong and the total unemployment rate was at a local minimum (4.9 percent in 1973 and 4.6 percent in 2007). Even though the unemployment rate was slightly lower in 2007, the average duration of UI receipt was about two weeks longer and the exhaustion rate was eight percentage points higher. If the UI recipients in 2007 had collected benefits for two fewer weeks, total outlays in that year would have been about \$4 billion less. Payroll taxes could have been substantially lower; the program could have provided increased coverage or higher weekly benefits; or additional reserves could have been accumulated to help fund the next downturn.

Recipients who exhaust their entitlement to benefits account for a substantial— and growing— portion of that cost to the UI program. The roughly one-third of the recipients who exhausted benefits in 2007 accounted for nearly 55 percent of the total weeks compensated in that year; the one-quarter of the recipients who exhausted benefits in 1973 accounted for 45 percent of the weeks compensated.²²

The remainder of this paper examines various approaches for reducing the duration, especially ways of lowering the number of recipients who use up all of their benefits.

²²This calculation does not take into account any differences in weekly benefit amounts. Exhaustees probably had somewhat lower weekly benefits than other recipients in both years.

A REVIEW OF POLICIES TO REDUCE LONG-TERM UNEMPLOYMENT AND EXHAUSTIONS

The recent recession and its aftermath left the labor market with a double-digit unemployment rate and record-high UI exhaustions. As a result, the majority of states had negative balances in their UI accounts.²³ Recovery in the labor market is expected to take many years. The CBO's projections in January 2011 called for the unemployment rate to gradually decrease to 5.3 percent by 2016.²⁴ Based on that projection, the CBO estimated that in 2016, 9.4 million workers would receive a total of about \$50 billion in regular UI benefits.²⁵ At this writing, their unemployment projection appears optimistic.

But even if the labor market does recover by mid-decade, large numbers of UI recipients would still run out of benefits before they found new jobs. With a 5.3 percent unemployment rate in 2016, the average duration of UI receipt would be about 16 weeks and 40 percent of the recipients—almost 4 million individuals—would exhaust.²⁶

²³As of March 18, 2011, 32 states plus the Virgin Islands had outstanding loans from the federal unemployment account totaling almost \$46 billion. Both the number of states with loans and the amounts borrowed are expected to rise sharply over the next two years.

²⁴CBO (2011). Detailed information about CBO's baseline for UI outlays is available at <http://www.cbo.gov/budget/factsheets/2011b/unemployment.pdf>. The administration's economic forecast in early 2011 called for an even more gradual decrease in the unemployment rate, with a 5.6 percent rate projected for 2016.

²⁵The CBO projects that the average recipient will receive \$326 per week for 16.1 weeks. The CBO's baseline includes only \$10 million for the EB program in 2016, implying that few individuals would receive EB benefits in that year. The estimates reported here are from the CBO's baseline for the fiscal year, which begins three months before the start of the calendar year.

²⁶These estimates are based on the average duration and exhaustion rate equations reported in Table 1, using the CBO's projections of first payments and average weekly benefits. The CBO does not publish a projection of exhaustions.

Several approaches for reducing long-term unemployment and UI exhaustions have been tried, and others have been recommended. They can be classified into five broad categories:²⁷

- 1) offset the incentives to prolong unemployment that are inherent in the UI program itself by strengthening the program's job search requirements;
- 2) increase the recipients' access to information about job vacancies, job search assistance, counseling, and other employment-related services;
- 3) increase the payoff to recipients for taking a new job sooner;
- 4) improve recipients' employability by providing additional opportunities for education and retraining to the recipients; and
- 5) increase their employability by providing subsidies to prospective public or private employers.

Strengthen Job Search Requirements and Increase Job Search Assistance

Although conceptually distinct, the first two approaches overlap so much in practice that they are best examined together. Throughout the UI program's history, its architects and administrators have had to come to terms with the inherent trade-off between providing adequate benefits to workers who lost their job and encouraging (or at least not discouraging) workers to find new jobs if their previous employers will not be recalling them. The higher the weekly benefits and the longer those benefits are available, the less financial incentive people will have to actively search for work and to accept less desirable jobs. The disincentive effect is probably most pronounced when jobless rates are relatively low. This section describes the current rules and

²⁷Two UI programs currently available in several states are not examined here. In states that have implemented short-time compensation (also known as "work-sharing") programs, employers are encouraged to reduce work hours as an alternative to layoffs; workers whose hours are reduced can become eligible for partial UI benefits. In states with self-employment assistance programs, eligible UI claimants are excused from active job search requirements while they are establishing their own business. See Wandner (2008) for descriptions of these programs, their usage, and a summary of evaluation findings.

programs intended to both enforce the job search requirements and provide job search assistance; it then summarizes the relevant evaluations.

Overview of the Requirements and Assistance Available

Each state has established rules to determine whether workers whose separation from employment qualified them for UI benefits are, in fact, able, available, and actively seeking work.²⁸ Most states require UI claimants to register for work with a public employment office to demonstrate their ability and availability to work. Generally, claimants who place substantial restrictions on the kind of offer they would accept, refuse a referral to suitable work, or reject an offer of suitable work would be considered unavailable and therefore ineligible for benefits. The requirement to actively seek work calls for a claimant to be making a reasonable effort to find a job.

Historically, the enforcement of job search requirements and the provision of job search assistance went hand in hand because the Employment Service administered the work test and was prepared to provide the UI recipients information about job openings, career guidance, referrals, and other job search assistance. The Employment Service, largely funded by federal government grants to states authorized by the Wagner-Peyser Act of 1933, provides employment-related assistance to millions of job-seekers each year, the majority of whom are not UI recipients. ES staff provide a wide range of services, including help with accessing job postings, job referrals, labor market information, skills assessment, and counseling. These

²⁸Each year, the Labor Department prepares a summary of the state provisions. The latest is in *Comparison of State Unemployment Insurance Laws* (2009), which reflects state laws enacted as of January 1, 2009. This paragraph is based on that summary.

activities are mainly carried out in One-Stop centers in which ES staff are located with UI staff and other employment-related agencies.

The relationship between the UI program and the Employment Service, as well as the specific rules for enforcing the work test and providing job search assistance, has varied over time and across states. For example, it used to be the general practice that UI recipients had to periodically visit an Employment Service office. A recent review by O’Leary and Eberts (2008) concludes that UI recipients were much less connected to the ES than in the past and received less assistance. For example, the authors report that “3 to 4 percent of ES registrants currently receive employment counseling, compared to 20 percent in the 1960s at the peak of ES funding.” Substantial reductions in funding, as well as the expansion of transactions by telephone and computer, contributed to the decline.²⁹

Legislation enacted in 1993 established the Worker Profiling and Reemployment Services program. It requires all states to identify UI claimants who are likely to exhaust their entitlements to regular benefits before they have found new jobs and to refer them to reemployment services to the extent that funding is available.³⁰ Claimants who do not participate can be denied UI benefits. No additional federal funds are provided for those services.

²⁹A survey of state agencies conducted by the National Association of State Workforce Agencies in 2003 found that in most states UI applications are made by telephone or computer and that the most common method of certifying that recipients have been actively seeking work is by automated telephone response; see O’Leary (2006). Based on administrative data, Ebenstein and Stange (2010) estimate that only 13 percent of initial claims for UI benefits in 2006 were made in person; 15 years earlier, nearly all initial claims were made in person.

³⁰Section 303 of the Social Security Act lays out a series of conditions that a state’s UI program must meet. The profiling legislation added the following condition: “The State agency charged with the administration of the State law shall establish and utilize a system of profiling all new claimants for regular compensation that: A) identifies which claimants will be likely to exhaust regular compensation and will need job search assistance services to make a successful transition to new employment; (B) refers claimants identified...to reemployment services, such as job search assistance services, available under any State or Federal law; (C) collects follow-up information relating to the services received by such claimants and the employment outcomes for such claimants subsequent to receiving

Budgetary constraints appear to have limited the extent to which profiled UI claimants receive services, especially activities that require substantial staff time. For example, among the 7.6 million individuals who received UI payments in 2007, only 1.2 million were referred to services, even though twice as many subsequently exhausted their entitlement to benefits; of the 900,000 individuals who reported for services, only 400,000 were assessed and 100,000 were referred to education or training programs.³¹

Since the mid-1990s, the federal government has provided states with funds for Reemployment and Eligibility Assessments (REAs). REAs are in-person interviews with selected UI claimants to assure that they are complying with the eligibility rules, determine if reemployment services are needed for the claimant to secure future employment, refer the individual to reemployment services as necessary, and provide labor market information that addresses the claimant's specific needs.³²

Estimates of the Impacts on the Duration of UI Receipt

Results from a large number of studies suggest that enforcement of job search requirements and various types of employment-related assistance can reduce the duration of UI receipt, though

such services and utilizes such information in making identifications...and (D) meets such other requirements as the Secretary of Labor determines are appropriate....”

