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[Unemployment Insurance: The Path Back to Work]: Testimony before the Senate Finance Committee

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Chairman Baucus, Ranking Member Hatch, and other distinguished members of the Committee, I am Stephen Wandner, a labor economist with the Urban Institute and a visiting scholar at the W.E. Upjohn Institute for Employment Research. Thank you for inviting me to testify about reemployment services. Returning Americans to work is essential to our nation's economic health, and reemployment services are important tools to accomplish that goal. Many rigorous and impartial studies have shown that the four reemployment services that I will consider have helped return unemployment insurance (UI) recipients back to productive work.

Over the past 25 years a great deal has been learned about how reemployment services help the jobless get back to work. Researchers have used rigorous evaluation methods to assess what works, and what does not. During my 36-year career at the U.S. Department of Labor, I directed much of this research. I was fortunate to have initiated and to have overseen a series of third-party social science experiments under the leadership of Secretaries from Bill Brock to Robert Reich. These experiments demonstrated the effectiveness of low-cost reemployment services for dislocated workers. I also worked on the policy and legislative development of several reemployment services initiatives, as well as on the implementation and evaluation of three reemployment programs that were enacted into federal law. Further, during several past recessions, I worked on unemployment insurance research, policy, and actuarial services, supporting the design, implementation, and evaluation of extended benefit programs.

Evaluations of these Labor Department reemployment experiments concluded that at least three reemployment approaches are effective and efficient: job search assistance (JSA), self-employment assistance (SEA), and reemployment bonuses. In addition, short-time compensation (STC), which is also known as work sharing, has been shown to be effective based on program evaluations during decades of program operation in the U.S. and in over a dozen other industrial nations.

In my testimony below, I summarize what we have learned about these reemployment services, based on my recent book, *Solving the Reemployment Puzzle: From Research to Policy* (2010). I am honored that the Princeton University Industrial Relations Section awarded the book the 2010 Richard A. Lester Prize for the Outstanding Book in Labor Economics and Industrial Relations.

The purpose of my testimony is to recommend specific policy options that can be used to help put Americans back to work, without incurring substantial additional cost to the federal budget. I will briefly review provisions in the proposed American Jobs Act of 2011 that relate to three of these reemployment services options and then will offer several policy recommendations for your consideration.[1]

Finding a Cost Effective Solution

The U.S. Department of Labor's reemployment experiments tested the effectiveness of ways to help dislocated workers back to work. The reemployment approaches tested included: training, relocation assistance, job search assistance, self-employment assistance and reemployment bonuses. These policy options were assessed with respect to their cost effectiveness. The most cost effective approaches were job search assistance, self-employment assistance, and reemployment bonuses. Separate evaluations of work sharing in the U.S. and in other nations also showed that this approach is cost effective.

The findings regarding these reemployment approaches are unusual in that they tend to have a positive effect on the government sector. That is, from a benefit-cost perspective, these approaches result in net benefits to the government sector. This means that the cost of the intervention is less than the benefits that result, reducing UI benefit payments while increasing government revenues because participants pay more taxes when they return to work. Thus, while these interventions require initial budgetary outlays, these outlays tend to be fully offset by reduced costs of other government services and by increased tax revenues.

As a result, I recommend an increase in the use of the most cost effective reemployment services – job search assistance, self-employment assistance and short-time compensation – as well the introduction of reemployment bonuses as a new incentive to encourage rapid return to work. Let's look at each of these reemployment approaches.

Comprehensive Job Search Assistance

What It Is

Permanently displaced workers often have been employed for a long time, so they may be unfamiliar with how to effectively search for work. Research has shown that comprehensive, in-person job search assistance (JSA) hastens their return to work. The key components of JSA are assessment, counseling, job matching and referral to job openings, job development, provision of labor market information, and job search workshops. Job search workshops are effective if they help workers develop resumes, search for work using formal and informal search methods, and practice how to effectively participate in job interviews.

