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Ralph E. Smith

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Options for Addressing Long-Term Unemployment as the Economy Recovers

Ralph E. Smith
e-mail: RalphElySmith@gmail.com

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Abstract

The recent recession and its aftermath have once again demonstrated the importance of the unemployment insurance system as a vital part of the nation's safety net. But some facets of the program are in need of repair, including the high rate at which recipients run out of regular benefits, even in a strong labor market. Since the mid-1970s, the exhaustion rate has increased by three to four percentage points per decade, after adjusting for cyclical variation and temporary benefit extensions. This brief, drawing on an extensive review of research on the secular rise in UI exhaustions and programs designed to reduce long-term unemployment, considers what federal and state policymakers could do to more effectively address this problem.

The challenge to policymakers is to devise efficient ways of helping UI recipients become reemployed rapidly and, if necessary, supporting them while they search for new jobs. The author concludes that the Worker Profiling and Reemployment Services program already in place provides a good framework for helping to ensure that UI benefits go to workers who comply with the rules and that claimants who need reemployment assistance can get it, but these programs are badly in need of strengthening. In particular, too few of the claimants likely to exhaust are being referred to employment-related services, especially intensive services such as retraining.

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

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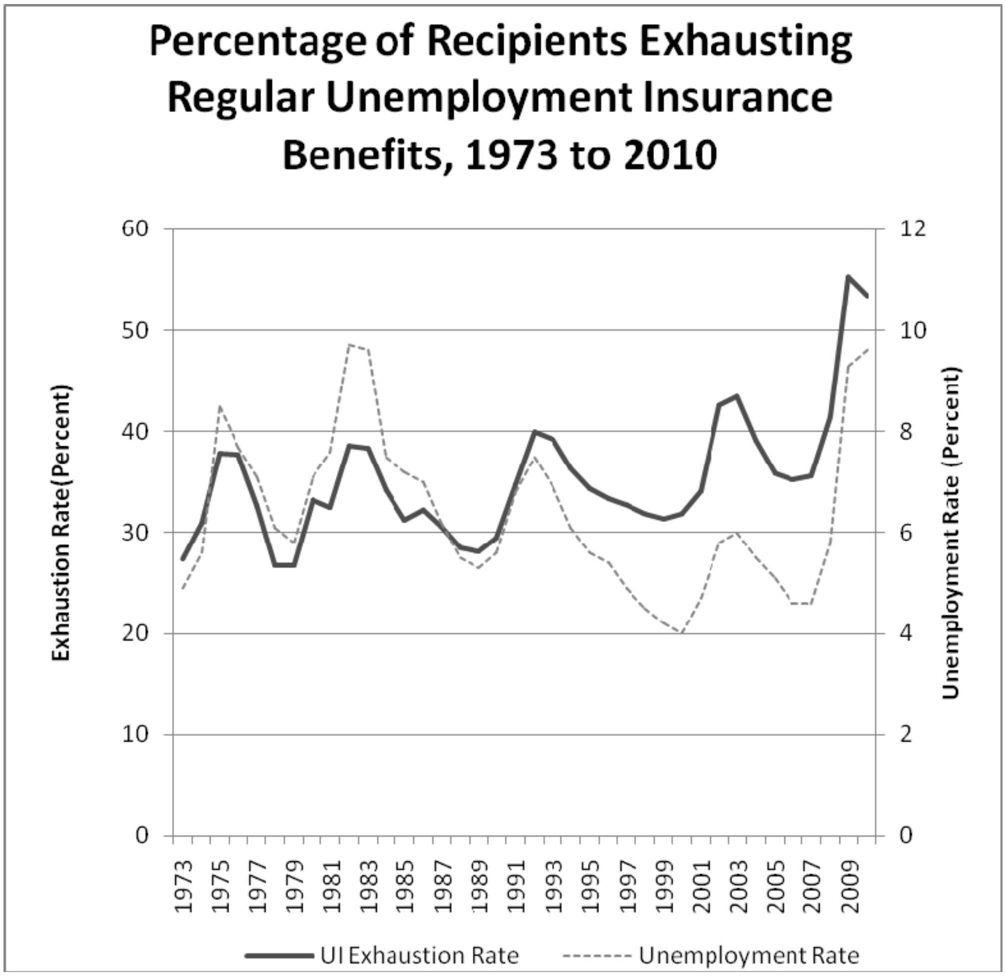
Analysts commonly use the UI exhaustion rate—the percentage of U.S. workers who exhaust their regular state Unemployment Insurance (UI) benefits before finding a job—as one gauge of the adequacy of the UI program. A higher exhaustion rate may suggest that workers need additional assistance during a jobless spell, such as added income support or reemployment services.