³¹Wandner (2008, pp. 19–20). Based on analysis of administrative data, Wandner finds “that the more in-depth and expensive services—assessment and counseling, job search workshops, and training—are the least used services.” (About 1.1 million of the 7.6 million UI claimants were not profiled; claimants who are waiting to be recalled from a temporary layoff or are hired through a union hall are exempt from profiling requirements.)

³²From *Budget of the U.S. Government, Fiscal Year 2011: Terminations, Reductions and Savings* (February 2010, p. 121), available at <http://www.whitehouse.gov/omb/budget/TRS/>, and *FY2011 Congressional Budget Justification, Employment and Training Administration, State Unemployment Insurance and Employment Service Operations* (February 2011, pp. 31–32), available at <http://www.dol.gov/dol/budget/2011/PDF/CBJ-2011-V1-08.pdf>.

caution is needed in interpreting the estimates and using them to predict the impacts of future activities.³³

Job Search Assistance Experiments. The best information about the potential impact of stronger enforcement of job search requirements and various methods of providing job search assistance comes from several experiments conducted in the 1980s and 1990s where UI claimants were randomly assigned to treatment or control groups. But because most of these studies involve UI recipients being required to participate in the job search services, it is often difficult to isolate what portion of any estimated impacts is attributable to the mandate and what portion is attributable to the services themselves. Moreover, caution must be used in extrapolating their findings because each study's results are affected by the particular labor market conditions prevailing in the sites used, the specific treatments being tested, the services available to the comparison groups, and other conditions existing in those sites. Estimates from several of those studies are summarized in Table 2, which is excerpted from a review article by O'Leary (2006).

In a widely cited experiment conducted for the Labor Department in 1983 in Charleston, South Carolina, UI claimants in one of the treatment groups were notified that to continue receiving benefits they needed to report to the nearest Employment Service office for placement-related services (Corson, Long, and Nicholson 1985). About one-quarter of them did not do so initially, although some of them subsequently complied. Some of the recipients voluntarily stopped collecting benefits rather than comply, and others were denied further benefits. Consequently, the recipients in the treatment group received a half-week fewer benefits than did the control group (15.0 weeks versus 15.5 weeks), resulting in a savings to the UI program that greatly

³³ See also the reviews by O'Leary (2004, 2006); O'Leary and Eberts (2008); and Wandner (2008).

exceeded the added administrative costs. Analysis of the timing of the impact indicates that it was largely the result of the reporting requirement, not any services provided.³⁴ Moreover, two other treatment groups received additional services but did not have significantly shorter durations. (The most intensive package of services was estimated to reduce the duration of compensated unemployment by three-quarters of a week, which was not significantly more than the half-week estimated for the least intensive one.)

Evaluations of experiments conducted in Tacoma, Washington, in 1986–1987 and in Maryland in 1994 provide further evidence of the potential for reducing compensated unemployment through a strengthened work test (Johnson and Klepinger 1991; Klepinger et al. 1997). Once again reductions in the duration of UI receipts were achieved largely through UI recipients opting not to report for required services, rather than from the services themselves. A noteworthy feature of the Tacoma experiment was that it also tested the impact of relaxing the normal work test (treatment T1 in the table); doing so substantially increased the duration.

In most of the other relevant evaluations, the effects of stronger enforcement of the job search requirements and of additional job search assistance are less easily distinguished. What is clear, however, is that the combination can be quite effective in reducing the duration of unemployment compensated by the UI program.³⁵

³⁴In particular, 11.2 percent of the recipients in the treatment group, compared with 7.6 percent of the control group, collected benefits for only one or two weeks. The authors of the evaluation report concluded: “. . . it appears that the reporting requirements, coupled with the cessation of UI benefits for failure to report, were probably the most important elements of the treatments. And a major way in which these components had an impact on benefits was to cause claimants to leave the UI rolls both because some were formally denied benefits and because some simply stopped claiming benefits.” (p. 108)

³⁵The extensive evaluation literature was recently summarized by O’Leary and Eberts (2008) in a report prepared for the Center for Employment Security Education and Research.

Table 3. Job Search Assistance Experiments

| Author (Year Published) | Design | Sample | Estimated Impact on UI Receipt Duration |
|---------------------------------------|-----------------------------------|---------------|--|
| Corson, Long, and Nicholson (1985) | T1: Stronger | Charleston SC | T1: -0.55 weeks |
| | work test | February to | |
| | T2: T1 plus | December 1983 | T2: -0.61 weeks |
| | enhanced placement services | | |
| | T3: T2 plus job | | T3: -0.76 weeks |
| | search workshop | | |
| | C: Customary work test | | |
| Johnson and Klepinger (1991) | T1: Exception | Tacoma WA | T1: +3.34 weeks |
| | reporting | July 1986 to | |
| | T2: New work | August 1987 | T2: +0.17 weeks (not |
| | search policy | | significant) |
| | T3: Intensive services | | T3: -0.47 weeks |
| | C: Existing work | | |
| | search policy | | |

| | | | |
|---|---|------------------|----------------|
| Klepinger, Johnson, Joesch and Benus (1997) | T1: Report four employer contacts weekly | Maryland 1994 | T1: -0.7 weeks |
| | T2: Two contacts required weekly, but no reporting | | T2: +0.4 weeks |
| | T3: Report two contacts weekly and participate in a four-day job search workshop | | T3: -0.6 weeks |
| | T4: Report two contacts weekly, both verified | | T4: -0.9 weeks |
| | C: Standard policy: report two contacts weekly, but contacts not verified | | |

SOURCE: Excerpted from O’Leary (2006, p. 34).

T = experimental treatment group; C = control group.

All findings reported in this excerpt were statistically significant at least at the 90 percent confidence level in a two-tailed test except where noted. For additional information see O’Leary (2006).

Job Interview Referral Evaluations. The main activity of the Employment Service—referring job-seekers to employers with job openings—has proven quite difficult to evaluate. The difficulty largely stems from the inability to deny access to Employment Service referrals in order to implement an experimental design of the sort used in the previously cited studies. In the absence of control groups, evaluators must devise methods of creating comparison groups that mimic true control groups. Results from such studies must be treated with caution because the individuals who were selected by ES staff for referral to employers might differ from the individuals in the comparison group in ways that have not been fully taken into account.

The first major evaluation of ES referrals, by Johnson, Dickinson, and West (1985), compared the labor market experiences of ES applicants who had been referred to job interviews to the experiences of applicants who had not been referred. The information was collected through surveys of a nationally representative group of unemployed ES applicants in late 1980 and early 1981 and follow-up surveys conducted six to nine months later. Statistical techniques were used to attempt to control for differences in the characteristics of the two groups, such as motivation and previous earnings, which might have affected outcomes or the likelihood of being referred.

The authors estimated that ES referrals had a large, statistically significant impact on employment outcomes for women. The overall results for men, however, indicated no significant differences in employment outcomes, although significant gains were estimated for men age 45 and older. Various robustness tests strengthen confidence in their conclusion that the ES referrals had a positive impact on women but not on men. Nonetheless, the absence of a true control group, along with changes in the labor market, and in the ES itself during the three decades since

the study was conducted, limit the confidence that these results would apply to ES activities now.³⁶

A more recent major evaluation of ES activities by Jacobson and Petta (2000) estimated large gains to job-seekers who were referred to job interviews and to job-seekers who were placed by the ES. The evaluation included three components. The first, based on a mailed survey of job-seekers referred by the Washington State ES to job openings in 1998, formed a comparison group from the applicants who were referred to listings in which the vacancies or the interview slots had already been filled (“stale” listings). The second, also in Washington State, used administrative data to track the experiences of UI claimants in the late 1980s and early 1990s; durations of compensated unemployment were estimated for job-seekers who secured referrals and placements through the ES and for those who were not referred. The third was of UI claimants in Oregon in 1995, using similar administrative data.