Job search assistance is an employment service that trains workers, providing them with the skills to seek and obtain jobs. One researcher has found that JSA is the most effective form of

[1] Since I have restricted by testimony to reemployment services and incentives that have been rigorously evaluated, I do not review the Bridge to Work or Wage Insurance provisions in the American Jobs Act bill because they lack such evaluations.

short-term training.[2]

Research Findings

Initially, comprehensive federal JSA policy and legislation was based on the evaluation of a large-scale New Jersey dislocated worker experiment, which used a control group and treatment group methodology. The evaluation found that offering JSA to dislocated workers helped them return to work more quickly and reduced the time they collected UI benefits. The cost to the government of providing the JSA was more than offset by the reduction in UI payments and the increase in tax payments during the period of early reemployment. JSA participants were also less likely to become unemployed in the year after they received these services.[3]

These findings were supported by later Department of Labor-funded job search assistance experiments in Florida and the District of Columbia[4] and by state experiments conducted in Minnesota and Nevada. The body of completed research reviewed by the Department of Labor's Chief Economist in the publication *What's Working (and what's not)* convinced researchers and policy makers that a new national job search assistance program – what came to be Worker Profiling and Reemployment Services (WPRS) – made abundant sense and was a cost effective intervention.[5]

An important component of the WPRS program was its early intervention approach. Unemployed workers would receive comprehensive job search assistance in the first few weeks of their unemployment. Since the targeted workers were found to be likely to exhaust their entitlement to UI benefits, providing job search assistance services early reduced the compensated unemployment of these workers, making JSA cost effective to the government sector.

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[2] Robert LaLonde. 1995. "The Promise of Public Sector-Sponsored Training Programs." *Journal of Economic Perspectives*, vol.9 no. 2, pp.149-168.

[3] Walter Corson, Paul T. Decker, Shari Miller Dunstan, and Anne R. Gordon. 1989. *The New Jersey Unemployment Insurance Reemployment Demonstration Project: Final Report*. Unemployment Insurance Occasional Paper 89-3. Washington, DC: U.S. Department of Labor, Employment and Training Administration.

[4] Paul T. Decker, Robert B. Olsen, Lance Freeman, and Daniel Klepinger. 2000. *Assisting Unemployment Insurance Claimants: The Long-Term Impacts of the Job Search Assistance Demonstration*. Office of Workforce Security Occasional Paper 2000-02. Washington, DC: U.S. Department of Labor, Employment and Training Administration.

[5] U.S. Department of Labor. 1995. *What's Working (and what's not): A Summary of Research on the Economic Impacts of Employment and Training Programs*. Washington, DC: U.S. Department of Labor, Office of the Chief Economist. International studies of job search assistance have also found that it is the most cost effective reemployment service: John Martin, and David Grubb. 2001. "What Works and for Whom: A Review of OECD Countries' Experience with Active Labour Market Policies." *Swedish Economic Policy Review* (9) 9-56. Peter Auer, Umit Efendioglu, and Janine Lesche. 2005. *Active Labour Market Policies Around the World: Coping with the Consequences of Globalism*. Geneva: International Labor Office.

Another key component of the Worker Profiling and Reemployment Services system was its narrow targeting to a specific group of dislocated workers – to those likely to exhaust their unemployment insurance benefits. Worker Profiling became an allocation and targeting device to direct reemployment services to those unemployed workers who could make most effective use of the limited funding that was available.

Bruce Meyer[6] and other economists have recommended extending the use of comprehensive job search assistance to a broader group of workers, rather than targeting the smaller group most likely to exhaust their UI entitlement. Even under expanded use of JSA, however, targeting should be employed as an allocation tool, because funding for job search assistance and other reemployment services will likely remain limited.

History/Current Status

Today some UI recipients are eligible to participate in a program of comprehensive JSA, subject to the availability of funding. The Wagner-Peyser Act programs offer job search assistance provided by employment service staff members who specialize in providing these services. The Worker Profiling and Reemployment Services system was designed to expand this effort and target JSA to those workers who can most effectively use these services. WPRS has been a part of federal UI law since 1993. All states must participate in the WPRS system, and all states have been operating state WPRS programs since mid-1996.

