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Haveman, Bershadker, and Schwabish
on

The Level and Utilization of
Human Capital in the United
States, 1975–2000

Vroman, Wenger, and Woodbury
on
Extended Unemployment Benefits

New and Recent Books

Vol. 10, No. 2

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The Level and Utilization of Human Capital in the United States, 1975–2000

NOTE: This article highlights some of the research findings that have been published in the authors' new book, Human Capital in the United States from 1975 to 2000, which was recently published by the Upjohn Institute (see page 7).

The nation's labor and physical resources are its primary inputs into the production process that is the U.S. economy. While we do an excellent job of measuring and reporting on the level and utilization of the nation's physical capital, comparable information on the productive contributions of the nation's workers is far less adequate. Measures of this human capital rest on count statistics, such as the number of people who are available to work and the number of available workers who are employed. While these statistics are quite useful and significant in their own right, they convey little regarding the value of the potential or actual contributions of these people to the nation's output.

Our study attempts to supplement existing measures of the nation's human capital and the extent to which that capital is utilized. We think of the nation's human capital as the value of the labor resources that are embodied in its working-age citizens. These resources can be allocated in many ways to produce things of value.

Indeed, it is the value of this 'output' that gives value to these labor resources.

In our study, we develop an indicator of the value of the human capital stock held by the nation's working-age population. We call this indicator *earnings capacity* (EC). We use it to study the time trends (from 1975 to 2000) in aggregate human capital in the United States, and also human capital per worker. We also use EC to evaluate the utilization of the nation's human capital stock. We explore these patterns for the entire working-age population, as well as for subgroups distinguished by race, schooling, and age. Thus, our empirical results provide insight into the performance of the U.S. economy over the past three decades, and serve to supplement other analyses of this performance.

How is EC an indicator of the nation's human capital stock? A comprehensive measure of the value of human capital of the nation's potential workers would be the value as of today of the entire future stream of productive services of the existing working-age population. This measure of the human capital stock is analogous to estimates of the nation's physical capital stock. If we had an estimate of this capital value, so defined,

for each working-age individual, we could sum these values and obtain a measure of the nation's human capital stock. Some researchers have attempted such a measure, although it is difficult to produce on a timely basis (see, for example, Jorgenson and Fraumeni 1989).

Our EC indicator of human capital is not such a full "discounted present value" measure. Rather, EC is equal to the annual value of the potential output of the nation's working-age population. Hence, it reflects the market value of the annual earnings that the working-age population would generate if its human capital were used to its full potential, which we take to mean full-time, full-year work. This EC measure accurately tracks changes over time in a full human capital stock measure, though as an annual value its absolute level is much lower. By comparing the actual earnings of working-age people in the United States with this potential value, we are able to measure the extent to which human capital is utilized.

Like measures of the nation's physical capital stock, this EC human capital measure relies on evidence regarding how the market values the flow of human capital services. While the standard and regularly reported indicators of labor market performance measure either the physical quantity of potential and actual labor services (e.g., the labor force, employment, unemployment, hours worked) or the price of labor services (e.g., wage rates), EC captures in one indicator both the level of potential labor supply, and the valuation of these services. For many questions, then, the EC measure is able to provide a richer and more comprehensive description of the actual and potential performance of the labor market.

Per Capita Earnings Capacity, 1975–2000

Figure 1 presents our human capital indicator for the entire working-age population, and for men and women separately, in per capita terms for the 1975–2000 period. During that period, average real EC increased from \$31,500 to \$39,100 (in 2000 dollars), or about 24 percent. For men, per capita real EC

increased by only 16 percent, from \$40,100 to \$46,500. After fluctuating over the period from the late 1970s to the early 1990s, average male EC has grown steadily since then, and this recent growth has accounted for the entire \$6,000 increase in average male EC over the 25-year period. In contrast, per capita female human capital increased over the period from \$23,600 to \$30,100, or by 36 percent. Growth in average female EC was persistent over the entire 25 years, sagging only slightly during both of the recession periods. This gender disparity in the growth of EC is clearly seen in the convergence of the two time trends over the period.