As with other evaluations in which a true experimental design is precluded, the results from the Jacobson-Petta evaluation must be used with care. Indeed, one of its innovations was that the report itself included the independent assessments of the evaluation by four technical experts, each of whom had extensive experience conducting evaluations of labor market programs. They praised the methods developed in the study as a significant advance in the field, especially the construction of a comparison group from referrals to stale listings. Nonetheless, they generally cautioned against relying on the specific estimates until further work was carried out. For

³⁶A similar evaluation of Employment Service activities in Philadelphia was subsequently conducted by Katz (1991). He tracked the earnings of UI recipients who had worked for at least three years prior to losing their jobs and who had waited at least six months before going to the Employment Service. Their subsequent earnings were compared to a group of UI recipients who had not used the ES. Katz estimated that participation in ES activities substantially increase the recipients’ earnings. But because the members of the comparison group were quite different from the ES participants, the validity of the estimated impacts is heavily dependent on the success of the statistical techniques used to control for those differences.

example, the survey approach could be improved by increasing the size of the sample and the response rate (only about 1,100 of the 6,000 mailings were returned) and by conducting a follow-up survey to help determine why members of the comparison group did not obtain job interviews.

Finally, in interpreting these and other evaluations of labor market interventions, an important issue is the degree to which gains to the job-seekers receiving the services come at the expense of other job-seekers. This undoubtedly happens to some extent because some of the job openings filled by individuals as a result of ES assistance would otherwise have been filled by other job-seekers. But it is not a zero-sum game: the ES assistance can also improve the operation of the labor market, reducing the length of time it takes to fill job openings, thereby increasing total employment. In a chapter of the Jacobson-Petta report, Davidson and Woodbury (2000) use an equilibrium search and matching model of the labor market to simulate potential crowding-out effects. Based on a large number of simulations, they conclude that the adverse effects on Washington job-seekers who did not use the ES referral and placement services were likely to have been relatively small—perhaps offsetting about one-quarter of the gains to the users of these services.

Evaluations of Worker Profiling. A multistate evaluation of the Worker Profiling and Reemployment Services program conducted by Dickinson et al. (1999) soon after the program was implemented finds that it appeared to be quite effective in reducing the duration of UI receipt, but not in increasing the employment and earnings of the recipients.³⁷ In five of the six states for which the researchers had reliable data, the average duration of UI receipt was reduced

³⁷Dickinson et al (1999). Their findings are summarized in Dickinson, Decker, and Kreutzer (2002).

by between 0.2 weeks and 1.0 week. Exhaustion rates were significantly reduced in three of the states. Moreover, the researchers find that the impacts on UI receipt were generally larger for the claimants who had relatively high profiling scores; that is, it appears that the profiling system was generally effective in its targeting mechanisms. About a year after the recipients were profiled, their estimated employment and earnings levels were essentially no different from those of the comparison group.³⁸ The researchers found wide variation across states in the amount of services provided to recipients who were required to participate and that the states that had the largest estimated impacts on UI receipt tended to be the ones that provided the most services.

An analysis of Kentucky's program by a separate team of researchers (Black et al. 2003) estimates much larger impacts. In the multistate evaluation, Kentucky's program was estimated to reduce the average duration of unemployment by 0.2 weeks and have no significant impact on earnings, whereas Black and his colleagues estimated that the program reduced the average duration by about 2 weeks and increased average earnings during the year after the start of the UI claim by about \$1,000, with most of the earnings gain occurring during the first six months. Moreover, from the timing of the recipients' withdrawal from the UI program, the researchers concluded that these large impacts were primarily due to the recipients opting to exit UI rather than comply with the participation requirements.

The larger impacts estimated by Black et al. may well have been due to differences in the way that the samples were drawn: essentially, in the multistate evaluation, a sample of the entire group of claimants called in for services was used, whereas the latter evaluation focused on the group that was at the profiling margin (the "tie-breakers"). As noted by O'Leary (2004), in the

³⁸In the fourth calendar quarter following their first UI payment, the probability of employment was significantly lower in two states and higher, but not significantly, in four states. Average earnings were significantly higher in one state and significantly lower in another (Dickinson et al. 1999).

multistate evaluation the estimated impacts were based on a comparison of UI claimants who were referred to mandatory activities with all other UI claimants who had been profiled but not referred, many of whom would have had very low probabilities of exhausting their benefits. Black et al. instead drew their comparison group from the nonreferred claimants whose likelihood of exhausting was closer to that of the treatment group.

The observation that most of the estimated impacts appear to have resulted from the deterrent effect may be due to the quite modest amount of services provided in Kentucky; three-quarters of the participants who attended the mandatory orientation were referred to activities that typically lasted only four to six hours. Whether more intensive services would have had an impact beyond the initial deterrent effect is not known.

Evaluation of Reemployment and Eligibility Assessments. The findings from an evaluation of a REA experiment in Minnesota in 2005 suggest that REAs can save money and reduce the duration of compensated unemployment, although whether the magnitude of the impacts would be similar in other circumstances is not clear (Benus et al. 2008). A noteworthy feature of the Minnesota experiment is that the participants and the control group were drawn from the UI claimants who ranked in the middle third of the profiled claimants in the study sites—that is, they were neither the ones who were considered most likely to exhaust (a group that was already being targeted) or those who were least likely to exhaust.

Benus et al. (2008) find that the UI claimants who were called in for multiple REA interviews received about one week fewer benefits and had an almost a four percentage point lower exhaustion rate, as well as an increased likelihood of returning to work within six months of their initial UI claims with no significant effects on their wage rates or hours per week worked; in

addition, payments to ineligible claimants were reduced. These positive results, however, must be tempered by the failure to find significant impacts in another state (North Dakota) that also participated in this REA initiative; the researchers suggest that this may have been the result of UI claimants in the control group receiving similar, though less intensive, services as were received by claimants in the treatment group or because of small sample size.³⁹

Add Incentives to Take a New Job Sooner: Reemployment Bonuses and Wage Insurance

Another way of inducing some UI recipients to take new jobs sooner is by paying them to do so. Two methods have received considerable attention; both are based on the premise that some recipients could go back to work sooner but that they view the net return to intensifying their job search or to accepting a job offer as too small.

Reemployment Bonuses

The first method would provide financial inducements for newly unemployed workers to search for work more intensively or to accept job offers that they might otherwise have rejected by providing them with “reemployment bonuses.” This technique was tested in experiments conducted in the 1980s in which UI recipients were provided with bonuses if they found new jobs within a specified period. The size of the bonuses offered ranged from roughly 3 times the average weekly UI benefit amount to 10 times the weekly benefit. Depending on the experiment, recipients had between 3 and 13 weeks after being told they were eligible for a bonus to begin a new job.

³⁹The impacts of the REA initiative in seven other states that had been selected to participate could not be assessed because of difficulties in those states acquiring data or constructing comparison groups.

Researchers found that such inducements did result in shorter durations of UI receipt, but not necessarily by enough to offset the cost of the bonuses.⁴⁰ The largest estimated impact was in the first experiment (Illinois). UI claimants who found a job within 11 weeks of filing for benefits and kept it for four months were eligible for a \$500 bonus, which was about four times the average weekly benefit. Claimants offered this bonus had about a one-week shorter duration on UI than claimants in the control group who were not offered the bonus. Estimated impacts in the other experiments were mostly around half that size.⁴¹ One caution about the findings from the experiments is that a portion of the success of the bonus-takers could come at the expense of increasing the duration of unemployment of other job-seekers or of inducing more workers who lose their jobs to file for UI benefits in order to become eligible for the bonuses.

A subsequent analysis by O’Leary, Decker, and Wandner (2005) suggested that targeting eligibility for bonuses toward UI claimants with an above-average likelihood of exhausting their UI benefits could add to their effectiveness. Using statistical models like the ones used by state offices to profile UI claimants, the researchers reanalyzed the results from the reemployment bonus experiments in two of the states (Pennsylvania and Washington). In each case, they found that restricting the bonus offers to half of the UI claimants—the ones estimated to be more likely to exhaust—would have increased the impact on UI durations. In the bonus design that provided a longer qualification period and a smaller bonus, the estimated savings in UI payments exceeded the cost of the bonuses.

⁴⁰ For a summary and analysis of the experiments, see Robins (2001).

⁴¹ Much of the difference between the estimated impacts in Illinois and the other sites was associated with the availability of up to 12 weeks of additional benefits through a federal extension that was available in Illinois during part of the enrollment period. The estimated reduction in the duration of UI receipt for the claimants who were eligible for the extension was about one and one-half weeks, whereas the estimated reduction for the claimants only eligible for regular UI benefits was about two-thirds of a week.

Wage Insurance

The second method would provide financial inducements by offering “wage insurance.” Wage insurance subsidizes a fraction of the difference between the wage a worker earns in a new job and the wage earned in the old job for a limited period of time. Unlike the experiments with bonuses in which all eligible workers who took new jobs within a specified period would receive the payment, wage insurance would only provide payments to workers who incurred a wage loss. In that way, the subsidies would, in effect, compensate them for a portion of the financial loss they incurred when their old jobs were abolished.

