Coverage and Recipiency: Trends and Effects

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Two key measures of the responsiveness of the unemployment insurance (UI) system to the needs of the labor force are the percentage of the labor force that is covered under the UI program and the percentage of the unemployed who actually receive UI benefits. Although these two indicators are inextricably linked, they have consistently moved in different directions since the inception of the UI system (figure 2.1).

With regard to coverage, the percentage of the labor force that is covered under the system has been rising over time, generally as a result of changes in federal law. By this measure, the system appears to have become responsive to the needs of an increasing portion of the labor force. Simultaneously, however, the percentage of the unemployed who actually receive UI benefits has been in decline since data first became available in 1947. In part, this long-term decrease can be attributed to broad external trends, including those in the demographic and industrial composition of the labor force. In addition, there is some evidence that changes in federal and state UI laws have made it more difficult to qualify for benefits. Regardless of its exact causes, the decline in recipiency suggests that the UI system has become less responsive to the needs of workers. Thus, the two trends in system responsiveness appear to have partially canceled out one another.
Figure 2.1 Percentage of Workers Who Are Covered and Percentage of Unemployed Workers Who Receive UI Benefits, 1950-1993

NOTE: Shaded regions represent recessions from peak to trough.
The percentage of the labor force that is covered under the UI system is defined as the percentage of jobs in which an employer pays UI taxes on a portion of a worker's wages. An employer who is required to pay UI taxes must pay taxes for all employees. Thus, whether or not a worker is covered under the UI system is fully dependent on the particular status of the worker's employer(s).

Over time, federal coverage requirements have been extended so that the vast majority of employers are required to pay UI taxes, resulting in coverage for the vast majority of employees. If a worker who is covered becomes involuntarily unemployed, that worker can receive UI benefits if all state monetary and nonmonetary eligibility requirements are met. Coverage may thus be considered a precondition for eligibility, as workers who are not covered cannot be eligible to receive benefits, even if they meet all eligibility requirements.

Eligibility among those unemployed workers who are covered under state UI systems is based on a combination of factors. Monetary eligibility requirements are designed to ensure that those who receive UI benefits had a substantial attachment to the labor force prior to their unemployment. Only covered wages are considered in making a determination of monetary eligibility. Thus, if an individual has two jobs, and only one of the jobs is covered under UI, then only the wages from the covered job are considered in determining eligibility (and in determining benefit levels).

Nonmonetary requirements are designed generally to ensure that a UI recipient (1) is involuntarily unemployed (i.e., was laid off from work) or voluntarily left work for good cause, (2) is available for work, and (3) is actively seeking work. The first of these conditions (along with monetary eligibility requirements) determines whether an unemployed worker initially qualifies for benefits. The second and third of these conditions must be satisfied on a continuing basis throughout an unemployment spell. If they are not satisfied in any given week, the worker is ineligible to receive benefits for that week. In this chapter, eligibility is discussed primarily in regard to its effects on recipiency among the unemployed.

The receipt of UI benefits by an unemployed worker (the percentage of unemployed workers who receive benefits is often referred to as the "recipiency" rate) requires that the worker be covered under the UI system, make a claim for benefits, and be found to have met all eligibil-
ity requirements. Thus, an individual's receipt of benefits is a function of a combination of three general factors: coverage provisions, an individual's decision to apply for benefits, and state eligibility standards. Similarly, the percentage of all unemployed individuals who actually receive benefits is a function of these factors.

Coverage

Original Coverage Provisions

At the inception of the UI system in 1935, federal law required only employers in industry or commerce to be subject to UI taxes, and then only if they employed eight or more workers during at least 20 weeks of the year. Among the effects of the initial federal provisions were the exclusion from coverage of workers in small firms, workers in agriculture and the public sector, and seasonal workers.¹

Blaustein suggests that the decision to limit initial coverage was primarily a practical one, in that it would allow the administrative burden to be lessened in the first years of the program, while still ensuring that a significant percentage of workers would be covered. He suggests that there was always an expectation that coverage would be extended—ultimately to all workers who could be subject to involuntary unemployment (Blaustein 1985). Others, however, have provided different reasons for some of the coverage exclusions; in particular, they argue that the decision to exclude agricultural labor from coverage was rooted in discrimination and racism (see Norton and Linder 1996).

Expansion of Coverage

Federal law has been amended on a number of occasions to extend coverage to various groups that were excluded under the original law. It should be noted that most expansions of coverage were preceded by significant opposition and by dire predictions of the harmful effects that would result. Rarely have these objections had substantial merit (Blaustein 1985).

Coverage was first expanded in 1954, when federal law was changed to extend coverage to all commercial or industrial employers
with four or more workers. In 1970, the law was amended again, requiring employers to pay UI taxes if they employ one or more workers during at least 20 weeks of the year or at a payroll of at least $1,500 in any calendar quarter.

The 1970 UI amendments also extended coverage to employees of nonprofit organizations who employ four or more workers. Through a combination of the 1970 and 1976 UI amendments, coverage was further extended to all employees of state and local governments. In addition, the 1976 amendments included new coverage for some agricultural workers. Employers with ten or more agricultural workers in at least 20 weeks of the year or with a payroll of at least $20,000 in any calendar quarter were required to pay UI taxes.

A number of other smaller extensions in coverage have occurred since the creation of the UI program. Federal civilian employees were included in the system in 1954, when a separate program was created to cover them. Former members of the military were added under various pieces of legislation in the 1950s, with a separate program also created for them. Puerto Rico entered the system as a “state” in 1960, and the Virgin Islands were included under the 1976 amendments.

Overall, as a result of the extensions of coverage since the beginning of the program, UI coverage today is nearly universal. It extends to more than 90 percent of all civilian employment in the United States, and almost all wage and salaried employees are covered. Only four significant coverage exceptions remain.