As Figure 1 shows, even before the Great Recession, the UI exhaustion rate was trending upward. During periods of low unemployment in the 1970s, about one in four UI recipients exhausted their entitlements to regular benefits (see the solid line). By 2005–2007, the exhaustion rate had risen to more than one in three. The current UI exhaustion rate is over 50 percent—extraordinarily high by historical standards and a result largely of the severity of the recent recession—but even if the nation's unemployment rate dropped to 5 percent, about 4 in 10 UI recipients would exhaust their benefits before finding a job. Lengthy spells of unemployment and UI benefit exhaustion have become a long-term problem.

What could be done to shorten the length of time that recipients collect UI benefits and thereby reduce the exhaustion rate? A review of research on the rise in the UI exhaustion rate and programs designed to reduce long-term unemployment can offer substantial insight into these questions. This brief, based on Smith (2011), begins with a review of the UI program and the problems UI was designed to address. The brief then turns to a discussion of evidence on three strategies for reducing the duration of insured unemployment—job search assistance, financial incentives for reemployment, and training programs. The evidence suggests that, although all three of these strategies have promise, substantial reduction of the duration of insured unemployment will be difficult because it would require the commitment of far more resources than are likely in the current political climate**.**



The Challenge

The regular UI program was not designed to address the problem of permanent job separations. It was created as part of the Social Security Act of 1935 to provide *temporary* income support and help stabilize the overall level of economic activity by providing weekly cash benefits to jobless workers. With the end of emergency benefit extensions under the Emergency Unemployment Compensation (EUC-08) program in 2012, most UI recipients will be eligible for no more than

26 weeks of benefits.

Many UI recipients who will not be returning to their previous employers will need additional benefits or reemployment services to help them find new jobs. Once their UI benefits end, many of those who have not found new jobs will see their incomes fall below the poverty line; a Congressional Budget Office study (2004) estimated that more than one-third of long-term UI recipients in 2000 and early in 2001 who had not returned to work three months after their UI benefits ended had a family income below the poverty line. Moreover, the losses incurred by workers who have long-term unemployment spells often do not end when they finally return to work: Many earn less in their new jobs than in their old jobs and may never return to their previous earnings path. For example, Couch and Placzek (2010) estimate that reemployed former UI recipients in Connecticut had an average earnings loss of 32 percent six years after separation.

It is unlikely that resources for added UI benefits, reemployment services, or training will become available in the near future. The federal budget and the budgets of many states are currently in serious deficit. Long-term spells of unemployment, in fact, add to the budgetary pressure. Each week that a worker remains idle when employers have job openings unfilled translates into lost output and, therefore, less tax revenue. The costs to the UI system itself are substantial. Even if the nation's unemployment rate falls to about 5 percent in 2016, roughly 9 million workers would receive about $50 billion in regular UI benefits. If their average time receiving UI could be reduced by even one week, about $3 billion would be saved.

The challenge, then, is to devise efficient ways to help UI recipients become reemployed rapidly and, if necessary, support them while they prepare for and find new jobs. Research and evaluation studies suggest a number of actions that states and the federal government could take that would help. States will continue to have the major responsibility for operating UI and programs that provide reemployment services. But the federal government can provide the states with financial assistance, conduct the research and evaluations necessary to identify best practices, disseminate that information, and provide them with technical assistance.