As discussed above, many of the workers who lose their jobs, especially those who have been with the same employer for many years, are unlikely to find new jobs that pay as much as the ones they lost. Even though UI provides workers with temporary income support while they search for new jobs, it does not compensate them for the possibly permanent reduction in their earnings that resulted from the job loss. Particularly for workers who lose jobs that they held for many years, the long-term reduction in earnings could greatly exceed the losses while unemployed. Wage insurance may help to induce those workers to accept lower-paying jobs that they might have been reluctant to take, as well as compensating them for a portion of their loss in earnings.

Opponents of wage insurance contend that such plans subsidize downward mobility, encouraging job-seekers to accept lower-paying jobs rather than helping them to prepare for better ones.⁴²

⁴² For example, the then-president of the AFL-CIO opposed the establishment of a large-scale permanent wage insurance program, arguing that “wage insurance promotes downward economic mobility, takes jobs away from lower-skilled workers, and subsidizes low-wage employers” (Sweeney 2007).

Moreover, because this would only provide a benefit to workers who incur a reduction in their wages, workers who lose low-paying jobs are less likely to qualify.

Proposals for wage insurance, at least as an experiment, have been offered for many years but have only been implemented on a very limited basis.⁴³ Legislation enacted in 1988 directed the Labor Department to conduct wage insurance demonstration projects for workers eligible for Trade Adjustment Assistance benefits, but the projects were never carried out because the agency was unable to secure sufficient state interest (Corson and Haimson 1995).

Since 2002, wage insurance has been offered to certain workers age 50 or older who are certified as eligible for Trade Adjustment Assistance benefits. If those workers accept a new job that pays less than the one they lost, the federal government will pay them half of the difference in wages for up to two years. Now called Reemployment Trade Adjustment Assistance, the program provides eligible workers with a wage supplement that can total up to \$12,000. Earnings in the new job cannot exceed \$55,000 a year and the worker must be employed on a full-time basis unless enrolled in an approved training program.⁴⁴ Thus far, few people have taken the subsidy (Dolfin and Berk 2010).

Very little information is available to gauge the effectiveness of wage insurance in reducing the duration of unemployment or UI exhaustions. As with the reemployment bonuses, wage insurance could shorten the duration of unemployment by increasing the effective wage in the

⁴³ Burtless (2008), in his discussion of why wage insurance is an option worth considering, traces the idea back to a Brookings volume edited by Alice Rivlin in 1984. In recent years, proposals for wage insurance have also been made by Kletzer and Litan (2001), Kling (2006), and LaLonde (2007).

⁴⁴The program was expanded by the Trade and Globalization Adjustment Assistance Act of 2009. Current provisions and the changes made by the 2009 legislation are described by the Employment and Training Administration in *Training and Employment Guidance Letter No. 22-08* (May 15, 2009), available at <http://wdr.doleta.gov/directives/attach/tegl/TEGL22-08acc.pdf>.

new job. If a fixed-length eligibility period begins while the job-seeker is still receiving UI benefits, that feature could reduce UI outlays. (The current RTAA program does not do this, but does reduce the eligibility period by the number of weeks that the individual received trade adjustment assistance.)

A version of wage insurance was tested in five cities in Canada in the mid-1990s. In that experiment, UI claimants who found a new lower-paying job within six months could receive an earnings supplement of 75 percent of their earnings loss (up to a cap) for up to two years. Bloom et al. (2001) found that the supplement appeared to have little impact on how quickly participants found new jobs. Its major effect was to partially compensate workers for the wage losses that they incurred.

Subsidize Employers

One approach for making workers with long-term spells of UI more attractive to prospective employers would be to subsidize their employment, as was originally envisioned by the Committee on Economic Security, chaired by Frances Perkins. Their report to President Roosevelt called for UI recipients who had exhausted their entitlement to benefits to be referred to a public employment project rather than being provided with additional UI benefits.⁴⁵

Large public and private job subsidization programs in the United States have mostly been enacted as stimulus measures in periods of weak private demand and have not been specifically targeted on the long-term unemployed. The last major federally funded public job creation

⁴⁵ Report reprinted in Project on the Federal Social Role (1985). Another way of helping unemployed workers who have not found jobs after their UI benefits ran out was proposed by Blaustein (1981). He suggested the creation of a federally funded “unemployment assistance” program for eligible UI exhaustees and other jobless individuals who had recent work or educational experience. Eligibility would be limited to individuals whose family income was below a specified level, but would not be asset-tested. The weekly benefit amount would be 10 percent less than the amount received from the UI program and substantial effort to become reemployed would be required.

program for adults was authorized by the Comprehensive Employment and Training Act of 1973 and was phased out by 1981. At its peak in mid-1978, it funded over 700,000 public service jobs. To stimulate hiring in the private sector, the New Jobs Tax Credit provided a subsidy to certain employers who increased their payroll by specified amounts above that of the previous year.⁴⁶ At the time it was enacted (May 1977), the labor market was still recovering from the recession of 1974–1975, with the unemployment rate having declined by about two percentage points from its 9 percent peak reached two year earlier.

Researchers are still debating the impacts and the lessons to be learned from both programs. The public service employment titles of CETA provided many individuals with jobs and income and helped nonprofit organizations and state and local governments to maintain or expand many worthwhile activities. But researchers estimated substantial fiscal substitution and the program's image was badly tarnished by reports of waste and abuse.⁴⁷

Supporters and opponents of incremental employment subsidies agree that a substantial portion of the tax credits (perhaps two-thirds) was paid for jobs that would have existed anyway, but disagree about how to interpret that finding. Bartik (2009), for example, points out that even if two-thirds of the New Jobs Tax Credit subsidy was a deadweight loss, it still induced more net new jobs per dollar than other types of stimulus. He suggests that modifications in its design, such as making the credit refundable, would make an incremental credit more effective. By contrast, Burtless (2009) argues that incremental tax credits of this sort are inherently

⁴⁶The terms of the tax credit and a summary of the evaluations of its impact were recently presented in the CBO, *Policies for Increasing Economic Growth and Employment in 2010 and 2011* (January 2010, p. 20). Their review of the evaluations concluded that “assessments of the program's impact are inconclusive.”

⁴⁷The public service employment program provisions of CETA were revised several times, increasingly focusing it on more economically disadvantaged workers and making it more difficult to use the funds to hire workers that would have been hired anyway. For an excellent field evaluation of the program that examines how state, local, and nonprofit managers responded, see Nathan et al. (1981).

problematic because of deadweight loss, lack of information about the credit by the people actually making hiring decisions, and cost.

Except in times of weak demand, federal subsidies have largely been used as structural measures to increase the employment prospects of individuals who have special problems, rather than to generally stimulate the demand for labor. They are provided to employers on the basis of who they hire. The Targeted Jobs Tax Credit, which replaced the New Jobs Tax Credit, was specifically aimed at stimulating demand for low-income youth and persons with disabilities.

Currently, the federal government offers the Work Opportunity Tax Credit (successor to the Targeted Jobs Tax Credit) to private employers who hire certain welfare recipients, economically disadvantaged youth, and members of other specified groups.⁴⁸ Eleven target groups are covered by the regular program. The American Recovery and Reinvestment Act of 2009 temporarily added two other groups: unemployed veterans who have received UI benefits for at least four weeks during the one-year period before being hired and certain unemployed who have not been employed or in school for the preceding six months. It does not, however, designate UI recipients, former recipients, or long-term unemployed, although some of them would be eligible as members of one of the specified groups. The size of the tax credit an employer can receive varies by target group, with the largest amount available for hiring long-term welfare recipients. About 800,000 certificates of eligibility were issued to employers in 2008, not all of which were necessarily used.

In early 2010, temporary tax incentives were enacted to encourage employers to hire and retain job-seekers who had worked no more than 40 hours during the 60-day period before they were

⁴⁸ Under the Workforce Investment Act, the federal government also subsidizes employers to provide on-the-job training to eligible participants.

hired. Under the provisions of the Hiring Incentives to Restore Employment (HIRE) Act, employers who hired eligible workers by the end of the year could be exempted from their share of the Social Security taxes paid on behalf of these workers in 2010. In addition, if they retained the workers for at least one year, the employers would be eligible for a \$1,000 tax credit.

Although the legislation has been characterized as providing an incentive to hire individuals who had been unemployed for at least two months, it does not actually require them to have been actively seeking work during that period; for example, new entrants to the labor force could qualify. No information about the take-up or effects of these incentives is yet available.