Remaining Exclusions from Coverage and Effects

First, agricultural workers who are employed on farms that are defined as “small” are not covered in many states. Second, workers who are classified as “self-employed” are also excluded from coverage. Ambiguities in this definition, however, have caused certain workers—who should be covered under some other coverage requirement—to be excluded from coverage because they are classified as self-employed independent contractors. Third, household workers of employers who pay wages less than $1,000 per quarter are excluded from coverage, and, fourth, employees of religious organizations are excluded. Each of these four categories will be discussed briefly.
Agricultural Workers

A large percentage of agricultural workers remain uncovered by the UI system as a result of the "small farm" exclusion, which exempts small farm employers from coverage requirements. This is the most significant remaining gap in the coverage of wage or salaried workers. The exemption of small farm employers from paying UI taxes can affect even those migrant workers who do a significant amount of their work on large farms. Because their wages from small farm work are uncovered, it is possible that the inclusion of only their large farm wages (i.e., the covered wages) in determining monetary eligibility may result in the workers' failing to meet monetary requirements, even if their total wages would have made them eligible. Reasons cited for the small farm exclusion include the poor economic position of small farmers, as well as practical problems related to difficulties in covering workers who, by the nature of their work, are likely to have many different employers or who include a relatively large percentage of undocumented aliens. 6

The problems associated with agricultural coverage have been exacerbated by the inclusion of a special Federal Unemployment Tax Act (FUTA) rule allowing agricultural workers who are supplied by a farm labor contractor (or "crew leader") to be considered as employees of the crew leader under certain circumstances. The practical effect of this rule in many cases has been to assign UI reporting and taxpaying responsibilities to crew leaders, among whom worker advocates report widespread noncompliance. Thus, even among those agricultural workers who should be covered under existing requirements, the crew leader provision frequently creates problems for workers who attempt to secure those benefits. Further exacerbating the extent of these problems, the use of crew leaders has increased significantly in recent years (Martin 1994).

Blaustein (1985, p. 22) notes that "the trend in the organization of agricultural activity has continued in the direction of consolidation of farms and large-scale commercial enterprises. This process both calls for and makes possible investment in more productive methods and equipment that raises output with less labor or with more efficient use of labor. As farming increasingly resembles other business activities,
the grounds for exclusion of farm employers from coverage grow narrower and weaker.”

It should also be noted that eight states have expanded their agricultural coverage provisions beyond the federal requirements of the 1976 UI amendments. A large percentage of the nation’s farm workers reside in these eight states, which include the major farm labor states of California, Florida, and Texas. California covers agricultural workers on the same basis as workers in all other industries, resulting in almost universal coverage of farm workers in that state. In California, agriculture is a negative reserve industry, meaning that unemployed workers in agriculture receive more in benefits than agricultural employers contribute to the system. Between 1983 and 1992, agricultural employers paid an average of $114 million in UI taxes, while unemployed agricultural workers received an average of $259 million in benefits (Martin 1994).

Because a relatively large percentage of workers on small farms are already covered under state law, the cost of a federal extension of coverage to agricultural workers on the same basis as other workers would be relatively small. Rough approximations suggest that additional benefit costs could be between 1 and 2 percent of current total UI benefits paid.7

*Self-Employed Workers*

Generally, considerations related to moral hazard are cited as the primary explanation for the continuing exclusion of the self-employed from UI coverage in most states. In particular, coverage is considered to be infeasible because of difficulties in determining whether unemployment is involuntary, in identifying what income has been lost, and in determining whether or not a self-employed worker is employed or unemployed in a given week (U.S. Department of Labor 1995). Each of these concerns reflects the moral hazard inherent in any effort to provide insurance against unemployment to workers who control whether or not they are employed in any given week and who also control the documentation of this unemployment. Haber and Murray (1966, p. 147) suggest that these difficulties make it “obvious” that the self-employed cannot be covered in the UI program.

Indeed, only one state—California—allows self-employed workers to apply for any sort of self-coverage under the UI program. Under this
provision, self-employed workers who become unemployed can receive UI benefits on a fully reimbursable basis, meaning that they must pay back all benefits received, dollar for dollar, after returning to employment status. Program administrators report that the use of the program is extremely limited. Thus, California, in effect, confronted the moral hazard problem by ensuring that workers cannot profit by manipulating the system. It is likely that a strict program such as California’s is the only means through which coverage could be extended to self-employed workers without significant moral hazard.

While the exclusion of truly self-employed workers from coverage may appear to be reasonable—assuming the occurrence of the various administrative difficulties that could develop as a result of their coverage—there are a number of troubling issues that result from the exclusion of such workers. Most significantly, the actual classification of workers as self-employed has created numerous problems. There are incentives for employers to attempt to categorize workers as self-employed independent contractors.

Indeed, a phenomenon has developed, relating to the emergence of new groups of workers who are incorrectly excluded from UI coverage by virtue of their classification as independent contractors. It should be recognized that this phenomenon has been driven primarily by forces external to UI; however, the development has had a direct impact on the UI system, both by excluding workers who should be covered and by denying the system revenues from UI taxes that should have been paid but were not.

For federal tax purposes (including those of FUTA), employment classification is based on a set of twenty common law factors. These factors are determined by the Internal Revenue Service (IRS) and are designed to determine “control” in a work relationship, which is critical in differentiating between those who are employees and those who are truly self-employed. For state tax purposes, many states use a broader definition of employee than the federal common law test.

Under this system of classification, a significant number of workers are misclassified under the IRS system as independent contractors, which has important implications for the UI system. Estimates suggest that over 4 million workers are misclassified annually, and this is projected to increase to 5 million workers in the next ten years (Coopers and Lybrand 1994). In 1984, the IRS estimated that one of seven
employers misclassified workers as independent contractors (IRS 1989). Misclassification of workers appears to be more pronounced in certain industries, including construction and finance, insurance, and real estate. Firms with fewer than 100 workers were also more likely to misclassify employees as independent contractors.