Options

Options for reducing long-term unemployment and exhaustions, once the labor market has recovered, fall into three categories:

1) help the UI recipients navigate the job market and assure that they comply with the program's job search requirements,
2) increase the payoff to recipients for taking a new job sooner, and
3) make recipients more attractive to potential employers.

Smith (2011) reviews what has been learned about the efficacy of a wide range of options that have been implemented, or at least tested, within these categories. The remainder of this brief presents key findings from that review.

Strengthen Job Search Requirements and Increase Job Search Assistance

Throughout the UI program's history, policymakers have had to cope with the inherent trade-off between providing adequate benefits to workers who lost their jobs and encouraging (or not discouraging) workers to find new jobs if their previous employers will not be recalling them. 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. Most states require claimants to register for work with a public employment office to demonstrate their availability.

Historically, enforcing job search requirements and providing job search assistance went hand in hand because the Employment Service administered the work test and provided UI recipients, as well as other job-seekers, information about job openings, career guidance, referrals, and other assistance. Increased use of telephone and the internet to make UI claims has made it harder to connect recipients to reemployment services. In addition, substantial reductions in funding levels for the Employment Service have made it more difficult to provide these services.

The Worker Profiling and Reemployment Services (WPRS) program, passed in 1993, requires all states to identify UI claimants who are likely to exhaust their entitlements to regular benefits and to refer them to reemployment services. Claimants who do not participate can be denied UI benefits, but in recent years only about 15 percent of profiled claimants were referred to any services due to budget constraints. Most who received services went through orientation and assessment but not the more costly training programs.

A multistate evaluation of WPRS by Dickinson et al. (1999) soon after it was implemented found wide variation across states in the amount of services provided to recipients and evidence that the states that provided the most services had the largest estimated impacts. The study had reliable data on six states and found that the WPRS program reduced the average duration of UI receipt by between 0.2 and 1.0 week in five states, and significantly reduced exhaustion rates in three.

The WPRS program could be effective either because it enforced the UI work search requirement or because job assistance programs give workers job search skills. An analysis of Kentucky’s WPRS program by Black et al. (2003) estimates that the program reduced the average duration by about two weeks; based on the timing of the recipients’ withdrawal from the UI program, they conclude that the effect was largely due to the recipients opting to exit UI rather than comply with the requirements. However, the Kentucky program provided quite modest services: Three-quarters of the participants who attended a mandatory orientation were referred to activities that typically lasted only four to six hours. Whether more intensive services in Kentucky would have had an impact beyond the initial deterrent effect is not known. Findings from another evaluation, Jacobson and Petta (2000), as well as other evaluations of reemployment services, suggest that reemployment services themselves may be effective.

The evidence suggests that increased funding for profiling and reemployment services would make sense for either of two reasons. First, additional resources may help UI claimants find a good job match. Even when jobs become more plentiful, many permanently separated workers benefit from help in marketing themselves, getting a realistic appraisal of the kinds of jobs available to them, and knowing where to go for additional training. Particularly for job seekers who do not have good informal networks, reemployment services provided by public agencies could reduce the time it takes to find a job. Second, requiring recipients to participate in activities like job-search workshops may reduce the duration of UI receipt because some workers find it more attractive to find a new job rather than attend reemployment services. In effect, assigning workers to job search assistance may amount to enforcing the work search requirement, and thereby end UI receipt for workers who are not actively seeking work.

Increase the Financial Payoff for Taking a New Job Sooner

Another way of inducing permanent job losers to take a new job sooner is by increasing the financial incentive to do so. Two methods have received much attention: reemployment bonuses and wage insurance. Both methods are based on the premise that some recipients could go back to work sooner, but they view the net return to intensifying their job search or accepting a job offer as too small.

Reemployment bonuses were tested in experiments conducted in the 1980s in which UI recipients were offered a bonus for finding a new job within a specified period and holding that job for at least 3 months. The bonuses ranged from roughly 3 to 10 times the average weekly UI benefit amount, and a recipient needed to become reemployed within 3 to 13 weeks to qualify for a bonus. Researchers found that such bonuses did result in shorter durations of UI receipt, but not necessarily enough to offset the cost of the bonuses (Robins 2001). 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.

The second approach is based on the premise that many displaced workers earn less in their subsequent jobs than before displacement and that this wage loss inhibits reemployment. For a limited period of time, wage insurance makes up part of the difference between the wage a worker earns in a new job and the wage earned in the old job. Unlike a bonus, wage insurance would only go to workers who incurred a wage loss. In that way, wage insurance would compensate displaced workers for part of the financial loss they incur. 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. Also, because it only provides a benefit to workers who incur a reduction in their wages, workers losing low-paying jobs are less likely to qualify.

Wage insurance has been suggested for many years but has been implemented only on a very limited basis. Since 2002, wage insurance has been offered to workers age 50 or older who are certified as eligible for Trade Adjustment Assistance benefits. If those workers accept new jobs paying less than those they lost, the federal government will pay them half 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 as much as $12,000. Earnings in the new job cannot exceed $55,000 per year, and the worker must be employed on a full-time basis unless enrolled in an approved training program. However, few people have taken the subsidy. Topoleski (2010) reports that in fiscal year 2009, about 7,000 workers received a total of $19 million from this program.

Little information is available to gauge the effectiveness of wage insurance. A version of wage insurance was tested in five cities in Canada in the mid-1990s. In that experiment, UI claimants who found new lower-paying jobs 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) find that the supplement appeared to have little impact on how quickly participants found new jobs. The major effect was to partially compensate workers for the wage losses they incurred.

Increase Employability

Many 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. For many years, the federal government has funded education and training 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 and educational assistance through Pell grants and subsidized loans. A large 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.

Evidence suggests that similar gains can be achieved for workers who lose their jobs and return to school, but the gains depend on the courses taken. Jacobson, LaLonde, and Sullivan (2005) estimate that displaced workers in Washington State who enrolled in community colleges in the 1990s achieved significant gains in employment and earnings, on average, as a result of their education. They estimate 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. Virtually all of these average gains came from the workers who had taken quantitative or more technically oriented vocational courses. Those whose coursework was in the humanities, social sciences, and other less technical fields had no significant gains in earnings.

Compared with reemployment services, retraining is generally much more costly and involves a greater commitment by the participants. Two recent evaluations indicate that WIA reemployment services increase the employment and earnings of workers who lost their jobs, but the evaluations offer conflicting findings about the effectiveness of the retraining component of WIA. The 12-state study by Heinrich et al. (2009) estimates that WIA services overall increased the earnings of participants, but the retraining component of WIA by itself did not produce substantial benefits. In contrast, an earlier seven-state evaluation by Hollenbeck et al. (2005) estimate that participants who received retraining had significant earnings gains that persisted for at least two years after leaving the program.

The results from these evaluations suggest that selective use of subsidies for postsecondary education and retraining could better prepare some long-term UI recipients for new careers. But care needs to be taken to increase the chances that the courses chosen are appropriate for the participants' interests and abilities and that they are likely to lead to reemployment.

Concluding Comments

The return to a strong labor market may be several years away, but it is not too soon to begin framing the policies that could moderate the upward trend in UI exhaustions. As the labor market recovers, exhaustions will fall from their recent record-setting levels, but long spells of unemployment are likely to continue to be a problem for many jobseekers and the UI system. Once EUC-08 is phased out, UI recipients in most states will again be eligible for at most 26 weeks of benefits, and many will exhaust benefits before they have found jobs. State and federal policymakers would be well advised to begin preparing for this problem.

An extensive body of research has been undertaken that points the way to policies and programs that could help. In particular, the evaluation literature indicates that strengthening job search requirements and increasing job search assistance can reduce the duration of unemployment compensated by the UI system. The Worker Profiling and Reemployment Services program provides a good framework for these activities, but too few of the UI claimants likely to exhaust are being referred to employment-related services, especially intensive services such as retraining. Increased funding for profiling and services would help ensure that UI recipients do not abuse the system by failing to actively seek work and that workers who could benefit from reemployment services receive them.

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