The use of targeted subsidies as a means of increasing the employment opportunities for members of specific groups has had mixed reviews.⁴⁹ Analyses of the Targeted Jobs Tax Credit found that the majority of jobs filled by employers who claimed the credit would have been filled without the credit. That is, they were not used to create new jobs. But for a targeted subsidy, the key issue is whether it succeeded in reshuffling the queue in favor of members of the targeted groups. On the one hand, because the cost of employing those individuals is reduced by the subsidy, they become more attractive to potential employers who are familiar with the program. On the other hand, some evidence was found of a stigmatizing effect, whereby some employers may have viewed the government's offer of a subsidy as evidence that there was something wrong with those job-seekers (Burtless 1985).

There is little basis to predict the impact of adding a group to the Work Opportunity Tax Credit eligibility pool based on their duration of unemployment or UI receipt (or risk of long-term unemployment or benefit exhaustion). An experiment in the 1980s in which employers who

⁴⁹For a recent summary of the literature, see Hungerford and Gravelle (2010).

hired certain UI claimants and retained them for at least four months could receive a subsidy attracted few participants.⁵⁰ In addition to the issues concerning cost, abuse, substitution, and windfall noted above, policymakers would need to consider potential spillover effects on members of the groups already targeted. The addition of this group could help the others by increasing the subsidy's visibility among potential employers and perhaps diminishing any stigma associated with it. But their inclusion could reduce employment opportunities for others to the extent that employers favor members of the newly eligible group.

Increase Skills

The previously discussed approaches all attempt to improve the process by which UI recipients find new jobs without trying to change their skill sets. But workers who have been displaced—especially those who worked for many years in an occupation or industry that is declining—may need to retool. Their skills may have become obsolete and not readily transferable to other sectors. Moreover, long spells of unemployment resulting from structural changes could be used as opportunities to develop new skills in idle workers.

Federal Programs

For many years, the federal government has funded training and education programs that can help unemployed workers acquire new skills, thereby increasing their employment opportunities and earnings. These programs include training authorized by the Workforce Investment Act of 1998 and educational assistance through Pell grants and subsidized loans. Although training and

⁵⁰ This was one of the treatments tested in the previously discussed reemployment bonus experiment in Illinois. UI claimants who found a job within 11 weeks could provide their new employers with a document that the employer could forward to the state agency; if the employer retained them for four months, they could receive \$500 from the agency. Only 3 percent of the UI claimants who participated in this part of the experiment were responsible for any bonus payments, compared with 14 percent of the claimants who participated in the part in which the claimants themselves received the same size bonus (Woodbury and Spiegelman 1987).

education funded by these programs can reduce the likelihood that their participants will incur future spells of long-term unemployment, this is usually not their immediate purpose. Indeed, participation in a training or education program (at least on a full-time basis) will delay their reemployment. It is an investment intended to pay off by putting the participants on a higher-earning career trajectory than they otherwise would have.

Unemployed workers who participate in the WIA program generally at least receive ‘core’ services, including the provision of workforce information. Some then receive more intensive assistance, such as the development of individual employment plans, while others receive retraining support, generally in the form of vouchers that can be used to pay eligible education and training providers, such as community colleges and vocational schools.

Retraining (whether provided in a community college or elsewhere) is generally much more costly than the other employment-related services and involves much more of a commitment by the participants themselves. Generally the offer of retraining support through WIA is only supposed to be made after the program staff determine that the core and intensive services are not sufficient to enable a participant to obtain employment and that the participant has the background and ability to benefit.

Impacts of Postsecondary Education

A voluminous literature documents the important role that education has played in determining labor force participants’ success in the American labor market. No matter what the state of the overall labor market, college graduates have always had lower unemployment rates and higher average wage rates than those with fewer years of education. Likewise, those with some postsecondary education but not a bachelor’s degree generally do better than those whose

education stopped with a high school diploma. Recent estimates indicate that each year of education adds about 10 percent to expected earnings (Council of Economic Advisers 2009).

Evidence indicates that similar gains have been achieved for workers who lost their jobs and returned to school. Researchers who analyzed the experiences of displaced workers in Washington State enrolled in community colleges in the 1990s estimated that, on average, they achieved significant gains in employment and earnings as a result of their education.⁵¹ Jacobson, LaLonde, and Sullivan estimated that the equivalent of one year of full-time attendance at a community college increased average earnings (after an adjustment period) by about 9 percent for men and 13 percent for women, with about two-thirds of the gains resulting from increased hours of work and the rest from higher wage rates. Virtually all of these average gains came from the displaced workers who had taken quantitative or more technically oriented vocational courses; those whose course work was in the humanities, social sciences, and other less technical fields had no significant gains in earnings.

Impacts of Retraining Programs

Mixed results from two evaluations of WIA suggest that selective use of retraining can be worthwhile but that further steps should be taken to increase the chances that the courses chosen are appropriate for the participant's interests and ability and likely to lead to reemployment. An evaluation of the WIA program by Heinrich et al. (2009) was based on administrative data collected for about 60,000 displaced workers in 12 states who entered various WIA activities between mid-2003 and mid-2005. About 20,000 of those participants received retraining assistance. The rest only received counseling and related job search services. Administrative data

⁵¹Jacobson, LaLonde, and Sullivan (2005). Because the average enrollee in their sample completed less than a full year of education, estimated gains were smaller than the impacts reported here.

were used to track the employment and earnings of these participants for up to four years after they entered the program.

Heinrich et al. (2009) estimate that the participants in their sample increased their earnings by being in WIA, but with considerable variation across states and types of services provided. Particularly relevant here is their conclusion that their study shows “little evidence that training produces substantial benefits (p. 55).” Not surprisingly, while the participants were in the training program, their employment and earnings levels were below those of the WIA participants who had only received nontraining services. But it appears that 18 months after most of the participants had ended their training, their employment and earnings were not much higher than those of the WIA program participants who had only received nontraining services. The authors emphasize, however, that methodological issues make it difficult to be as confident in the estimates as one would like. Ideally, estimates would have been based on an experimental design with random assignment of program applicants to one or more treatment groups and to a control group; that technique was not available. It is not clear whether the statistical techniques fully adjusted for differences between the participants who received training and the other participants.

An earlier evaluation by Hollenbeck et al. (2005) estimates the impacts of WIA activities on participants in seven states who left the program between mid-2000 and mid-2002 using similar methodology, but finds larger impacts. Administrative data were used to track the employment and earnings of about 90,000 participants in WIA displaced worker activities and a comparison group through the end of 2003. The researchers estimated significant gains for the displaced workers who participated in any WIA activities. The estimated gains for the displaced workers in WIA training activities (about 50,000 of the participants) were also significant and persisted for

at least two years after leaving the program. But these gains were smaller than those of the displaced workers who had only received nontraining services. As with the more recent evaluation, care must be taken in interpreting these estimates because it is possible that subtle differences between the groups being compared could affect the results.

The mixed findings from the two evaluations of federally funded retraining activities authorized by WIA are in line with the results of evaluations of previous federal retraining programs. For example, an experiment conducted in the mid-1980s evaluated the impacts of a combination of job search assistance and retraining in three sites in Texas (Bloom 1990). The principal investigator concluded that the experiment “demonstrated that a relatively inexpensive mix of job-search assistance and limited occupational skill training can be a cost-effective means of assisting *some* displaced workers” (p. vii). But the retraining did not appear to provide any additional benefit, because, according to Bloom, the particular training offered was not well suited to many of the participants.⁵²

Results from a demonstration project in New Jersey also conducted in the 1980s were more favorable, but were based on techniques that might not have fully controlled for differences between individuals who had received training and those who had not (Corson and Haimson 1996). In the New Jersey UI Reemployment Demonstration Project, UI claimants who had been permanently separated from jobs they had held for at least three years were offered one of three packages of services: 1) job search assistance only, 2) job search assistance combined with training or relocation assistance, or 3) job search assistance combined with a cash bonus for early reemployment. Because only a small number of claimants actually received training, it would

⁵² The retraining was provided in a classroom setting and appears to have been oriented toward white-collar workers with relatively high educational attainment. They appeared to benefit, but the participants who had been in blue-collar jobs and had not completed high school appear to have incurred losses by being in the program.

have been difficult to directly detect an impact unless that impact was quite large.⁵³ The researchers, instead, compared the experiences of the trainees with those of a comparison group drawn from a sample of claimants who had not been offered training, using statistical techniques to attempt to control for self-selection. They estimated substantial gains in earnings from on-the-job training throughout the six-year period observed and smaller gains from classroom training.

Two decades ago, Leigh (1990) surveyed a large number of evaluations of training programs that preceded WIA, finding that the evidence strongly supported programs providing job search assistance, but that the results regarding retraining programs were “not as conclusive” (p. 108). Ten years later, he again surveyed the available evaluations (Leigh 2000), concluding this time that there was “room for cautious optimism regarding the potential for helping to restore a dislocated worker’s lost earnings capacity.” As he pointed out, however, the earnings reductions that many workers incur after being separated from long-held jobs are so large that it would be difficult for such programs to bring their earnings back up to their previous levels.⁵⁴

CONCLUSION

For 75 years the nation’s unemployment insurance system has provided partial earnings replacement to workers who became unemployed and needed income support to tide them over until they returned to work. UI still works well for helping eligible workers who incur a temporary layoff or can find a new job within 5 or 6 months. But temporarily laid-off workers constitute a declining portion of UI recipients, so the effectiveness of UI has declined.

⁵³ About 300 claimants actually received any training, which was only about 15 percent of the claimants who were offered it.

⁵⁴ A more recent review of retraining strategies by King (2004) observed that “absent well-designed and conducted experimental evaluations of these strategies for dislocated workers, we cannot be very confident of their impacts” (p. 79).

Except in labor markets in which unemployment is unusually high, UI has never provided support for more than about a half year. But even after the U.S. labor market fully recovers from the recent recession, perhaps 40 percent of the workers who begin receiving UI benefits will exhaust those benefits. If they do not find new jobs soon thereafter, many of them and their families will experience substantial hardship. Moreover, their lengthy spells of unemployment will add to the budgetary pressure on state UI programs struggling to pay off their federal loans and rebuild their accounts.

Inevitably, some UI recipients will have a difficult time finding new jobs while others will want to avoid going back to work as long as they can receive benefits. The dual challenge, then, is to ensure that workers who could benefit from employment services received those services, and that UI recipients do not abuse the system by failing to actively search for work.

The evaluations reviewed in this paper point the way to policies and programs that can meet that challenge. In particular, strengthening job search requirements and increasing job search assistance would address both goals; the Worker Profiling and Reemployment Services program provides a good framework for these activities. In addition, evidence from experiments conducted in the 1980s suggests that financial inducements for unemployed workers to search for work more intensively or to accept job offers they might otherwise have rejected can also be effective. Finally, for individuals whose skills are no longer in demand, the mixed results from the evaluations of public training programs underscore the importance of directing participants to courses that are appropriate for their interests and abilities and that match the needs of employers in their community.

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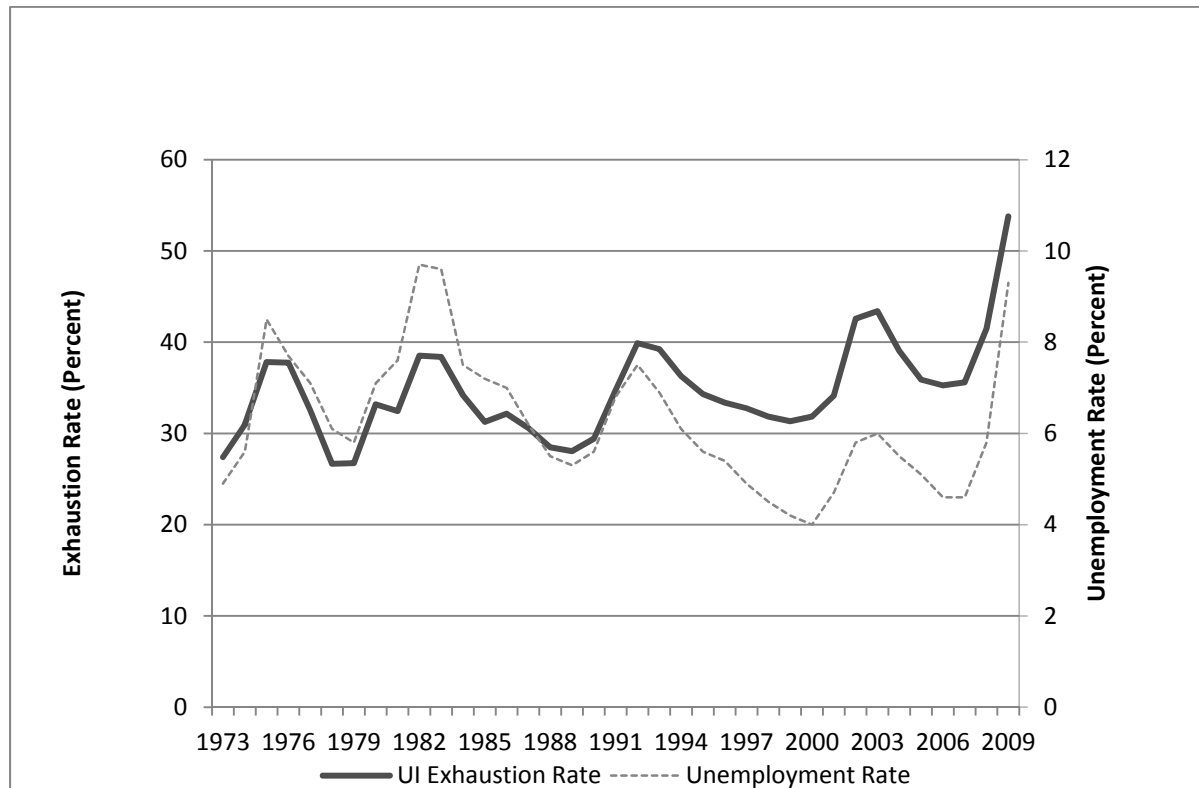
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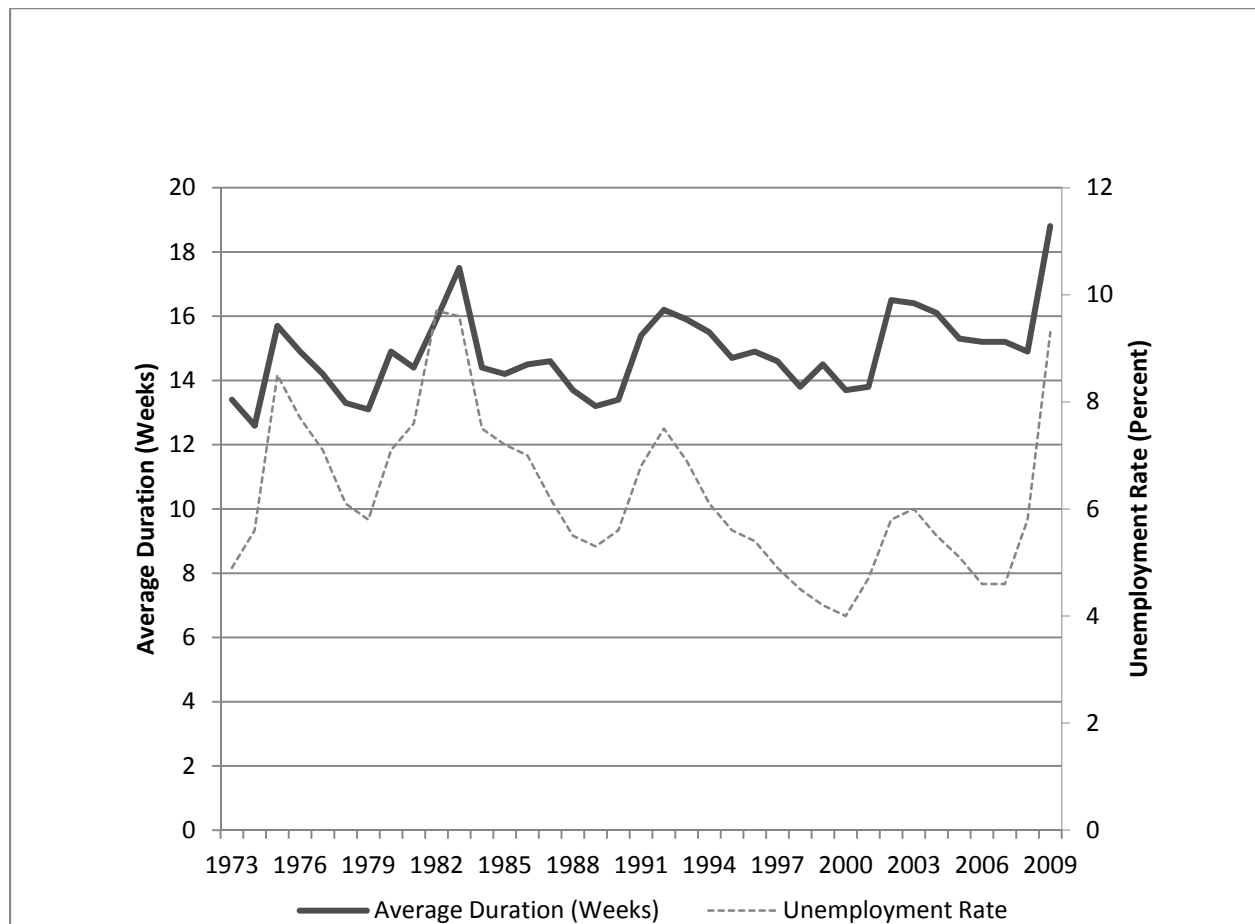
Figure 1. Percentage of Recipients Exhausting Regular Unemployment Insurance Benefits, 1973 to 2009



SOURCE: U.S. Department of Labor, Employment and Training Administration for the annual averages of the UI exhaustion rate and Bureau of Labor Statistics for the annual averages of the unemployment rate.