Separate federal funding of the reemployment services component of Worker Profiling and Reemployment Services was not appropriated when the program was enacted. Congress appropriated approximately $35 million per year as Reemployment Services Grants to the states in the form of separate Wagner-Peyser Act grants beginning in July 2001. These grants were terminated in June 2006. Given their track record of effectiveness, the American Recovery and Reinvestment Act reestablished one-time funding of Reemployment Services Grants in amount of $250 million. This funding commenced in early 2009 but has now expired.

Policy Recommendations

The American Jobs Act of 2011 would provide funding to the state workforce agencies to provide reemployment services and reemployment eligibility assessments to all Emergency Unemployment Compensation (EUC) recipients during the one-year period of the extension of the EUC program. States would be required to participate in JSA programs as a condition of receiving EUC funding. States workforce agencies would receive $200 for each worker to whom they provide these JSA services. Thus, JSA would greatly increase, and it would be fully funded by the federal government.

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[6] Bruce Meyer. 1995. "Lessons Learned from the U.S. Unemployment Insurance Experiments." *Journal of Economic Literature* (March) vol. 33, pp. 91-131.

I believe that the AJA bill is an excellent start. It could be improved, however, by including job matching, job referral, and job development among its list of required JSA services. Even during this time of very high unemployment, the federal funding of JSA grants could make an important contribution to returning the unemployed to work.

By the end of 2012, the U.S. is still likely to be experiencing high levels of unemployment. Funding for comprehensive JSA, thus, should be continued beyond 2012, and it should be made available to all UI recipients from their first week of receipt of unemployment insurance, not just after they have been unemployed for a long period of time. Federal funding through the regular Wagner-Peyser Act appropriation could be cost effectively used by the state workforce agencies at the level of approximately $300 million per year.[7]

Short-Time Compensation/Work Sharing

What It Is

The work sharing program, also known as short-time compensation (STC), provides an alternative approach for employers who face a decline in demand for their products. It enables them to reduce the work week for a larger group of workers instead of sacking a smaller number of workers. For example, as an alternative to laying off 10 workers in a company with 50 employees, an employer can make an equivalent reduction in work hours by reducing the work week of all employees by one day. In states with work sharing programs, workers participating in the program receive a pro rata share of the UI weekly benefits they would have received if they had become fully unemployed.

Employers submit work sharing plans to state UI agencies, and workers must agree to participate in the program. Under work sharing, no one loses his or her job, and if demand for the firm's goods or services increase, all workers return to full-time work. Employers retain their skilled workers, and they do not incur the costs of hiring and training new workers.

Research Findings

California was the first state to enact a work sharing program, and it conducted an early evaluation of its own program.[8] The U.S. Department of Labor has conducted two national

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[7] Stephen A. Wandner. 2010. *Solving the Reemployment Puzzle: From Research to Policy*. Kalamazoo MI: W.E. Upjohn Institute for Employment Research, p. 236.

[8] Employment Development Department. 1982. *California Shared Work Unemployment Insurance Evaluation*. Sacramento: State of California, Employment Development Department.

evaluations of the work sharing program, one in the 1980s and another in the 1990s.[9]

Other industrial countries have evaluated their work sharing programs, analyzing program operation as well as effectiveness and efficiency. For example, Canada has conducted several evaluations[10] as has Germany,[11] and other European countries.[12] While none of these studies has been as rigorous as the experimental evaluations of other reemployment services, a consensus has developed among researchers and policy analysts that work sharing helps prevents unemployment and does so at a modest cost, since in the absence of the program an equivalent expenditure would be made to pay UI benefits to workers who become totally unemployed.

History/Current Status

Work sharing has a long history in the industrial nations of the world. The program began in Germany in the 1920s. After World War II, it spread to over a dozen industrial nations including the United States. California was the first state to enact work sharing in 1978, and the program gradually expanded to other states. Temporary federal legislation permitting state work sharing programs was enacted in 1982. Permanent federal legislation was enacted in 1992, making work sharing an optional program that all states can adopt as part of their state UI laws. Before the Great Recession (2007-9) there were 17 states with work sharing programs. The adoption of six programs during the past two years has brought the number of work sharing programs to 23 today. [13]

There has been interest in increasing the use of the work sharing in the U.S. partly because of a growing awareness of the positive economic impact of the program in Europe, especially of the German program. Many policy analysts have come to believe that work sharing played a critical

[9] Stuart Kerachsky, Walter Nicholson, Edward Cavin, and Alan Hershey. 1986. *An Evaluation of Short-Time Compensation Programs*. Unemployment Insurance Occasional Paper 86-4. Washington, DC: U.S. Department of Labor, Employment and Training Administration. Stephen Walsh, Rebecca London, Deana McCanne, Karen Needels, Walter Nicholson, and Stuart Kerachsky. 1997. *Evaluation of Short-Time Compensation Programs: Final Report*. UI Occasional Paper 97-3. Washington DC: U.S. Department of Labor, Employment and Training Administration.

[10] For example, Ekos Research Associates. 1993. *Work Sharing Evaluation: Technical Report*. Ottawa: Employment and Immigration Canada. Human Resources and Skills Development Canada (HRSDC). 2005. *Summative Evaluation of Work Sharing While Learning and Increased Referrals to Training*. Ottawa: HRSDC, Strategic Policy and Planning Branch.

[11] Andreas Crimmann, Frank Wiessner, and Lutz Bell. 2010. *The German Work-Sharing Scheme: An Instrument for Crisis*. Conditions of Work and Employment Series No. 25. Geneva: International Labour Organization.

[12] Wayne Vroman and Vera Brusentsov. 2009. *Short-Time Compensation as a Policy to Stabilize Employment*. Washington DC: The Urban Institute.

[13] Arizona, Arkansas, California, Colorado, Connecticut, District of Columbia, Florida, Iowa, Kansas, Maine, Maryland, Massachusetts, Minnesota, Missouri, New Hampshire, New York, Oklahoma, Oregon, Pennsylvania, Rhode Island, Texas, Vermont, and Washington.

role in reducing the increase in unemployment in Germany compared to the U.S. during the Great Recession. Support for a new work sharing proposal has been widespread and bipartisan. Some of the advocates for the program have included Dean Baker, Co-Director of the Center for Economic and Policy Research, Kevin Hassett, Director of Economic Policy Studies at the American Enterprise Institute, and Mark Zandi, Chief Economist of Moody's Analytics.

Policy Recommendations

In response to the Great Recession, Senator Jack Reed (D-RI) proposed expanded work sharing legislation in 2009. The Obama Administration proposed a similar work sharing bill as part of its FY 2012 budget request. On July 6, 2011, Senator Reed again re-introduced a work sharing bill – the Layoff Prevention Act of 2011as S. 1333, and Rep. Rosa DeLauro (D-CT) sponsored the same bill as H.R. 2421.

The American Jobs Act (AJA) bill proposes work sharing provisions that would do two things. First, as in the Congressional and FY 2012 budget proposals, the AJA temporary work sharing provisions would provide federal funds for work sharing benefits during the current period of high unemployment. The temporary work sharing provisions of the AJA have separate components, one for states with existing permanent work sharing programs and another for states which adopt temporary programs after AJA enactment. For all participating states, STC would be paid from the state UI trust fund accounts with partial or complete reimbursement from federal general revenues.

Second, the AJA bill would enact a technical amendment that is needed to improve federal administration and oversight of the permanent work sharing program. The technical amendment is a provision that the U.S. Department of Labor determined was necessary to allow full federal oversight of the permanent federal STC program that was enacted in 1992. The amendment enumerates the STC requirements for all state STC programs and – crucially – gives the Secretary of Labor explicit authority to develop additional rules as circumstances warrant.[14]

Under the temporary AJA program, the 23 states with permanent STC programs would receive 100 percent reimbursement for all STC costs incurred for up to three years. Permanent state STC laws would govern the STC program during this period, including the employer state experience rating provisions. However, states would be reimbursed for no more than 26 weeks of STC payments for individual participants, although some STC states currently pay benefits for up to one year.

Under the AJA bill states without STC laws could temporarily participate in STC. To participate they would have to submit state STC plans to the U.S. Department of Labor. Under each employer's STC plan, workers could receive up to 26 weeks of STC payments. Participating

[14] The technical issue relating to the 1992 STC federal legislation is discussed in David Balducchi and Stephen A. Wandner. 2008. "Work Sharing Policy: Power Sharing and Stalemate in American Federalism." *Publius: The Journal of the Federalism* Vol. 38, No. 1, pp. 111-136.

employers must pay 50 percent of the STC payments to the state UI trust fund accounts – in lieu of making experience-rated contributions. States would be reimbursed for 50 percent of those STC payments. Under state agreements, states UI programs could participate in the program for up to two years.

States without STC programs could enact permanent STC programs during the period of their STC agreement with the Department of Labor. These states would have a substantial incentive to make their programs permanent. Upon implementation of a permanent STC program, a state would become subject to the provisions for states a with permanent STC law: 1) increasing the federal agreement period to three years, 2) increasing federal reimbursement to 100 percent, and 3) having employers pay for STC through the state experience rating system, rather than through 50 percent reimbursement to state UI trust fund accounts.

The work sharing provisions in the AJA bill provide incentives to states that could have a significant impact on reducing unemployment if the states responded with wide STC adoption and use.   Providing federal funding for STC is likely to be critical to the program's success because the state UI trust fund accounts are in great trouble, and reducing state UI costs through subsidized STC payments will encourage state adoption and use of STC. This approach would also somewhat ease the problem of state UI trust fund account insolvency.

Thus the AJA provisions would provide a long overdue solution to a technical problem in current federal law. This problem has had the effect of limiting the support that the Department of Labor has provided both to states with STC statutes and those without such statutes.

The temporary STC provisions would be an excellent start to expanding the scope of work sharing and encouraging states to make use of a program that can reduce unemployment over the next three years. In the future, however, Congress should consider the permanent adoption of a partial federal subsidy of work sharing, because work sharing – at little or no additional cost – yields a better policy outcome than full-time unemployment. It might make sense to treat the program like the permanent federal-state extended benefit program where one half of the program's funding comes from the federal Extended Unemployment Compensation Account in Federal Unemployment Tax Act accounts. This change would encourage states to substitute work sharing for regular UI whenever appropriate.

<u>Self-Employment Assistance Program</u>

What It Is

Normally the UI program pays weekly benefits to unemployed workers who are actively searching for wage and salary employment. The Self-Employment Assistance (SEA) program alters the traditional UI approach by allowing UI-eligible unemployed workers to receive compensation while starting and establishing microenterprises – small businesses that usually consist only of a single owner-operator. UI recipients can receive self-employment allowances in lieu of UI, and they receive these allowances in the same amount and for the same duration as regular UI benefits. Since 1998, SEA has been a permanent program that is authorized by federal UI law. States have the option of establishing programs that provide workers who are likely to exhaust their UI benefits with self-employment allowances, as long as they commit to working full time to establish and operate their own microenterprises. They must participate in entrepreneurial counseling and training as a condition of SEA participation.

Research Findings

The U.S. Department of Labor conducted two self-employment allowance experiments in the 1980s. The first experiment was conducted in the state of Washington. It paid a self-employment allowance as a lump-sum payment after unemployed workers completed as series of five tasks to establish their own small businesses. The program was found to increase participation in self-employment and to raise the earnings of participants, but the cost of the lump-sum payments exceeded the benefits to the government sector.

By contrast, the design of the second experiment in the state of Massachusetts provided weekly payments, similar to the current self-employment assistance program. Evaluation results found that the program reduced participants' length of unemployment spells and increased their total time in employment. Participation also had a positive impact on participants' earnings. When placed in a benefit-cost framework, the Massachusetts experiment provided net benefits to participants, to society, and to the government sector. For the government sector, this meant that the cost of the program was exceeded by the benefits to the government, especially in the form of increased tax payments, since participants were found to earn a great deal more than non-participants. Thus, the program produced net benefits to the government sector, more that fully offsetting program costs. As a result, the design of the Massachusetts experiment was the basis of the SEA program that was enacted by Congress in late 1993.[15]

History/Current Status

In 1993, the SEA program was enacted on a temporary basis with solid preliminary empirical research from the interim evaluation report on the Massachusetts Self-Employment Assistance experiment.[16] At the time of enactment, however, the Massachusetts benefit-cost analysis was not completed. The final evaluation[17] provided strong research findings of cost effectiveness

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15 Stephen A. Wandner. 2010. *Solving the Reemployment Puzzle: From Research to Policy*. Kalamazoo MI: W.E. Upjohn Institute for Employment Research.

16 Jacob M. Benus, Michelle L. Wood, Chris J. Napierala, and Terry R. Johnson. 1991. *Massachusetts Unemployment Insurance Self-Employment Demonstration: Interim Report to Congress*. In Stephen A. Wandner, editor, *Self Employment Programs for Unemployed Workers*, 1992, 167-236.

17 Jacob M. Benus, Terry R. Johnson, Michelle Wood, Neelima Grover, and Theodore Shen. 1995. *Self-Employment Programs: A New Reemployment Strategy, Final Report on the UI Self-Employment Demonstration*. Unemployment Insurance Occasional Paper 95-4. Washington, DC: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service.

and was the basis for making the federal Self-Employment Assistance program permanent in 1998.

Self-Employment Assistance is a small but effective program in a small number of states. It is only operational in seven states.[18] While similar programs serve considerably more workers in other major industrial nations, it is not clear that the Self-Employment Assistance program could expand in the U.S. – at least in its present form. The program will remain small unless a reliable source of entrepreneurial counseling and training is provided to workers participating in the SEA program. States with SEA programs frequently have no steady source of funding for entrepreneurial counseling and training.

The Department of Labor currently oversees two entrepreneurship programs – the Self-Employment Assistance program and Workforce Investment Act entrepreneurial training. Historically only small numbers of workers have been interested in starting their own businesses – one to two percent of the unemployed workers who have been offered participation. The Department could more effectively help workers create their own jobs and, in some cases, jobs for other workers who would be hired by these new small firms. The WIA entrepreneurial training program remains miniscule because of its peculiar method of program performance assessment: the performance system searches for the owner-operators of the successful unincorporated microenterprises established by WIA trainees among those entering wage and salary employment in the UI wage records. However, since these workers are <u>not</u> in wage and salary employment, it is not surprising that they cannot be found there. As a result, all completers of entrepreneurial training appear to be unemployed and earning zero income, so state workforce agencies are discouraged from using this method of training. Entrepreneurial training should be assessed by conducting surveys or other methods to determine if trainees become self-employed and how much they earn in self-employment.

The Department of Labor should reallocate funding to WIA entrepreneurial training as well as create a partnership with the Small Business Administration (SBA) so that the Department's WIA and SEA programs can work together with the Small Business Development Centers – which provide entrepreneurial counseling and training – at the state and local level. WIA and SBA-financed training should be offered to participants in the Self-Employment Assistance program.

Policy Recommendations

In a letter of August 4, 2011 to Assistant Secretary of Employment and Training Jane Oates, Senators Ron Wyden and Jeffrey Merkley recommended that the Department of Labor make changes in the WIA performance measurement system such that states can report their SEA program outcomes using surveys or other alternative methods. Such a reporting change would greatly encourage states to make use of WIA entrepreneurial training and the SEA program.

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[18] Delaware, Maryland, Maine, New Jersey, New York, Oregon, and Pennsylvania.