Some of this misclassification is certainly unintentional and may result from the ambiguous system of defining employment relationships. Other misclassifications, however, are certainly intentional, as employers can avoid payment of payroll taxes (employers avoid social security taxes in addition to state and federal UI taxes), as well as some employee benefits and other costs associated with compliance with the law. Employers who misclassify employees are able to cut costs and to gain a competitive edge over other firms that comply with classification laws. As a result, workers who should be included in the UI system are unable to draw benefits if they should become involuntarily unemployed.

Household Workers

Household workers of employers who pay less than $1,000 per quarter in wages are not covered under the UI program. Opposition to the coverage of these workers centers on administrative obstacles. In particular, difficulties in enforcing tax collection and wage reporting requirements have been cited as arguments against the extension of coverage (e.g., Haber and Murray 1966; Blaustein 1993). Recent publicity has highlighted similar problems in enforcing social security tax provisions for household workers. Administrative difficulties in enforcing the work search requirement for unemployed household workers have also been cited as an obstacle to providing full coverage to household workers. The existing coverage of workers in households that pay more than $1,000 per quarter, however, appears to nullify this concern. More generally, the experience of some states that have provided broader coverage for household workers for decades suggests that administrative obstacles to coverage can be overcome (Blaustein 1985).

Employees of Religious Organizations

Workers who are employed by religious organizations are excluded from coverage. In general, it appears that this exclusion reflects both
the desire to maintain the general tax exemption for religious organizations as well as concern about the constitutional mandate to separate church and state.

**Coverage Policy Issues**

Overall, the extension of UI coverage to the vast majority of wage and salaried workers represents a significant success for the UI program. Nevertheless, as Blaustein notes, “the coverage issue in unemployment insurance has dwindled to minor proportions overall. Perhaps because that is so, it is difficult to overcome the tendency toward indifference and neglect about closing the gaps further. For those who are excluded, coverage is important. To provide more complete coverage does not appear to face any obstacles more serious than apathy. It should be done” (Blaustein 1985, p. 30).

While most workers who face a risk of involuntary unemployment are covered under the UI system, those workers who remain uncovered are found disproportionately at the low end of the wage distribution and often work in jobs for which there is a significant risk of unemployment. Many are workers who have a substantial attachment to the labor force and are workers for whom UI benefits would represent a critical component of income support when unemployed. As a result, the arguments for continued exclusion of these workers from the system should be seriously examined.

Justifications for the continued exclusion of agricultural and household workers, in particular, revolve primarily around practical considerations and cost and do not rest on more philosophical grounds. In light of the program’s history of demonstrating that many expected administrative burdens related to coverage could actually be managed quite effectively, strict scrutiny should be given to the validity of practical arguments against the coverage of excluded groups.

For all groups of excluded wage and salaried workers, financial considerations—such as concerns about the additional benefit costs from including currently uncovered workers—should be weighed against the significant benefits that would accrue by covering those workers. In addition, efforts should be made to minimize the effects on the UI system that result from the ambiguous external system for classifying employees. Finally, additional attention should be paid to the system of
optional, reimbursable UI coverage offered to self-employed individuals in California, in order to determine the feasibility of extending coverage on a similarly limited basis to self-employed individuals.

**Recipiency**

*Measurement*

Two statistics have primarily been used to measure recipiency. The first is the ratio of the Insured Unemployment Rate (IUR) to the Total Unemployment Rate (TUR), and the second is the ratio of UI claimants (IU) to the total number of unemployed (TU). The two ratios are highly correlated (figure 2.2). The IUR/TUR is more difficult to interpret than the IU/TU because of various mathematical complications related to the definitions of the populations being counted. Nevertheless, the IUR/TUR ratio is widely reported, and the IUR itself is of particular importance because it represents the primary trigger for the federal-state Extended Benefits (EB) program. Both ratios are based on a measure of the number of UI claimants, collected by state on a weekly basis.

The total number of claimants, however, includes some individuals who do not receive UI benefits but are counted among the insured unemployed for any given week. Three primary groups of individuals fall into this category: (1) individuals who are on a one-week waiting period before the beginning of their benefit spell; (2) claimants who are ultimately denied benefits for nonmonetary reasons; and (3) claimants who are disqualified from collecting benefits in a given week for reasons that include the requirement that recipients be able and available for work and that claimants who are working not exceed a given level of income in a week. The inclusion of these groups has tended to inflate the measure of UI recipiency by 10 to 15 percent per year (figure 2.3). Thus, a third, less frequently used, measure of recipiency is the number of actual weeks compensated, which excludes claimants who do not receive benefits in any given week, as a percentage of total unemployment.
Figure 2.2 Recipiency Rates for Regular State UI Programs, 1950-1993

SOURCE: Council on Economic Advisors (1994) and U.S. Department of Labor
Figure 2.3 Ratios of UI Weeks Claimed and UI Weeks Compensated to Total Employment, 1950-1993

SOURCE Council of Economic Advisors (1994) and U.S. Department of Labor
NOTE Shaded regions represent recessions from peak to trough.
All three measures are correlated with one another, and because of their varied use, all are cited at some point in this chapter when considering research regarding recipiency. The IU/TU measure is encountered most frequently in the research literature; thus, it is this measure to which reference is most frequently made in the discussion contained in this chapter.

*Trends in Recipiency*

Using any of the three measures discussed above, the percentage of unemployed workers who receive UI benefits under regular state programs has exhibited two significant trends: (1) a long-term trend, in which the national recipiency percentage has declined slowly and consistently since the 1940s; and (2) a more recent trend, in which the recipiency percentage dipped dramatically between 1980 and 1984 and has remained near that low rate throughout the 1980s and early 1990s.

Recipiency measures vary considerably across states, with 1993 ratios of claimants to total unemployed ranging from a low of 15 percent in South Dakota to a high of 64 percent in Alaska (see table 2.1). Over time, most state rankings (relative to other states) on recipiency have fluctuated significantly. That is, most states have had relatively higher recipiency rates in some years and relatively lower rates in other years. (It is likely that much of this fluctuation is a result of variations over time in state economic conditions.) Among those states that have especially high or especially low recipiency rates, however, there is less variation in their rankings relative to other states. For example, since annual state recipiency data first became available in 1976, neither of the two states with the lowest average rank—Virginia and Texas—has ever ranked higher than 43rd among the fifty states. Similarly, neither of the two states with the highest average rank—Alaska and Rhode Island—has ever ranked lower than 7th among the fifty states.