The Utilization of Human Capital

We measure the extent of human capital utilization using a capacity utilization rate (CUR), the ratio of aggregate earnings for the working-age population to that population's aggregate EC. Figure 2 shows the capacity utilization rate of the entire working-age population, and for working-age men and women. The trend in the overall CUR is erratic, reflecting both changes in wage rates, and changes in labor force participation and working-time patterns. The effect of the early 1980s recession is seen in the drop in the overall CUR from over 63 percent in 1979 to 60 percent in 1982. Similarly, the CUR dipped slightly in the early 1990s—from 67 percent in

1989 to 65 percent in 1992—reflecting the recession in that period. The CUR increased substantially during the period of prosperity following that recession. Indeed, over the entire period after 1995, CUR was at least 70 percent, a level that had not been attained during the prior two decades.

The CUR of working-age males is substantially higher than the overall CUR. It began the period at 75 percent, and fluctuated between 70 and 75 percent until the early 1990s. After 1993, a surge in utilization occurred, raising the male CUR to 79 percent by 1996 and ultimately to 81 percent in 2000. This value exceeded by six percentage points its highest level recorded during the 1975–1990 period. The CUR pattern for women of working age is quite different from that of men. At the beginning of the period, female human capital utilization stood at 41 percent of its potential. From that low level, female CUR began a rise that persists until the present. The recessions in the early 1980s and early 1990s are barely reflected in the series for women. Over the entire 25-year period, the female CUR rose by a remarkable 20 percentage points, or by 50 percent.

The Sources of Foregone Potential Earnings

An interesting question concerns how individuals use those hours that are not spent in market work. We call the value of

Figure 1 Per Capita Earnings Capacity, by Sex, 1975–2000

Figure 2 Capacity Utilization Rates, by Sex, 1975–2000

those hours *unrealized potential earnings* (UPE), reflecting the idea that they represent the human capital that does not pass through the market, and in that sense, goes unutilized. From respondents' answers to questions regarding why they work less than the full-time, full-year norm, UPE for each year can be decomposed into the following comprehensive set of "reasons": work is not available (unemployed); illness/disability; retirement; voluntary part-time work; housework, including child care; and other.

The bulk of unutilized EC for the working-age population stems from the hours spent in housework. In 1975, more than 50 percent of unutilized EC was attributable to the decision (primarily of women) to engage in household activities rather than market work. The housework share of UPE falls substantially over the period. By 2000, only 32 percent of unutilized human capital services are attributable to that activity. In per capita terms, the amount of UPE accounted for by housework began the period at about \$4,900 per person, but by 2000 this had fallen to about \$2,700 per person.

The next largest source of UPE comes from a quite different source; namely, a lack of employment opportunities—seeking work but being unable to find it. This reason for failing to utilize the potential services of human capital shows the most cyclical sensitivity of all of the reasons, as is expected given its close tie to the macroeconomic performance of the economy. The aggregate value of human capital services lost to the U.S. economy

because of a lack of employment opportunities ranged from around \$150 billion per year in 1978 (3 percent of GDP) and 2000 (1.5 percent of GDP) to about \$350 billion per year during the recessions of the early 1980s (6.3 percent of GDP) and the early 1990s (4.3 percent of GDP). At the depth of those recessions, about 70 percent as much EC was unutilized because of unemployment as because of housework. In per capita terms, the value of unutilized EC due to a lack of jobs ranged from a high of \$2,700 per working-age person in 1982 to a low of about \$1,000 per person in 2000.

Illness or disabling health conditions form the third most important reason for human capital underutilization, and accounted for a per capita value of about \$1,300 to \$1,400 per year until the early 1990s. Beginning in 1992, the per capita loss of earnings attributable to illness or disability began a steady increase, reaching about \$1,850 by 2000. This increase is unexpected and unexplained. However, even during the 1980s, some early warnings regarding a growing incidence of illness/disability problems among the working-age population were reported in the literature. By 2000 about \$300 billion of earnings were lost annually due to this factor, accounting for 21 percent of total unrealized EC.