Under the American Jobs Act bill, all states may participate in the SEA program during the period of the EUC extension, and SEA payments may be made from workers' EUC accounts during this one-year extension. State participation in the temporary SEA program would be voluntary, with each state able to establish such a program under the federal AJA provisions, while states with permanent state SEA provisions could participate under their own state rules. The program would provide eligibility for up to 26 weeks of SEA benefits during the period of EUC receipt. SEA benefits would be paid from a UI beneficiary's EUC account.

Participating workers could return to EUC if they had remaining EUC entitlement and if they leave self-employment and return to actively searching for wage and salary employment. Entrepreneurial training would be provided either by the state workforce agency or by the Small Business Administration, but participation in entrepreneurial training would not be required. Under section 327, states initiating SEA programs under section 314 would receive administrative funds to start up or improve their SEA program as part of their SEA plan approval. Program participation would be limited to one percent of regular UI program beneficiaries instead of 5 percent as contained in the permanent SEA legislation, but this restriction should not adversely affect the temporary program because of expected low participation rates.

Both the AJA self-employment assistance provisions and those of the Wyden bill would make a small but important contribution to reemployment in the U.S. SEA is particularly important because SEA participants create their own jobs at a time when many U.S. firms are not hiring.

However, the AJA and Wyden provisions would only be effective for one year. The provisions thus would be most likely to benefit the seven states with existing programs, as starting up a new SEA program would take some time. The Department of Labor could speed up this process by providing model legislation and technical assistance to the state workforce agencies.

Senator Wyden's proposed temporary SEA proposal would allow SEA to be paid in states both during an EUC period and, under certain conditions, an Extended Benefit (EB) period. Because of its broader availability, the Wyden bill is an improvement over the SEA provisions in the AJA bill. Under section 314 of AJA, individual SEA eligibility would be restricted to the EUC benefit period (rather than the period of both EUC and EB receipt) because the program is provided under federal legislation, while EB payments are provided under state UI legislation. The Wyden bill would extend SEA to the EB receipt period by making participation under EB optional for states. For states to be able to make SEA payments during an EB period, states would have to 1) have a permanent SEA program in their state UI law, 2) be able to interpret their EB program as permitting SEA payments, or 3) enact provisions that permit SEA participation during periods of EB receipt.

While a temporary SEA extension is highly desirable, changes to the permanent SEA program are needed as well. Two key changes to the programs are needed. The first is that the Workforce Investment Act program and the Small Business Development Centers should be charged with providing entrepreneurial counseling and training to SEA participants. The second is that – like in the work sharing program – states should be provided incentives to participate in the program. Again, consideration could be given to having state UI trust fund accounts pay for only half of the SEA, with the other half paid from the federal Extended Unemployment Compensation Account.

Reemployment Bonuses

What It Is

Reemployment bonuses are incentives for unemployed workers collecting UI benefits to speed their return to work. Economists and policy analysts recognized that unemployed workers, like employers and consumers and other participants in the economy, respond to economic incentives. They asked the question: what would happen if unemployed workers were provided a financial incentive to search for and return to work more quickly? Would they respond and would the jobs they find pay similar wages to the wages they would have received if they had searched for work more slowly?

These questions resulted in a series of four experiments that tested reemployment bonuses of different amounts and offered for different durations in an attempt to find the best and most cost effective reemployment bonus design. The design that proved most cost effective is a reemployment bonus equal to four times the UI beneficiary's weekly UI benefit payment (an average of approximately $1200) with the bonus paid for jobs found within 12 weeks and only after four months of employment.

Research Findings

The four reemployment bonus experiments were conducted in the 1980s and 1990s. The first experiment was conducted in the state of Illinois, and economists' interest in the program was stirred by an article on the Illinois findings published in the September 1987 *American Economic Review*.[19] Three additional reemployment bonus experiments were conducted in New Jersey, Pennsylvania and Washington. These subsequent experiments tested different designs of reemployment bonuses, and they all had thorough evaluations. The project evaluations found that the reemployment bonus offers reduced the duration of unemployment for participating workers. They also found that participating workers were better off than non-participants: they took jobs that were no worse than those of the non-participants; that is, participants went back to work sooner, but they did not accept lower wages in their new jobs.