In the long term, the IU/TU ratio has declined by approximately 40 percent since 1947, the first year for which data are available. The ratio has consistently displayed (1) an overall downward trend and (2) some cyclical variation during periods of recession, as job losers—who are more likely to be eligible for benefits—represent a higher percentage of the unemployed during these periods, when layoffs tend to increase.
Figure 2.4 illustrates the relationship between the IU/TU and the unemployment rate over time. The overall downward trend suggests that the UI program has served an ever-decreasing percentage of the unemployed.

Table 2.1 Ratio of Claimants to Total Unemployed, by State, 1993

<table>
<thead>
<tr>
<th>State</th>
<th>IU/TU</th>
<th>State</th>
<th>IU/TU</th>
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<tbody>
<tr>
<td>Alaska</td>
<td>63.6</td>
<td>Florida</td>
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<tr>
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<td>53.1</td>
<td>North Dakota</td>
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<td>44.4</td>
<td>Wyoming</td>
<td>28.5</td>
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SOURCE: U.S. Department of Labor
NOTE: Data for the Virgin Islands are not available
Figure 2.4 Recipiency Rate for Regular State UI Programs and Total Unemployment Rate, 1950-1993

SOURCE: Council of Economic Advisors (1994) and U.S Department of Labor.
The long-term decline in UI recipiency was combined with a pronounced drop in both measures of recipiency during the early 1980s. By 1984, the number of UI claimants as a percentage of total unemployment had dropped to 28.5 percent, the lowest recorded percentage since data were first collected in 1947. The ratio increased slightly after 1984 but has remained lower than its historical average.

The period since 1980 is also the first one during which recipiency measures did not increase significantly as the unemployment rate peaked. This represents a fundamental shift away from the dynamic trends that had marked the UI program since its inception. Burtless and Saks (1984) also find a fundamental shift in dynamics, in that the extremely strong statistical relationship that had existed between insured unemployment and the number of job losers unemployed for less than 26 weeks deteriorated significantly in the early 1980s.

Research on Trends in Recipiency

The long-term and recent declines likely were caused by a combination of factors that tend to have similar effects upon the UI system. To date, the long-term trend has generated relatively little research interest. The research that does exist, such as that by Burtless and Saks (1984), suggests that the long-term decline is partially a result of broad shifts in the demographics of the labor market, coupled with industrial shifts. To the extent that the percentage of the unemployed receiving UI benefits has decreased over the long-term, the UI program has become unresponsive to the needs of a growing portion of the unemployed population.

A number of researchers have worked to identify the causes of the recent decline in national UI recipiency. The federal government began to support research efforts on this and related issues in the early 1980s, and lingering questions about the primary causes of the decline have fueled continuing research efforts since that time. In addition, two sets of supplemental questions to the Current Population Survey were funded that address the reasons why unemployed individuals do not receive benefits.
Coverage and Recipiency

Causes of Long-Term Decline in Recipiency

Research suggests that the long-term decline in UI recipiency is primarily a result of broad changes in the demographics of the labor force and in industrial composition. In addition, it is likely that evolution in state policies has also contributed to the secular decline in the recipiency rate (see chapter 15 of this volume, as well as Blaustein 1993).

Burtless and Saks (1984) suggest that a primary cause of the decline in the IU/TU ratio before 1980 was the changing demographic composition of the jobless. Throughout the 1960s and 1970s, as many women and young workers from the baby boom generation entered the labor force, they also became a higher percentage of the unemployed. As a result, men of prime working age, who are the most likely to receive UI benefits, declined considerably as a percentage of the unemployed. Burtless and Saks find that such demographic changes explain a large percentage of the decline in the IU/TU ratio before 1980.

While the demographic changes described by Burtless and Saks declined in their impact after 1980, other demographic changes have continued or even accelerated in the 1980s and 1990s. Perhaps the most significant change is the continuing rise in the number of two-earner families. It is likely that the increase in two-earner households has reduced the need of some workers to apply for UI benefits upon becoming unemployed. Thus, it is possible that various broad demographic changes have continued to have a negative impact upon UI recipiency. Factors that affect current receipt of benefits are discussed in a later section.

The shift of workers from manufacturing and other industries with high UI recipiency rates was also identified by Burtless and Saks as a primary cause of the long-term decrease in recipiency, although they report that it is quite difficult to estimate with precision the magnitude of this effect. As will be discussed, the downtrend in manufacturing also has been identified as a significant cause of the recipiency decline during the 1980s.

Causes of the Recent Decline in Recipiency

Considerable inconsistency exists in the research examining the decline in UI recipiency that occurred in the early 1980s. The variabil-
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The results are an indication of the difficulty that researchers have had in quantifying the impacts of various agents. Four primary factors have emerged as the most common explanations of the short-term decline in recipiency: (1) federal and state policy changes, (2) population shifts to states with traditionally low UI claims rates, (3) the decline in the unionized percentage of the workforce, and (4) the decline in the manufacturing sector of the economy. It is likely that a combination of some or all of these elements contributed significantly to the short-term decline.

During the 1980s, several changes in federal and state law appear to have contributed to the reduction in the percentage of the unemployed who received unemployment benefits. Overall, the U.S. General Accounting Office (GAO 1993) finds that policies designed to improve the solvency of state trust funds had the effect of reducing UI recipiency among unemployed individuals. Most significantly, numerous state laws were changed to restrict eligibility and to reduce benefit levels. In part, these state laws were in response to federal policies that provided incentives to states to adopt more restrictive legislation for regular state unemployment programs. A number of federal laws, most notably the decision to tax UI benefits, also directly reduced the value of unemployment benefit levels.

**Federal Policy Changes.** During the 1980s, a number of significant changes were made in federal law governing state UI trust funds. Beginning in 1982, states were required to repay federal loans to their trust funds with interest (previously, the loans had been interest-free, and there was some uncertainty whether repayment would be required at all), and states with loans were induced to adopt other specific measures to ensure solvency. Overall, these changes provided incentives to states to avoid the need for future loans by reducing the scope of state benefit programs. In addition, states were given other direct incentives, linked to federal EB funds, to tighten UI eligibility requirements and to reduce UI benefits. Taken as a whole, these federal policy changes were reflected to some extent in state policy changes.

Federal laws also were changed in ways that directly and indirectly affected the recipiency rate. In 1979, UI benefits were partially taxed for the first time, and in 1986, all unemployment benefits became subject to taxation. This change reduced the effective value of applying for
benefits and would therefore be expected to decrease the number of people who choose to apply for benefits. States also were required to reduce or eliminate UI payments to unemployed workers receiving pensions or social security payments. Corson and Nicholson (1988) find that, overall, between 11 percent and 23 percent of the total decline can be directly attributed to various federal policy changes. Specifically, between 11 and 16 percent is due to partial taxation of benefits and up to 7 percent to less generous EB programs.

State Policy Changes. During the 1980s, many states adopted tighter monetary eligibility standards or stricter disqualification provisions for their regular UI programs. GAO (1993) reports that forty-four states tightened their standards in one or both of these regards between 1981 and 1987. Further, the increase in a state’s minimum earnings requirements was nearly five times greater among the twenty states with the lowest levels of trust funds than among all of the remaining states. States have also tightened other aspects of eligibility, as they increasingly disqualify individuals for misconduct or for refusal of suitable work. It is likely that many of these state changes came about in response to the federal incentives to tighten eligibility, although it is impossible to determine the precise impact that changes in federal legislation alone had on the policy decisions of states.

Some research has found that these and other changes in state policy account for a significant percentage of the decline in recipiency. Corson and Nicholson (1988) find that 21 to 54 percent of the decline in recipiency between 1980 and 1986 is attributable to state policy changes. Specifically, the decline is due to the following: 9 to 11 percent to increases in denial rates for disqualifying income, 3 to 11 percent to increases in the minimum earnings required to qualify for UI, 2 to 11 percent to increases in the denial rate for misconduct, up to 13 percent to changes in voluntary separation standards, 5 percent to reductions in maximum duration of benefits, and 2 to 4 percent to changes in wage replacement rates. In addition, they find that the IU/TU ratio would have increased between 1 percent and 13 percent as a result of reductions in work test denials, thereby partially canceling the effects of the other factors. Burtless and Saks (1984) also conclude that state legislative and administrative changes are the primary cause of the decline in recipiency, but they do not present estimates of the magnitude of the effects of these changes.
Baldwin and McHugh (1992) suggest that state policy changes account for 54 percent of the decline in recipiency rates between 1979 and 1990.\(^{14}\) They suggest that the decline can be attributed to the following: 21 percent to increases in the minimum earnings required to qualify for UI, 16 percent to increases in the earnings required to qualify for the maximum benefit, 8 percent to increases in the number of states with disqualification periods for job quitters, 7 percent to increases in the number of states with disqualification periods for refusal of suitable work, and 1 percent to increases in the number of states with right-to-work laws.\(^{15}\) An updated work, however, found sharp reductions in the apparent effects of state policy changes (Baldwin 1993).

Blank and Card (1991) find little evidence that state policy changes had any impact on recipiency. They do find that individual eligibility for UI benefits appeared to decrease slightly as a result of tighter state eligibility standards, although these effects were offset by increasing wage levels. They suggest, however, that application rates among the eligible appeared to fall in the early 1980s, accounting for some of the decline in recipiency.

**Population Shifts.** An increasing share of U.S. unemployment is located in southern and mountain states, where the IU/TU ratio consistently has been lower than the national average. Thus, as the percentage of national unemployment located in these states increases, the national IU/TU ratio would be expected to fall accordingly. This is a long-term demographic trend, occurring throughout the last three decades and continuing into the present. Blank and Card (1991) find that these regional shifts in population accounted for approximately 50 percent of the decline in the national IU/TU ratio between 1977 and 1987. Vroman (1991) suggests that these shifts may have accounted for 25 percent of that decline, and Corson and Nicholson (1988) attribute 16 percent of the change to geographic population shifts.

**Decline in Unionization.** The proportion of workers who are members of unions has fallen significantly since the 1950s. Between 1979 and 1988, the unionization percentage declined from 23.8 percent of the labor force to 18.8 percent (Curme et al. 1990 and Kokkelenberg and Sockell 1985). Because unions have traditionally represented a powerful source of information regarding available benefits for unemployed workers, it is possible that the decrease in union membership
exacerbated any existing information problem among the unemployed. In addition, unions have often facilitated the filing of members’ UI claims by helping to guide them through the UI system. Finally, the members of many unions are only eligible for supplemental unemployment benefits paid by their union if they apply for regular UI.

Blank and Card (1991) attribute 25 percent of the decline in recipiency to the decrease in unionization. Baldwin and McHugh (1992) assign 29 percent of the reduction in recipiency to the decline in unionization. Vroman (1991) also points to the potential importance of the unions’ information role by noting that the most important reason for nonapplication for UI benefits by unemployed individuals is their belief that they are ineligible for UI. If individuals’ understanding of eligibility is incorrect, then eligible workers may not be applying because they believe they are ineligible.16

Decline in Manufacturing. As noted, Burtless and Saks (1984) suggest that industrial shifts contributed to the long-term decrease in recipiency. This trend continued in the 1980s, as manufacturing as a percentage of total employment fell by 22 percent between 1979 and 1990. This factor has also been identified as a significant cause of the short-term decline. Corson and Nicholson (1988) find that between 4 percent and 18 percent of the decrease in the UI claims ratio can be attributed to the decline in the manufacturing sector, while Baldwin and McHugh (1992) attribute 16 percent of the total decline in the IU/TU ratio to this factor. In addition, Corson and Nicholson (1988) observe that an unemployed worker previously employed in manufacturing is 25 percent more likely to collect UI than a similar worker from another industry. It should be noted that analyses by Corson and Rangarajan (1994), and Baldwin (1993) both unexpectedly find that a decrease in manufacturing employment actually leads to an increase in the IUR.17

Overall, the decline in manufacturing is closely linked to the decline in unionization, because unions traditionally have been composed disproportionately of workers in the manufacturing sector. Thus, the effects of these factors may be difficult to separate.
Who Receives UI Today: Analysis from the SIPP

In an analysis of the characteristics of all unemployed individuals who were not receiving benefits, the Congressional Research Service (1990) found that such individuals were typically young, did not head families, and were not the primary source of income within their families. Generally, they had lower-than-average incomes both before and after their unemployment spell. As expected, the study also found that, as attachment to the labor market decreases, the likelihood of receiving UI benefits also falls. Even among those individuals who had been employed full-time for an entire year before the beginning of their unemployment spell, only 42 percent received benefits.

An additional analysis of the attributes of the unemployed who do receive UI benefits at some point during their unemployment spell is reported in table 2.2. These figures are based on an analysis of the Survey of Income and Program Participation (SIPP) and cover unemployment spells that occurred between 1989 and 1991.19

It should be recalled that there are a number of reasons that unemployed individuals may not receive UI benefits. These factors fall into five general categories. First, the job may not be covered under the UI system. (This is most likely to affect agricultural workers on small farms or self-employed individuals.) Second, the person may not satisfy the monetary eligibility requirements for the program. Third, the individual may not satisfy the nonmonetary eligibility requirements. Fourth, some unemployed workers may satisfy both sets of eligibility requirements and choose not to apply for benefits. Finally, some jobless persons who satisfy eligibility requirements may not realize that they are eligible for benefits.

Effects of Demographic and Economic Factors on Recipiency

The results in table 2.2 provide some evidence that demographic and economic factors have been responsible for at least part of the decline in recipiency, generally supporting conclusions reached by a number of earlier researchers.20 Specifically, the SIPP analysis found that if individuals earn relatively high wages, work in the manufacturing sector, work full time for the entire year, are a member of a union, live in the Northeast, or are job losers (rather than job leavers) they will be more likely to receive UI benefits when unemployed.21
Table 2.2 Percentage of Unemployed Workers Who Receive UI Benefits, by Gender and Race

<table>
<thead>
<tr>
<th>Worker characteristic</th>
<th>Total</th>
<th>Women</th>
<th></th>
<th>Men</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>White</td>
<td>Black</td>
<td>White</td>
<td>Black</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td>27</td>
<td>21</td>
<td>18</td>
<td>34</td>
<td>25</td>
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<td></td>
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<tr>
<td>Wage rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than $5.00</td>
<td>12</td>
<td>12</td>
<td>20</td>
<td>9</td>
<td>24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5.00 to $7.49</td>
<td>31</td>
<td>31</td>
<td>40</td>
<td>28</td>
<td>38</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$7.50 to $10.00</td>
<td>50</td>
<td>48</td>
<td>56</td>
<td>53</td>
<td>40</td>
<td></td>
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<tr>
<td>More than $10.00</td>
<td>63</td>
<td>39</td>
<td>na</td>
<td>70</td>
<td>67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poverty status prior to unemployment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In poverty</td>
<td>16</td>
<td>12</td>
<td>12</td>
<td>22</td>
<td>17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not in poverty</td>
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<td>23</td>
<td>25</td>
<td>36</td>
<td>27</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupation/industry</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blue-collar, manufacturing</td>
<td>56</td>
<td>50</td>
<td>65</td>
<td>58</td>
<td>55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blue-collar, nonmanufacturing</td>
<td>41</td>
<td>36</td>
<td>45</td>
<td>42</td>
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<tr>
<td>White-collar, manufacturing</td>
<td>56</td>
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<td>30</td>
<td>62</td>
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<td></td>
<td></td>
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<tr>
<td>White-collar, nonmanufacturing</td>
<td>25</td>
<td>22</td>
<td>na</td>
<td>32</td>
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<tr>
<td>Service</td>
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<td>16</td>
<td>13</td>
<td>14</td>
<td>11</td>
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<td></td>
</tr>
<tr>
<td>Hours of work</td>
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<td>Full-time, full-year</td>
<td>51</td>
<td>44</td>
<td>60</td>
<td>54</td>
<td>51</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part-time, full-year</td>
<td>27</td>
<td>24</td>
<td>37</td>
<td>30</td>
<td>27</td>
<td></td>
<td></td>
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<tr>
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<td>----</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td></td>
<td></td>
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<tr>
<td>Full-time, part-year</td>
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<td>32</td>
<td>37</td>
<td>41</td>
<td></td>
<td></td>
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<tr>
<td>Part-time, part-year</td>
<td>10</td>
<td>11</td>
<td>8</td>
<td>10</td>
<td>4</td>
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<td></td>
</tr>
<tr>
<td>Union status</td>
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</tr>
<tr>
<td>Member</td>
<td>61</td>
<td>42</td>
<td>48</td>
<td>68</td>
<td>57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonmember</td>
<td>29</td>
<td>25</td>
<td>25</td>
<td>33</td>
<td>30</td>
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<td></td>
</tr>
<tr>
<td>Metropolitan status</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Metropolitan area</td>
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<td>21</td>
<td>15</td>
<td>33</td>
<td>26</td>
<td></td>
<td></td>
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<tr>
<td>Nonmetropolitan area</td>
<td>29</td>
<td>21</td>
<td>26</td>
<td>37</td>
<td>21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region of the country</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northeast</td>
<td>38</td>
<td>30</td>
<td>28</td>
<td>45</td>
<td>44</td>
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<td></td>
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<td>South</td>
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<td>18</td>
<td>19</td>
<td>26</td>
<td>18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Midwest</td>
<td>26</td>
<td>18</td>
<td>9</td>
<td>35</td>
<td>21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>West</td>
<td>28</td>
<td>20</td>
<td>7</td>
<td>35</td>
<td>29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reason for unemployment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job loser</td>
<td>44</td>
<td>40</td>
<td>41</td>
<td>49</td>
<td>35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job leaver</td>
<td>8</td>
<td>6</td>
<td>11</td>
<td>10</td>
<td>19</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: Bassi and Chasanov (1996) analysis using the SIPP research file The total sample size used varied by worker characteristic 5,283 for the wage rate data; 8,619 for the poverty status data, 6,260 for the occupation/industry data, 6,287 for the hours of work data; 6,504 for the union status data, 8,221 for the metropolitan status data; 8,619 for region of the country data; and 4,167 for the reason for unemployment.

NOTE: “na” indicates that an estimate cannot be provided due to small sample sizes. Due to missing data, less than half of the sample was used for the following demographic groupings: wage rate, occupation/industry, hours of work, union status, and reason for unemployment.
Thus, as the percentage of the workforce that is in possession of these attributes has decreased, the percentage of the unemployed workforce that receives UI benefits has declined. Further, since many of these attributes are more likely to describe men than women, they also help to explain why unemployed men are more likely to receive UI benefits than are unemployed women. For similar reasons, whites are more likely to receive benefits than are blacks.

**General Effects of State Monetary Eligibility Standards**

Table 2.3 summarizes the results from simulations of monetary eligibility among SIPP participants. Overall, 56 percent of the unemployed satisfy their state monetary eligibility requirements; this ranges from a little more than one-third of black females to approximately two-thirds of unemployed white males. As expected, monetary eligibility rises with wages and with attachment to the labor force.

The majority of the unemployed who do not meet their state monetary eligibility requirements are either new entrants to the labor force, reentrants to the labor force, or individuals with sporadic labor force attachment. Of the unemployed who do not meet their state monetary eligibility requirements, 64 percent do not satisfy the requirement of their state that they have earnings in at least two of the four quarters in the base period. Of the monetarily ineligible individuals who do fulfill the two-quarter requirement, 23 percent fail to meet the base-period earnings standard. The remaining 13 percent (who meet the other two requirements) fail to meet the high-quarter earnings requirement (table 2.4).

In all likelihood, any liberalization of states UI eligibility rules would not affect the majority of the unemployed who do not currently meet the two-quarter earnings requirement (since UI was never intended to provide assistance to new entrants and reentrants to the labor force). It is likely, however, that at least some of the unemployed who meet the two-quarter earnings requirement but fail to satisfy the base period or high quarter earnings requirements would be affected by changes in state earnings standards.

Combining the results of tables 2.3 and 2.4 indicates that the group of those who have worked for at least two quarters but still fail to meet their state monetary eligibility requirements includes 18 percent of all unemployed white women, 13 percent of all unemployed black
Table 2.3 Percentage of Unemployed Workers Who Meet the UI Monetary Eligibility Requirements in Their State, by Gender and Race

<table>
<thead>
<tr>
<th>Worker characteristic</th>
<th>Total</th>
<th>Women</th>
<th></th>
<th>Men</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>White</td>
<td>Black</td>
<td>White</td>
<td>Black</td>
</tr>
<tr>
<td>Overall</td>
<td>56</td>
<td>54</td>
<td>35</td>
<td>64</td>
<td>47</td>
</tr>
<tr>
<td><strong>Wage rate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than $5.00</td>
<td>56</td>
<td>58</td>
<td>54</td>
<td>54</td>
<td>57</td>
</tr>
<tr>
<td>$5.00 to $7.49</td>
<td>76</td>
<td>78</td>
<td>72</td>
<td>74</td>
<td>81</td>
</tr>
<tr>
<td>$7.50 to $10.00</td>
<td>92</td>
<td>91</td>
<td>95</td>
<td>93</td>
<td>90</td>
</tr>
<tr>
<td>More than $10.00</td>
<td>93</td>
<td>91</td>
<td>na</td>
<td>94</td>
<td>95</td>
</tr>
<tr>
<td><strong>Occupation/industry</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blue-collar, manufacturing</td>
<td>83</td>
<td>81</td>
<td>88</td>
<td>85</td>
<td>75</td>
</tr>
<tr>
<td>Blue-collar, nonmanufacturing</td>
<td>75</td>
<td>72</td>
<td>na</td>
<td>75</td>
<td>76</td>
</tr>
<tr>
<td>White-collar, manufacturing</td>
<td>84</td>
<td>82</td>
<td>86</td>
<td>86</td>
<td>na</td>
</tr>
<tr>
<td>White-collar, nonmanufacturing</td>
<td>70</td>
<td>70</td>
<td>na</td>
<td>78</td>
<td>66</td>
</tr>
<tr>
<td>Service</td>
<td>55</td>
<td>57</td>
<td>47</td>
<td>58</td>
<td>45</td>
</tr>
<tr>
<td><strong>Hours of work</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time, full-year</td>
<td>93</td>
<td>95</td>
<td>96</td>
<td>92</td>
<td>92</td>
</tr>
<tr>
<td>Part-time, full-year</td>
<td>88</td>
<td>91</td>
<td>89</td>
<td>86</td>
<td>84</td>
</tr>
<tr>
<td>Full-time, part-year</td>
<td>67</td>
<td>67</td>
<td>58</td>
<td>67</td>
<td>70</td>
</tr>
<tr>
<td>Part-time, part-year</td>
<td>42</td>
<td>45</td>
<td>37</td>
<td>42</td>
<td>32</td>
</tr>
</tbody>
</table>

(continued)
### Table 2.3 (continued)

| Worker characteristic | Total | Women | | Men | |
|-----------------------|-------|-------||     | |
|                       |       | White | Black | White | Black |
| Metropolitan status   |       |       |       |       |       |
| Metropolitan area     | 57    | 55    | 36    | 64    | 49    |
| Nonmetropolitan area  | 55    | 53    | 34    | 63    | 41    |

SOURCE: Bassi and Chasanov (1996) analysis using the SIPP research file. The total sample size used varied by worker characteristic: 5,283 for the wage rate data; 6,260 for the occupation/industry data; 6,287 for the hours of work data, and 8,221 for the metropolitan status data.

NOTE "na" indicates that an estimate cannot be provided due to small sample sizes. Due to missing data, less than half of the overall sample was used for the demographic groupings above.
Table 2.4 UI Monetary Eligibility Requirements the Unemployed Fail to Meet, by Gender and Race (in percentages)

<table>
<thead>
<tr>
<th>Fail to meet</th>
<th>Total</th>
<th>White</th>
<th>Black</th>
<th>White</th>
<th>Black</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two-quarter earnings requirement</td>
<td>64</td>
<td>60</td>
<td>80</td>
<td>58</td>
<td>79</td>
</tr>
<tr>
<td>Base-period earnings requirement</td>
<td>23</td>
<td>27</td>
<td>10</td>
<td>26</td>
<td>13</td>
</tr>
<tr>
<td>High-quarter earnings requirement</td>
<td>13</td>
<td>13</td>
<td>10</td>
<td>16</td>
<td>9</td>
</tr>
</tbody>
</table>

SOURCE: Bassi and Chasanov (1996) analysis using the SIPP research file
NOTE. The total sample size of unemployed who were monetarily ineligible for benefits was 3,786: 2,506 failed to meet the two-quarter requirement; of the remaining individuals who met that requirement, 867 failed to meet the base-period requirement, and of the remaining individuals who met those two requirements, 413 failed to meet the high-quarter requirement or similar requirements. Totals may not sum to 100 due to rounding
women, 15 percent of all unemployed white men, and 11 percent of all unemployed black men. Additional tabulations (not included in this chapter) indicate that, in comparison with other unemployed persons, the individuals in this category earn extremely low wages and have very high poverty rates prior to the onset of unemployment.

**Determinants of Receipt among the Monetarily Eligible**

It should be recalled that, in addition to monetary requirements, unemployed individuals must satisfy a variety of nonmonetary requirements in order to qualify for and maintain ongoing eligibility for UI benefits. No currently available data base enables distinctions to be made among the unemployed who satisfy these nonmonetary requirements and those who do not. The SIPP does provide information on one important related factor: whether an unemployed individual lost the previous job or quit the job. The vast majority of those who quit their jobs are ultimately ineligible for UI benefits. Tabulations from the SIPP indicate that, among the unemployed who meet monetary eligibility requirements, 58 percent of those who lost their jobs receive UI benefits, while only 14 percent of those who quit receive benefits.

Some of those who have lost their jobs and who do not receive UI benefits may have been fired for cause and, therefore, may be ineligible for UI. Others may fail to meet some other aspect of continuing nonmonetary eligibility. Some may not be aware that they are eligible for benefits. Still others may choose not to apply for benefits for some reason—perhaps they expect to be unemployed for only a short period of time, or perhaps they have adequate income from other sources (e.g., a working spouse) and do not go to the trouble of applying for benefits.

**Recipiency Policy Issues**

The decline in recipiency has raised considerable concern because it affects the two primary functions of the UI system. First, it reduces the capacity of the system to provide adequate insurance to workers who face the risk of involuntary unemployment. Fewer workers receiving benefits reduces the insurance value of the system. Second, the system's capacity to stabilize the macroeconomy through the automatic countercyclical injection of funds into the economy is compromised. This is affected by recipiency in two ways. First, as the percentage of
unemployed workers who receive benefits decreases, fewer benefits are paid during recessions. Second, the IUR is the primary mechanism through which the EB program is activated during recessions. Because recipiency is reflected in this measure, the decline in recipiency has reduced the likelihood that extended benefits will trigger on during a recession, thereby reducing its capacity to stabilize the economy during downturns.

Thus, the very effectiveness of the system is, in part, a direct function of the percentage of the unemployed whom it serves. It appears that the recipiency decline is a result of a combination of factors. To the extent that the decline resulted from personal decisions by unemployed individuals not to apply for benefits, there is somewhat less cause for concern: the program has still met the first goal for those people, but they have elected not to take advantage of it. In that case, only the second goal is endangered. However, to the extent that the decline has resulted either from policy changes directly or from public policies that have not been adjusted to address relevant external developments (e.g., demographic and economic changes, declines in unionization) there is indeed cause for concern, for the program’s capacity to achieve both goals will have been compromised.

The discussion in this chapter suggests that the second scenario is supported by much of the research literature. There are a number of steps that can be taken that may help to reverse this trend and to increase the number of recipients among involuntarily unemployed individuals with a substantial attachment to the labor force. Perhaps most important among these is to encourage states to determine monetary eligibility by using hours of work—rather than earnings—as a measure of attachment to the labor force. Doing so would end the current situation, in which low-wage workers must work more hours than high-wage workers in order to qualify for UI. This change could affect the eligibility of up to 15 percent of all unemployed workers. These are primarily low-wage workers who meet the requirement of having earnings in two quarters but do not have a sufficient level of earnings to meet either the base-period or high-quarter earnings requirements.

This potential increase in eligibility resulting from a change to an hours-of-work requirement would be partially offset by a decrease in the number of high-wage workers with low labor force attachment who are eligible. Alternatively, states could simply set their earnings
requirements low enough to ensure that minimum wage workers with a substantial labor force attachment are able to qualify (this would not affect high-wage workers with low labor force attachment). In 1995, the Advisory Council on Unemployment Compensation recommended changes in state standards that would allow all workers with at least 800 hours of work in a base period to meet state monetary eligibility requirements.25

There are also a number of steps that could be taken to decrease the rate of nonfiling by unemployed individuals. