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Employment Research

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Profiling for Reemployment
Bonus Offers

Child Care and Federal Policy

New Books

Vol. 5, No. 1

Employment Research is published twice a year by the W.E. Upjohn Institute for Employment Research, a nonprofit research organization devoted to finding and promoting solutions to employment-related problems at the national, state, and local level. The Institute is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by the late Dr. W.E. Upjohn, founder of the Upjohn Company, to conduct research on the causes and effects of unemployment and seek measures for the alleviation of the hardships suffered by the unemployed.

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Profiling for Reemployment Bonus Offers

During the 1980s, field experiments were conducted in four states to evaluate the potential of using cash bonus offers to induce early return to work by unemployment insurance (UI) claimants. The first experiment was initiated by the Illinois Employment Security Department and was designed with the assistance of the W.E. Upjohn Institute for Employment Research. It yielded encouraging results, which led the U.S. Department of Labor to include a somewhat different bonus treatment in a New Jersey reemployment experiment.

Although the evidence from New Jersey was not positive, the Labor Department sponsored multi-treatment experiments in Pennsylvania and Washington in an attempt to refine the findings from Illinois. Funding for the Pennsylvania and Washington experiments came from money that Congress earmarked in 1987 to investigate methods for promoting reemployment of workers dislocated by structural change in the economy. Results from these experiments did not support the idea that the reemployment bonus could be a cost-effective way to promote rapid reemployment, and policy momentum for this bonus idea faded.

In 1994 and 1995, new mechanisms for early identification of UI beneficiaries who are likely to have long jobless spells were implemented in all states as a result

of federal law. These mechanisms, called profiling models, are currently being used by states as a means to target early reemployment assistance to dislocated workers. They offer a natural means for also targeting reemployment bonus offers. This article summarizes recent research findings which suggest that such targeting may appreciably improve the cost-effectiveness of the bonus.

The Bonus Experiments

The first reemployment bonus experiment, conducted in Illinois during 1984–85, offered a \$500 reemployment bonus to UI claimants for returning to work within 11 weeks and staying employed at least 4 months. The bonus reduced the duration of UI-compensated unemployment by more than a week and saved much more in UI benefit payments than it cost for bonus payments and administration of the bonus offer (Woodbury and Spiegelman 1987).

The reemployment bonus offer in the 1985–86 New Jersey experiment also had a 4-month reemployment requirement, but it had a 12-week qualification period and a bonus amount which decreased as the duration of insured unemployment lengthened. The New Jersey experiment raised questions about the benefits to the

(continued on p. 3)

From the Executive Director

One of the stated objectives of the Upjohn Institute is to "communicate new knowledge and scholarship effectively to a wide audience of policymakers, practitioners, and researchers." One of the ways we seek to accomplish this objective is through our publications program. In 1946, the Institute issued its first publication, entitled *Apprenticeship and On-the-Job Training for Veterans*, which explored effective ways to assimilate returning GIs into the workplace. To further its objective of disseminating important research findings, the Institute in 1978 established, and has since maintained, a program of publishing scholarly books.

We believe that this program has been effective and valuable in informing the targeted audience. In most instances, our books offer cutting-edge analysis of policy-relevant issues related to employment problems. Equally important, in our books we try to offer a single unbiased source of background information about the issues being explored. Many readers, including professional economists and policymakers, seek a reference that lays out the issues, reviews what is known from the research literature, and then expands the envelope of knowledge in a form that is self-contained and accessible. The compliment I appreciate hearing the most is when someone tells me that they first turn to Upjohn Institute books as that single source of objective information about a specific employment program or policy issue.

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Over the years, Institute books have explored the gamut of employment issues, from the definitive two-volume treatment of unemployment insurance, to the productivity effects of employee profit-sharing, to workplace training, access to health care, and international comparisons of job training programs. We have devoted several books to disability

issues, including edited volumes from conferences sponsored by the National Academy of Social Insurance and by the Social Security Administration and the National Institute of Disability and Rehabilitation Research. With schooling and welfare adding the word "work" to their program descriptions (school-to-work, welfare-to-work), the Institute has published several books on recent welfare reform initiatives and on educational issues such as the effect of teacher pay on teacher effectiveness and the role of teachers, other staff, and school resources on educational achievement. In addition, consistent favorites among our readers are books on labor-management relations.

Most books published by the Institute originate from our external Grant Program or from our internal staff. However, for several years we have also frequently published books whose authors are not otherwise connected with the Institute. These volumes have originated in various ways; from specific author proposals, from conference proceedings, or sometimes from sponsored research without a publications outlet. Authors are increasingly sending us unsolicited manuscripts or detailed book outlines for consideration. Among the recent publications of this type are *Lessons for Welfare Reform* by O'Neill and O'Neill; *Labor Law, Industrial Relations and Employee Choice* by Block, Beck, and Kruger; and the volume of essays assembled by Garth and Stephen Mangum in honor of Sar Levitan entitled *Of Heart and Mind*. Such volumes have significantly enhanced the publications offerings of the Institute.

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We believe that expanding this program is an important investment in the future of sound, useful, policy-relevant research. We hope to continue to hear our readers say that Upjohn Institute books are their primary source of objective information about employment policy issues.

Randall W. Eberts

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Profiling for Reemployment Bonus Offers*(Continued from page 1)*

UI system from such a bonus offer (Corson et al. 1989).

The states of Pennsylvania and Washington each conducted separate reemployment bonus experiments in 1988–89 involving a total of 11 different treatments (Table 1). These treatments were intended to supplement the information from the Illinois experiment by identifying which bonus amount and qualification period was most effective. Among the five treatments in Pennsylvania and six treatments in

Washington, only four were cost-effective from the perspective of the UI system (Decker and O'Leary 1995).

How Profiling Works

Profiling now operates in all states as part of the Worker Profiling and Reemployment Services (WPRS) system and is a two-step process. The first step excludes UI claimants expecting recall by their previous employer and those who are members of full-referral union hiring halls. In the second step, those who are most likely to exhaust UI benefits are identified. Almost all states perform the

second step using a statistical model that predicts the probability of benefit exhaustion.

In statistical profiling models, the factors used to help predict exhaustion usually include education, job tenure, change in employment in the prior industry and occupation, and the local unemployment rate. When workers open a new claim for UI benefits, their personal and labor market characteristics are entered into a profiling equation to predict their individual probability of exhausting benefits. State WPRS systems then quickly refer those with a high predicted

Table 1 Impacts on UI payments of Reemployment Bonus Offers with and without Profiling (\$ paid per claimant)

Treatment (bonus amt., qualif. period)	Full sample	Top 50 percent	Top 25 percent
Pennsylvania			
Low bonus, short period	-103**	35	182
Low bonus, long period	-69**	-211*	-159
High bonus, short period	-99*	5	-99
High bonus, long period	-130**	-261**	-199
Declining bonus	-61	-292**	-231
Washington			
Low bonus, short period	22	-47	-78
Low bonus, long period	-112**	-187**	-142
Medium bonus, short period	-29	-121	-143
Medium bonus, long period	-44	-33	12
High bonus, short period	-117**	-126	-135
High bonus, long period	-136**	-228**	-280**

Table 2 Net Benefits to the UI System of Reemployment Bonus Offers with and without Profiling (\$ saved per claimant)

Treatment (bonus amt., qualif. period)	Full sample	Top 50 percent	Top 25 percent
Pennsylvania			
Low bonus, short period	40	-119	-265
Low bonus, long period	24	108	49
High bonus, short period	-56	-138	-42
High bonus, long period	-28	68	13
Declining bonus	23	164	106
Washington			
Low bonus, short period	-62	-2	17
Low bonus, long period	9	110	55
Medium bonus, short period	-88	6	14
Medium bonus, long period	-129	-141	-203
High bonus, short period	-76	-97	-96
High bonus, long period	-132	-94	-136

*Statistically significant at the 90 percent level of confidence in a two-tailed test.

**Statistically significant at the 95 percent level of confidence in a two-tailed test.

Pennsylvania bonus amount: low = 3 x WBA (weekly benefit amount); high = 6 x WBA; declining = half the remaining UI entitlement, with the initial offer good for 2 weeks and then declining by 10 percent per week.

Pennsylvania qualification period: short = 6 weeks; long = 12 weeks.

Washington bonus amount: low = 2 x WBA; medium = 4 x WBA; high = 6 x WBA.

Washington qualification period: short = 0.2 x (potential UI duration) + 1 week; long = 0.4 x (potential UI duration) + 1 week.

probability to special reemployment assistance (Wandner 1997).

Profiling the Bonus

A recent study (O'Leary, Decker, and Wandner 1998) has investigated the effects of targeting reemployment bonus offers using profiling models and data from the Pennsylvania and Washington experiments. Simulations were performed using 1) the actual profiling models used in Pennsylvania and Washington since 1994 and 2) new models for each state estimated on the control group data from the experiments using approximately the same prediction factors that are currently used by the states. Target groups were defined by varying the threshold for making a bonus offer between the 10th and 90th percentile in the distribution of the predicted probability of benefit exhaustion, and the effect on bonus impacts for different target groups was computed.

The findings suggest that targeting a reemployment bonus to claimants with high exhaustion probabilities can yield larger reductions in UI payments than a nontargeted bonus, but that targeting does not guarantee larger reductions. Furthermore, the use of a higher probability threshold for targeting does not necessarily translate into larger UI reductions. Tables 1 and 2 summarize these results, which are based on profiling models estimated on data from the two experiments and were somewhat stronger than, but similar in magnitude and direction to, those estimated using the actual state models. In our estimates, the lower threshold (bonus offers to the top 50 percent of beneficiaries, who are predicted as most likely to exhaust benefits) generally yielded larger impacts on payments than targeting bonus offers to the top 25 percent (Table 1). Hence, targeting with a modest probability threshold may maximize the impact of a bonus offer on UI payments.

Cost-effectiveness

Previous examination of net benefits for reemployment bonus offers found more favorable results as the perspective broadened from the UI system, to all

government, to society as a whole. The net benefits to the UI system of a reemployment bonus offer are the reduction in UI benefit payments, minus the cost of bonus payments, minus any additional costs of administering the bonus. Untargeted bonus offers have generally not been found to be cost-effective from the crucial UI system perspective.

Some bonus designs appear to consistently yield positive net benefits when targeted to the 50 percent group; in particular, the targeted, long-qualification-period offers in Pennsylvania are all estimated to be cost-effective (Table 2). For Washington, the treatment with the strongest cost-effective results also had a long qualification period.

Targeting bonus offers to the top 25 percent most likely to exhaust benefits yielded the same general pattern of results. However, narrowing the targeted group reduces the statistical significance of impact estimates because sample sizes decline. Such narrowing also reduces the net savings on UI payments in four out of five Pennsylvania treatments and in half of the Washington treatments.

A reemployment bonus targeted to UI claimants who are permanently separated from their prior employer and likely to exhaust their benefits is practical as a cost-effective early intervention to promote reemployment. Results from the Pennsylvania and Washington experiments suggest that a low bonus amount combined with a long qualification period targeted to the 50 percent most likely to exhaust UI benefits is the best policy option.

Caveats

Targeting with profiling models improves the appeal of the reemployment bonus program. However, two potential behavioral effects might reduce cost-effectiveness in an operational program (Meyer 1996). First, an actual bonus program could have a *displacement effect*. Displacement occurs if UI claimants offered a bonus increase their rate of reemployment at the expense of other job seekers not offered a bonus. Second, there is the risk that a bonus program could

induce an *entry effect*; that is, the availability of a reemployment bonus might result in a larger proportion of unemployed job seekers filing for UI.

If the entry and displacement effects are sizeable, actual program cost-effectiveness will be lowered. However, since only some UI claimants would receive the bonus offer, targeting the offers by profiling would introduce uncertainty about the offer, thereby reducing the chance of a large entry effect. Targeting should also lower the potential for displacement by reducing the share of UI claimants offered a bonus.

Suggestions for further reading

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Jean Kimmel

Child Care and Federal Policy

Due to dramatic changes in family structure and female labor force participation, particularly the employment of mothers of young children, non-maternal care for young children has moved into the forefront of U.S. politics. The extent to which the government should intervene in work/family choices by subsidizing paid work through child care support is hotly debated. The motivation for intervention is strong, however, due to perceived problems faced by workers with children. In particular, low-income families typically must have two earners to be financially independent, and certainly most single mothers must work to remain independent from welfare. The fact that employment patterns of mothers with preschool children have changed so dramatically in the second half of the twentieth century might motivate a reconsideration of the allocation of responsibility between families and government. The dilemma facing policymakers, in the face of limited funding, is to provide assistance to those families most in need without judging their work choices or imposing too great a distortion on these choices.

The social interest in child care policy is twofold. First, there is a strong link between child care and employment for both married and single mothers. Because of declining real wages for lesser-educated workers, as well as changes in social attitudes regarding female employment, mothers in two-parent families increasingly are likely to work for pay. Labor force attachment for single mothers is growing too, because of changing attitudes and welfare reform. The second social interest in child care policy comes from the relationship between child care and child development, and the latter's link to adult

outcomes such as employability, productivity, and criminal behavior.

Child Care and Employment

Because mothers in the United States are the primary caregivers for their children, when these mothers work for pay, they must arrange for the care of their children. Because quality care involves high labor costs, the cost of child care is relatively high and likely to remain so. This high cost is burdensome for middle-class families, but the most acute circumstances are those faced by the welfare-to-work population and the working poor. For these two groups (nearly identical in financial circumstances), child care expenses can be 25 percent or more of earnings, such a large percentage of the monthly budget that it truly is a barrier to employment.

Child care policy can influence female employment behavior directly via subsidies that reduce the effective child care price or indirectly through other measures that influence child care availability or quality. Kimmel (in press) shows that the child care price elasticity of employment for married mothers is -0.9 ; that is, a 10 percent increase in hourly child care prices causes a 9 percent decrease in the average probability of employment. For single mothers, this elasticity is -0.2 , while for low-income white single mothers, the elasticity jumps to -1.4 . To get a better picture of the importance of child care costs, simulations can be run to gauge the impact of hourly child care subsidies on employment. For low-income white single mothers, employment probabilities increase from about 30 to 50 percent with a 50 percent subsidy, and they more than double with either a full subsidy or a

mixed subsidy based on income (Kimmel 1995).

There is a growing awareness of the link between the quality of the care an infant or toddler receives and the child's intellectual and social development (Barnett 1995). One problem in the market for preschool child care is that parents do not seem to be aware of what provider characteristics contribute to high-quality care, and even when they are aware, the dollar value they place on such quality care is insufficient to meet the costs of providing that care (Council of Economic Advisers 1997). How our school-aged children are cared for is also a quality issue. Many relatively young children (aged 6 to 12 years old) are left to fend for themselves after school. There is some evidence that significant improvements in the availability and quality of after-school care would reduce juvenile crime and other life-altering negative behaviors (Fight Crime: Invest in Kids 1988).

There are persistent shortages in the supply of infant care, off-hours care, and after-school care for school-aged children. These shortages will become more acute as welfare reform moves forward because of more stringent work requirements and the types of jobs that welfare recipients are likely to get. Another problem is that much child care is of poor quality, and poor-quality child care has the greatest negative impact on those children coming from already-challenged home environments (Cost, Quality, and Child Outcomes Study Teams 1995). Finally, there are equity, or distributional, concerns related to the high cost of child care, particularly for lower-income workers or those making the welfare-to-work transition.

Federal Policy and Legislation

In 1993, about \$17.3 billion was spent by families on child care for children under 5 years of age (U.S. Census Bureau 1995). In fiscal 1997, about \$13.8 billion was spent by the federal government, largely in programs such as Head Start, the Child and Dependent Care Tax Credit (or its counterpart, the Exclusion of Employer Contributions for Child Care

Expenses, otherwise known as flexible spending accounts), and the Child Care and Development Fund (the new child care block grant to states). Clearly, the federal government is already heavily involved in the various markets that are responsible for the care of young children.

In January of this year, President Clinton proposed several new child care policy initiatives involving approximately \$20 billion in new federal funds. A quick search of the Internet for congressional activity regarding child care reveals over 50 proposals in the last year, although the most recent (spring 1998) Republican budget blueprint does not include any new child care spending. Because subsidizing child care affects the child care and employment choices that families make, politicians are wary of suggesting policies that seem to encourage nonmaternal care for young children; yet because so many mothers rely on nonmaternal care already, it is also politically smart to pay attention to these mothers' preferences for affordable, high-quality child care. President Clinton's broad child care policy package includes most of the proposals suggested by individual members of Congress, addressing affordability for lower- or middle-class workers, availability, and quality. One additional proposal from the Republican side concerns support for stay-at-home mothers in two-parent families.

From distributional as well as efficiency standpoints, policies that address basic affordability concerns for the working poor and those making the welfare-to-work transition are most critical. Dollar for dollar, child care expenditures have the greatest impact on these groups and also may tend to impose the least distortion on work choices, given that paid work is necessary for most poor families. Of the current proposals under consideration, increases in funding for Head Start and the Child Care and Development Fund are the most well-targeted by these criteria. The 1996 welfare reform legislation articulates a national attitude that there are merits to work beyond the paycheck. The likely intergenerational benefits accruing from

attachment to the mainstream economy are difficult to measure empirically but still form part of the basis of this new welfare policy. However, work for this group must first be possible, meaning that child care costs cannot exceed a welfare mother's paycheck after housing and food purchases. The GAO (1997) concluded that even before the latest major welfare reform, child care subsidies were insufficient to meet the demand for such support.

Affordability for the middle class is addressed with increased funding for the Child and Dependent Care Tax Credit. However, this credit (also available through employer flexible spending accounts) may be targeted too broadly, providing benefits for families having sufficient income to do without such support. The federal tax dollars could be better spent if targeted on more needy subpopulations like the working poor and the lower middle class. A move in this direction would be to make this credit refundable. As it exists currently, it is not broadly available to those who are the most financially needy, because the lowest income workers owe no federal taxes, particularly after recent increases in the Earned Income Tax Credit. Adding refundability to the Child and Dependent Care Tax Credit could be financed in part by phasing the credit out at higher income levels. The affordability issue that the Republican proposal addresses—namely, the budget problems faced by families with a stay-at-home mother—is addressed, although minimally, in the recently passed Child Tax Credit.

Legislation to provide funding to influence quality, such as the money allocated for quality in the new welfare reform bill and the proposals by Clinton, are good starts, although the expected outcomes from the specific programs proposed are unclear. Because some of the quality problems in this market arise from imperfect information, it would be useful for the federal government to implement a broad, national advertising campaign to help educate parents about quality child care and to direct them to already available resources that help them locate quality care.

Afterthoughts

Women and families face a complicated set of choices, each with its own opportunity costs, in trying to resolve the work/family dilemma. While any resolution involves largely personal choices, there is a role for government, particularly for the working poor, for both equity and efficiency reasons. As for the current child care policy proposals, probably the most encouraging aspect of them is that our elected officials seem to be taking seriously the concepts that child care is a critical factor influencing the work decisions of mothers and fathers and that nurturing our children both psychologically and intellectually has a strong influence on adult outcomes.

Suggestions for further reading

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New Books from the Upjohn Institute

Industrial Incentives

Competition among American States and Cities

Peter S. Fisher and Alan H. Peters
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Fisher and Peters offer the first significant attempt to quantify economic development incentives granted to firms by state and local

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- the extent to which incentive policies are concentrated in economically distressed localities
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Stuart Dorsey
Baker University
Christopher Cornwell
University of Georgia
David Macpherson
Florida State University

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and empirical basis for the link between pensions and productivity and, in the process, offer a complete and up-to-date discussion on the productivity theory of pensions.

They begin with a historical review of institutional private pension practices and government policies related to pensions, then follow with a discussion of employment models in which training and monitoring costs generate job-specific productivity gains. Next they review a number of empirical studies which test the pension-productivity hypothesis, and they present new estimates of productivity gains for firms sponsoring defined-benefit plans. The authors also present new empirical evidence which suggests a link between pension incentives and employee training.

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Poverty and Inequality

The Political Economy of Redistribution

Jon Neill, Editor
Western Michigan University

In recent decades, as the economy grew, policymakers could count on a portion of this growth to "trickle down" to those living at or below the poverty line. Recent evidence, however, suggests that this is no longer the case. Despite the significant and prolonged growth in prosperity that

began in 1993, the portion of aggregate income going to the poorest 20 percent of the population declined, while it grew for the richest 20 percent. The six essays in this volume

address the problem of widening income distribution from a variety of perspectives: Are distributional changes limited to specific regions or economies? What role does politics play in redistribution? Why hasn't recent growth in the U.S. economy "trickled down?" What role did the labor markets play in redistribution? Contributors include **Robert Haveman, Rebecca M. Blank, John P. Formby, Timothy M. Smeeding, Jere R. Behrman, and Gordon Tullock.**

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