Analysis of the two most policy relevant reemployment bonus experiments – Pennsylvania and Washington – showed that the most effective design is a bonus four times the worker's UI

[19] Stephen A. Woodbury and Robert G. Spiegelman. 1987. "Bonuses to Workers and Employers to Reduce Unemployment: Randomized Trials in Illinois." *American Economic Review* vol. 77, no. 4, pp. 513-530.

weekly benefit amount for jobs found within a 12-week bonus offer period, targeted to workers most likely to exhaust their entitlement to UI benefits.[20]

History/Current Status

While reemployment bonuses have not been enacted into federal law, they have been proposed by both the Bill Clinton and George W. Bush administrations. The Clinton proposal was part of the proposed Reemployment Act of 1994 that was designed to replace the Job Training Partnership Act. The Clinton reemployment bonus proposal followed the research findings and used the targeting mechanism that was already being used by the Worker Profiling and Reemployment Services system. It consisted of a low-value bonus equal to four times a worker's UI weekly benefit amount; today the average bonus would be about $1,200.

In 2003, reemployment bonuses were proposed again by the Bush Administration as a component of the Personal Reemployment Account initiative. The final design of the PRA was flawed, e.g., the reemployment bonus offers were much too large and paid out too early. This fact was confirmed by an evaluation of a Personal Reemployment Account PRA demonstration project.[21] Personal Reemployment Accounts were not enacted.

Stronger findings about targeting low-value bonuses only became available in 2005 when a simulation analysis using the Worker Profiling targeting mechanism was applied to the Washington state and Pennsylvania reemployment bonus experiment data. This analysis suggests that limited offers of reemployment bonuses to dislocated UI claimants could be a cost effective policy option.

Policy

Reemployment bonuses were not proposed as a reemployment tool in the proposed American Jobs Act bill. Given the research evidence, they should be considered for federal funding in a manner similar to the AJA provisions relating to the self-employment assistance program. States would be able to adopt reemployment bonus provisions as part of their EUC extension agreements with the U.S. Department of Labor. Unemployed workers who are eligible for at least 26 weeks of EUC would be offered a reemployment bonus. They would be offered, and could receive, a reemployment bonus equal to four times their UI weekly benefit amount, if they found employment within 12 weeks of the bonus offer and retain a job for at least four months.

Adopting reemployment bonuses during the extension of EUC would be a good opportunity to operationally test and evaluate the approach for a short period of time. If the program evaluation

[20] Christopher J. O'Leary, Paul T. Decker, and Stephen A. Wandner. 2005. "Cost-Effectiveness of Targeted Reemployment Bonuses." *Journal of Human Resources* (Winter) XL, 1:270-279.

[21] Gretchen Kirby, Margaret Sullivan, Elizabeth Potamites, Jackie Kauff, Elizabeth Clary, and Charles McGlew. 2008. *Responses to Personal Reemployment Accounts (PRAs): Findings from Seven Demonstration Sites: Final Evaluation Report (Draft)*. Washington DC: Mathematica Policy Research.

shows that the program is effective in the states that adopt it, Congress could consider enacting permanent reemployment bonus legislation with provisions similar to the temporary provisions.

<u>Conclusions</u>

Four reemployment services – comprehensive job search assistance, work sharing, self-employment assistance, and reemployment bonuses – have been proven to be effective and efficient in helping to return dislocated workers to employment. All four interventions would be useful additions to an extension of the Emergency Unemployment Compensation program, and they would help to make EUC into more of a reemployment program. They are worthy of consideration for temporary federal funding during this period of high unemployment. If enacted as temporary provisions, they should be thoroughly evaluated, and if they prove to be effective they could be considered for continuation and encouragement after the U.S. economy recovers.

Thank you for an opportunity to testify. I welcome your questions.