NOTE: The UI exhaustion rate is the percentage of unemployment insurance recipients who collect all of the benefits to which they are entitled under regular state programs. The unemployment rate is based on household interviews conducted by the Census Bureau; it is an estimate of the number of people who are without jobs and are actively seeking and available to work, expressed as a percentage of the labor force; they need not be receiving UI benefits to be counted as unemployed.

Figure 2. Average Duration of Regular Unemployment Insurance Receipt, 1973 to 2009

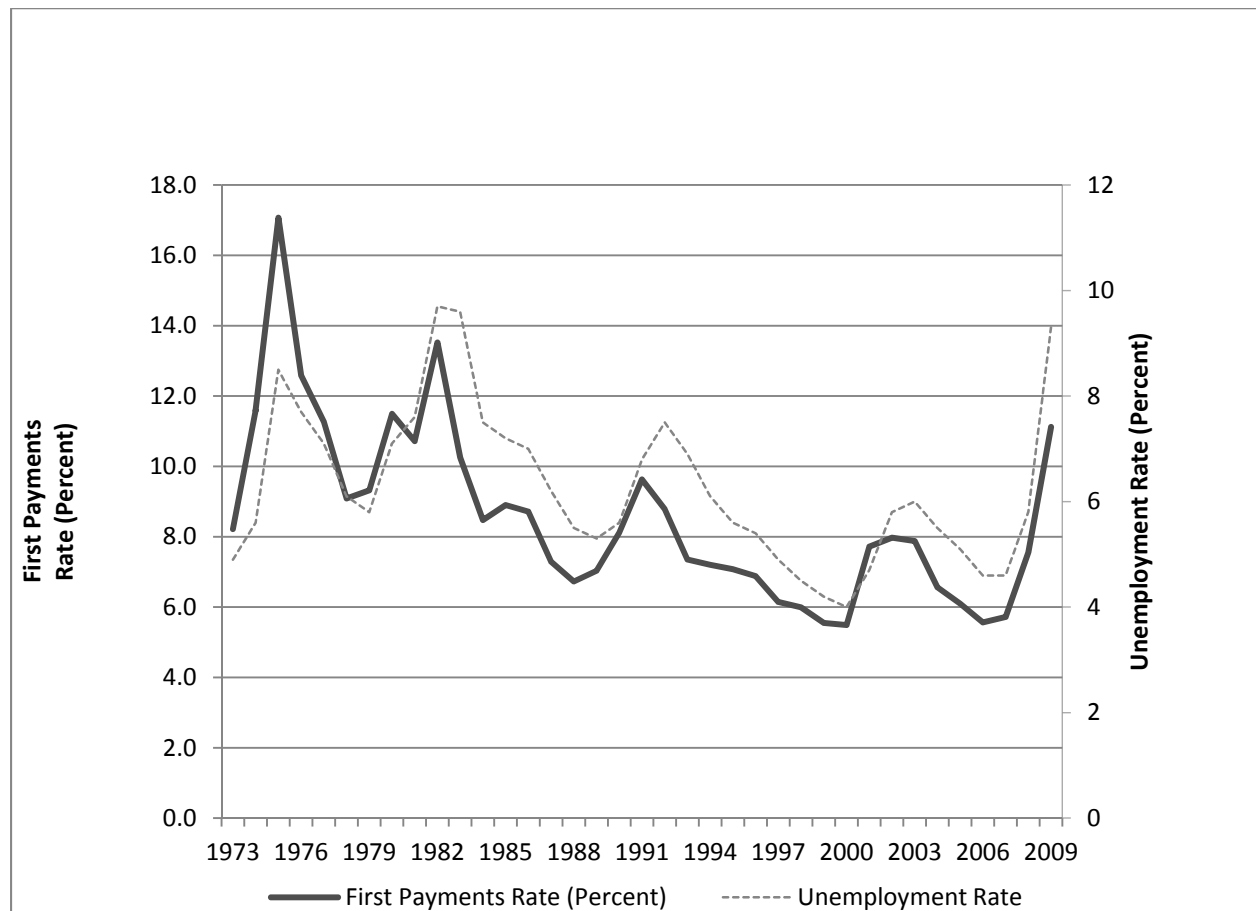


SOURCE: U.S. Department of Labor, Employment and Training Administration for the annual average duration of regular UI benefits and Bureau of Labor Statistics for the annual averages of the unemployment rate.

NOTE: The average duration of regular unemployment insurance receipt is the number of weeks of benefits compensated during a year divided by the number of first payments. The unemployment rate is based on household interviews conducted by the Census Bureau; it is an estimate of the number of people who are without jobs and are actively seeking and available to

work, expressed as a percentage of the labor force; they need not be receiving UI benefits to be counted as unemployed.

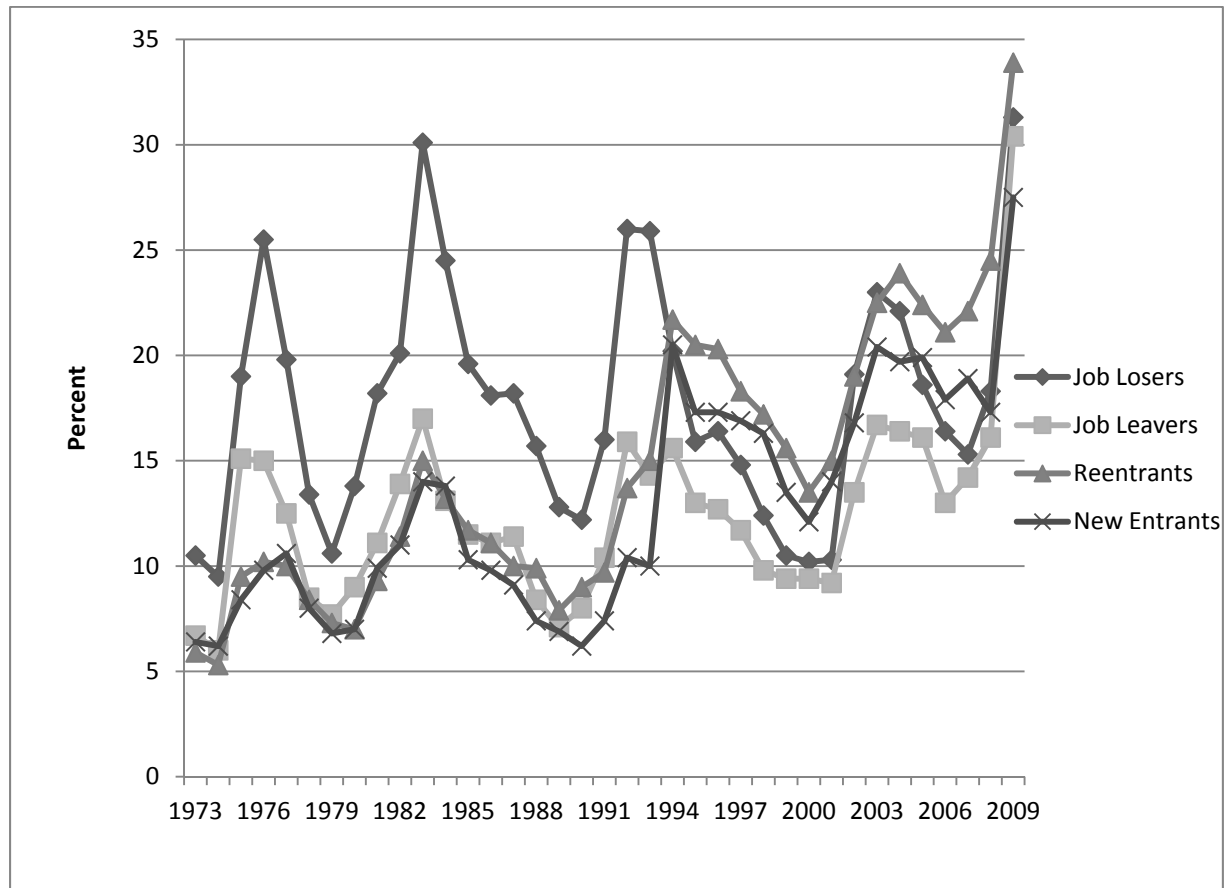
Figure 3. First Payments as a Percentage of Covered Employment, 1973 to 2009



SOURCE: U.S. Department of Labor, Employment and Training Administration for the first payments rate and Bureau of Labor Statistics for the annual averages of the unemployment rate.

NOTE: The first payment rate is the number individuals receiving an initial regular UI payment during a year, expressed as a percentage of employment covered by the program. The unemployment rate is based on household interviews conducted by the Census Bureau; it is an estimate of the number of people who are without jobs and are actively seeking and available to work, expressed as a percentage of the labor force; they need not be receiving UI benefits to be counted as unemployed.

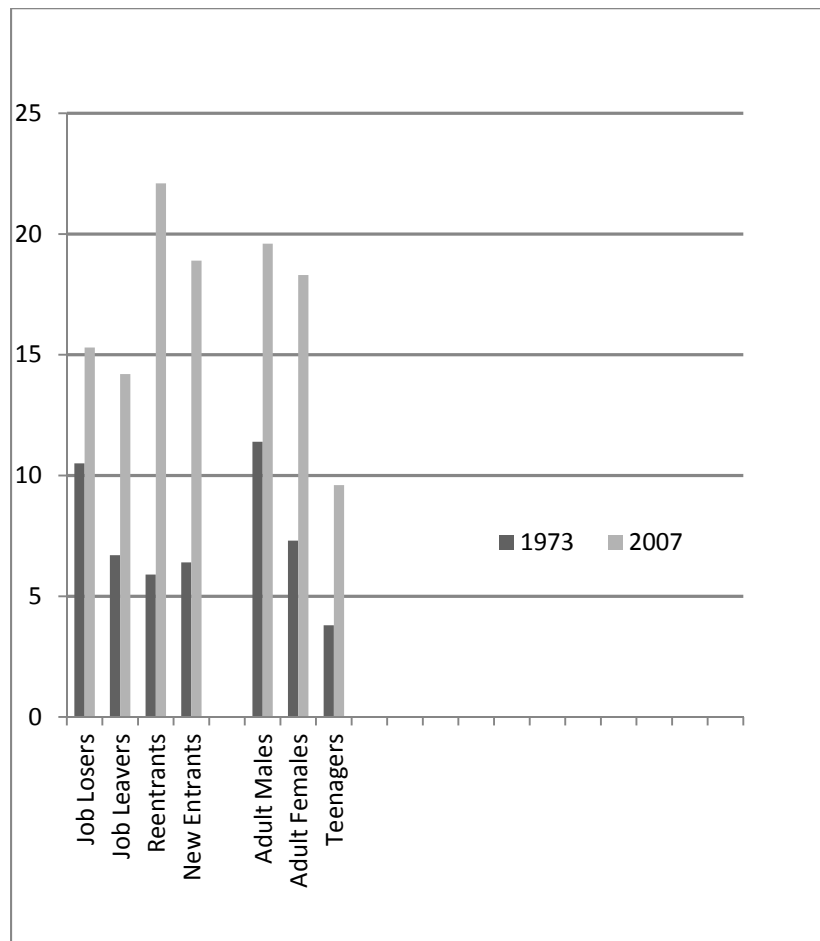
Figure 4. Long-Term Unemployment as a Percentage of Unemployment, By Reason, 1973 to 2009



SOURCE: Bureau of Labor Statistics.

NOTE: The long-term unemployment rate for a group is an estimate of the percentage of that group's unemployed individuals who were unemployed 27 weeks or more, based on annual averages of responses to the Current Population Survey. In this figure, unemployed individuals are categorized by the reason why they said they were unemployed.

Figure 5. Long-Term Unemployment Rate, By Reason, Sex, and Age, 1973 and 2007

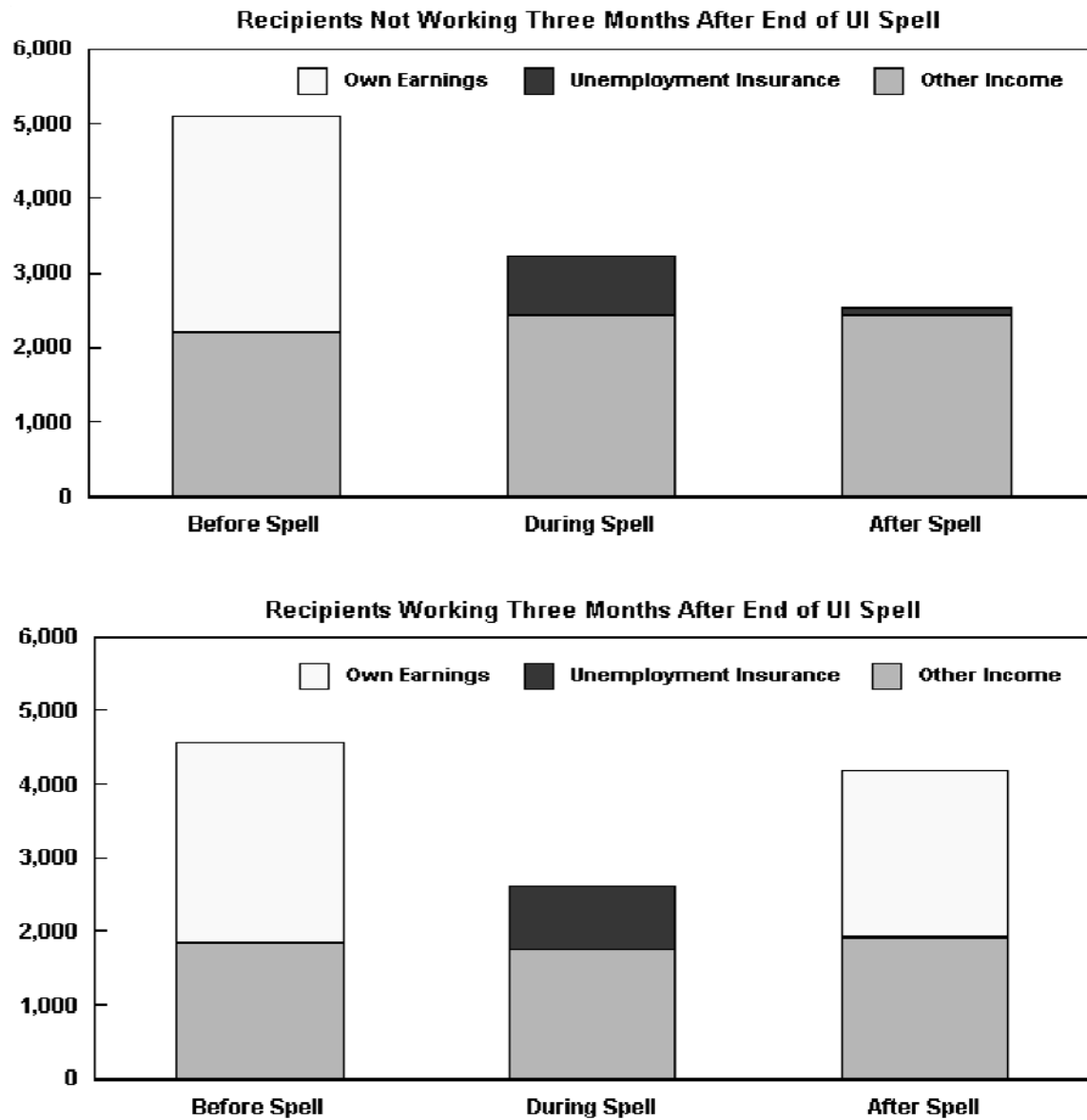


SOURCE: Bureau of Labor Statistics.

NOTE: Each column depicts the percentage of the group's unemployed individuals who were unemployed 27 weeks or more, based on annual averages of responses to the Current Population Survey.

Figure 6. Average Monthly Family Income of Long-Term UI Recipients, by Subsequent Employment Status

(Dollars)



SOURCE: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation (CBO 2004, p. 4).

NOTE: Long-term recipients are defined as unemployed workers who received unemployment insurance benefits for a spell of at least four consecutive months in 2001 or early 2002. "Before spell" refers to three months before the spell began, "during spell" refers to the second month of the spell, and "after spell" refers to three months after the spell ended. A small number of recipients reported that they were back in the UI program three months after their spell had ended.