Providing Policy-Relevant Information

In addition to revealing these long-term demographic and labor market patterns, estimates of the level of EC and its utilization also provide insights that are directly related to public policy

concerns. For example, one of the most prominent national social policy issues—concern with the costs and consequences of welfare programs aimed at young, low-education single mothers—resulted in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). This legislation sought to carry out the pledge of both Congress and the president to substitute work for welfare for these women. Increases in the generosity of work related subsidies, such as the Earned Income Tax Credit (EITC) were designed to assist in this effort. The exit from market work of older people of working age, primarily males, is also of concern to economists and policymakers. The loss of skills, experience, and productivity to the nation's production process that is implied by this exit is seen as inhibiting economic growth and macroeconomic performance. Many see this exodus as reflecting the rational choices of older workers who can either continue to work and receive wages, or retire on public and private pension income. Viewed in this context, reducing retirement benefits, increasing minimum retirement ages, and reducing access to disability benefits have often been proposed as means to halt this exodus. However, prior to undertaking such measures, policymakers need to fully understand the extent of this exit, and whether this pattern is attributable to the incentives in these public programs. Our analysis of EC and its utilization reveals detailed patterns for various groups and enhances our understanding of these policy-relevant developments.

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*Wayne Vroman, Jeffrey B. Wenger,
and Stephen A. Woodbury*

Extended Unemployment Benefits

Early predictions that the current recession would be short-lived now appear to have been overly optimistic. Labor markets recovered slowly following the recession of the early 1990s, and this recession shows signs of a similar pattern. Since September 2002, over 41 percent of Unemployment Insurance (UI) recipients have been exhausting their regular UI benefits, an all-time high. Also, in the last year, more than 20 percent of the unemployed have been jobless for longer than 26 weeks, the first time this has occurred since 1994.

The problem of long-term unemployment is serious at all times but typically gains attention only during recessions. Here, we discuss the ability of the UI system to address long-term unemployment.

Unemployment Insurance can be viewed as a three-tiered program. The “regular” benefits that are financed and administered by each state constitute the program’s first tier. The second tier of the UI system is the permanent or “standby” extended benefit program (standby EB), which Congress established in 1970. The standby EB program is intended to activate automatically when unemployment rises, extending the potential duration of a worker’s benefits by 50 percent (up to 13 weeks). The third tier of the UI system is made up of the “emergency” benefit extensions that Congress has enacted in every recession since 1958. These emergency extensions have varied greatly in their generosity, financing, and eligibility criteria.

How Extended Benefits Work

Standby EB, the second tier of the UI system, is a permanent extended benefits

program that is intended to activate automatically in a recession—rather than requiring congressional discretion and action—and is financed half-and-half by the states and the federal government. (Regular UI benefits are financed out of state UI trust funds, whereas most emergency extended benefits have been financed out of the federal UI trust fund.) Weekly benefits under standby EB are the same as weekly benefits under the regular state program.

Originally, standby EB was activated in a given state whenever the state’s 13-week average insured unemployment rate (IUR) reached 4 percent and was at least 20 percent higher than its average in the same period of the previous two years (see Table 1, which summarizes this and subsequent extended benefit triggers). Also, it was activated nationally whenever the 13-week average of the national IUR reached 4 percent. However, in 1980 and 1981, Congress enacted three changes that made it more difficult for the standby EB program to activate—the IUR needed to activate EB on a state-specific basis was increased from 4 percent to 5 percent, the trigger that had activated EB nationally was eliminated, and the definition of insured unemployment was revised so as to omit EB claimants from the calculation, reducing the IUR in times when EB was activated.¹

In addition to the standard IUR trigger, states currently have the option of choosing either of two alternative EB triggers. Under the first, which has been available since 1981, EB activates when a state’s IUR reaches 6 percent. Under this IUR trigger, the IUR need not exceed its level in earlier years for EB to trigger. Under the second alternative trigger,

which has been available since 1992, EB activates when a state’s total unemployment rate (TUR) reaches 6.5 percent and is at least 10 percent higher than in either of the two previous years. (The TUR is based on the Current Population Survey and published by the Bureau of Labor Statistics. In contrast, the IUR is based entirely on UI program data.)

Unlike standby EB, emergency benefit extensions are enacted by Congress on an ad hoc basis rather than being triggered automatically. There have been seven such extensions, from the Temporary Unemployment Compensation Act of 1958 through the Temporary Extended Unemployment Compensation of 2002 (TEUC), which was enacted and became effective in March 2002, when it became evident that the labor market would not recover quickly following the terrorist attacks of September 11, 2001.² The program has extended exhaustees’ benefits in all states by 50 percent of their regular benefit duration, up to 13 weeks. It also has provided up to an additional 13 weeks of benefits in states where standby EB had triggered on or the IUR was at least 4 percent and at least 20 percent higher than its average in the same period of the previous two years. A total of 12 states paid these additional benefits under TEUC at some point, although by December 2002, only three (Alaska, Oregon, and Washington) were doing so. The program is financed entirely from the federal Extended Unemployment Compensation Account (EUCA).

The original TEUC program expired at the end of 2002, but Congress extended it at the beginning of 2003. As a result, workers with remaining TEUC balances at the end of 2002 could continue to draw emergency extended benefits. Also, new exhaustees of regular benefits can claim TEUC through the last week of May 2003 and can draw TEUC benefits through the end of August 2003. However, the TEUC extension did not provide additional benefits to workers who exhausted their TEUC benefits.

Table 1 Triggers Used to Activate Standby Extended Benefits and TEUC

Trigger	Description	When in effect
4% IUR with 20% increase	State IUR of at least 4%. Also, IUR must be at least 20% higher than its average in the same period of the previous two years.	EB, 8/70 to 8/81 TEUC, 3/02 to 5/03
5% IUR with 20% increase	State IUR of at least 4%; must be at least 20% higher than its average in same period of the previous two years.	EB, 8/81 to present
4.5% national IUR	National IUR of at least 4.5% (no increase specified)	EB, 8/70 to 8/81
5% IUR	State IUR of at least 5% (no increase specified)	EB, 1976 to 8/81 (state option)
6% IUR	State IUR of at least 6% (no increase specified)	EB, 8/81 to present (state option)
6.5% TUR with 10% increase	State TUR of at least 6.5%; must also be at least 10% higher than in the same period of one of the previous two years.	EB, 6/92 to present (state option)

NOTE: IUR is the insured unemployment rate; TUR is the total unemployment rate; EB is the standby extended benefits program; TEUC is the Temporary Extended Unemployment Compensation program that came into effect in March 2002 and is scheduled to expire in May 2003.

Trends in Extended Benefits Payments

In the recessions of the mid 1970s and the early 1980s, the standby EB program was a significant source of benefits for unemployed workers, as shown in Figure 1. However, standby EB has activated rarely since 1981 and was a negligible source of benefits during both the recession of the early 1990s and the current recession.

In a mechanical sense, the reasons for the demise of the standby EB program are clear. First, as mentioned above, Congress revised the triggers in 1981 so as to make it more difficult for EB to activate. This policy choice was based on the belief that the existing triggers resulted in an EB program with work disincentive effects that were unacceptably high. Second, insured unemployment rates, which are used to trigger EB, have shown a downward trend over the last two decades (Vroman 2002). Even if the triggers had not been revised in 1981, the standby EB program would have activated less frequently in the past 20 years than before. Simulations we have run suggest that, under the original standby EB trigger (4 percent IUR with a 20 percent increase), EB would have activated in only 11 states during 2001–2002, covering even fewer unemployed workers and UI exhaustees than it did during the recession of the early

1990s (Woodbury and Vroman 2003; Walters and Wenger 2003).

However, the demise of standby EB has two underlying causes. First, labor markets have been stronger since 1985 than they were between 1970 and 1985. Second, the financing of standby EB is shared by the states and the federal government, whereas emergency extensions have been federally funded. With Congress willing to pass emergency extensions, the states have not pressured Congress to revise the standby EB triggers so that the program activates more frequently. Indeed, during 2002 governors could, and did, terminate standby EB in states where it had triggered on as soon as the current emergency extension (TEUC) passed. This shifted the financing of extended benefits from the states to the federal government.

One could possibly argue that the demise of the standby EB program is an appropriate outcome—if unemployment has fallen secularly, then the demand for unemployment insurance would also fall. However, Congress has continued to pass emergency benefit extensions in each recession, essentially ignoring the downward trend in the unemployment rate and gauging the need for extended benefits with an eye to the median

duration of unemployment and the UI exhaustion rate, both of which have trended up over time.³ As Figure 1 shows, the demise of standby EB has been accompanied by the rise of emergency federal UI extensions.

Policy Alternatives

Two obvious policy options exist for addressing long-term unemployment. The first is to expand and/or extend the current emergency extension (TEUC), which provides 13 weeks of extended benefits in most states and is set to expire in May 2003. As yet, there is little evidence of improvement in the labor market, and roughly half of all TEUC recipients have exhausted their emergency benefits. This suggests that Congress should consider expanding TEUC to provide an additional 10 to 13 weeks of benefits to workers who have exhausted their TEUC benefits. It also suggests that an extension of the existing TEUC program through the end of 2003 may well be needed.

A second option is to revive the standby EB program and make it a significant source of extended benefits during recessions. This option would require a rethinking of both the financing and the triggering of standby EB. How to finance extended benefits—whether federally or by the states—has been a source of contention for decades (Blaustein 1993). However, the shared state–federal financing of standby EB has been the downfall of standby EB, and Congress has been willing repeatedly to finance emergency extensions federally. It is time for Congress to acknowledge that the financing of benefits beyond 26 weeks is a federal responsibility and to make the standby EB program federally funded.

Reviving standby EB would also require Congress to lower the IUR trigger, lower the alternative TUR trigger and make it mandatory rather than optional, or adopt a new EB trigger, such as the UI exhaustion rate. The automatic triggering of standby EB has three advantages over emergency extensions. First, emergency extensions are subject to a “recognition lag”—it takes time for Congress to recognize the onset of a recession and to enact legislation, so there may be a long

Figure 1 UI Benefits, by Type, 1970–2002

lag between the onset of slack labor markets and the availability of extended benefits. Second, emergency extensions have been politically difficult to shut down; as a result, they may continue to pay extended benefits beyond the time when labor markets have recovered and when workers can reasonably be expected to find reemployment. Third, emergency extensions have usually been made effective on the date of enactment, leaving UI administrators little or no time to implement the new program. For all these reasons, emergency extensions are likely to be less efficient than automatic extensions.

In January 2003, a third possible option was proposed: the Bush Administration's Personal Reemployment Accounts (PRAs). The PRA proposal has three main features. First, certain UI claimants would be identified as "likely to exhaust" their regular benefits. Second, for these claimants, an account of up to \$3,000 would be established to buy intensive reemployment services, training, and other services like transportation or child care, at the claimant's discretion. Third, if the claimant returns to work within 13 weeks of receiving the first UI payment, he or she would keep whatever balance remained in the PRA. This last feature

creates an incentive for rapid reemployment and gives PRAs the flavor of a reemployment bonus, which has been extensively studied in randomized trials (Robins and Spiegelman 2001).

The size of the worker-managed account—\$3,000—suggests that the PRA is being put forward as an alternative to a further extension of TEUC (13 weeks at the national average weekly benefit amount of \$230 is roughly \$3,000). However, eligibility for PRAs would be restricted to about 12 percent of new UI recipients (President's Council of Economic Advisers 2003), while UI exhaustion rates are currently in excess of 40 percent. Whatever the merits of PRAs as a reemployment policy for workers who are likely to benefit from reemployment assistance and training when labor markets are tight, PRAs cannot be viewed as a substitute for extended benefits when labor markets are slack.

Long-term unemployment is a problem that is generally neglected until it becomes acute, as it does in recessions. The PRA is a proposal that has the potential to help long-term unemployed workers throughout the business cycle and to shorten their unemployment spells. However, it should not be confused with short-term measures like benefit

extensions, which workers will rely on until the labor market recovers.

Notes

1. In addition, more stringent eligibility and disqualifying conditions were imposed on EB claimants. These changes were part of a broader effort by the then-new Reagan administration and Congress to reduce expenditures on domestic programs.
2. For a summary of the emergency extensions up to TEUC, see Woodbury and Rubin (1997).
3. The UI exhaustion rate peaked at 38.2 percent in 1975, 40.8 percent in 1983, 40.1 percent in 1993, and 42.7 percent in 2002.

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New and Recent Books

Human Capital in the United States from 1975 to 2000

Patterns of Growth and Utilization

Robert H. Haveman, Andrew Bershadker, and Jonathan A. Schwabish

This study enhances the existing measures of the nation's human capital and the extent to which that capital is utilized. Haveman, Bershadker, and Schwabish

develop an indicator of the value of the human capital stock held by the nation's working-age population called earnings capacity (EC), and use it to study the time trends in aggregate human capital in the United States and human capital per worker. They also use EC to evaluate utilization of the nation's human capital stock, thereby demonstrating the usefulness of the EC indicator in measuring the size and strength of the U.S. economy.

The authors then explore these patterns for the entire working-age population as well as for at-risk subgroups distinguished by race, schooling, and age in order to highlight the social and public policy relevance of the EC indicator. Overall, their empirical results provide insights into the performance of the U.S. economy over the past three decades, and they serve to supplement other analyses of this performance.

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The Labor Market Experience of Workers with Disabilities

The ADA and Beyond

Julie L. Hotchkiss

This book focuses on the labor market implications and impact of the Americans with Disabilities Act (ADA). It provides a comprehensive

analysis of the current labor market experience of American workers with disabilities and an assessment of the impact the ADA has had on that experience. Whereas previous studies focused on a single dimension of this experience (e.g., wages or employment levels) evaluated at a single point in time, or focused on the labor supply impact of disability policies, this research explores the labor market experience across those dimensions and across time. The result is a more complete picture of what Americans with disabilities can expect as participants in the labor market and of whether this experience has been impacted by the passage of the ADA.

The chapters in this book address such topics as employment outcomes among the disabled, wages earned by the disabled and nondisabled, job quality issues, job separation and unemployment experiences of the disabled, the impact of state-level legislation on wages, employment, and hours of disabled workers in different states.

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Reemployment Bonuses in the Unemployment Insurance System

Evidence from Three Experiments

Philip K. Robins
and Robert G. Spiegelman
Editors

During the 1980s, the federal government sponsored social experiments to determine whether or not offers of financial bonuses persuaded

recipients of unemployment insurance to return to work sooner. A number of experimental designs were tried and some clear results were seen. While policymakers so far have chosen not to implement such bonus offers, the issue of how to increase active job search among UI recipients remains an issue, and bonus offers constitute one of only a handful of options at their disposal that might achieve that goal.

In this new volume, a select group of UI researchers describes the motivation for and the design, implementation, and impacts of UI bonus experiments administered in Illinois, Pennsylvania, and Washington. They also describe the benefits and costs of the various experimental treatments for the government as a whole, the UI system in particular, the claimants' earnings, and the overall net benefits to society.

Contributors include Robert G. Spiegelman, Walter A. Corson, Paul T. Decker, Christopher J. O'Leary, Stephen A. Woodbury, Carl Davidson, and Philip K. Robins.

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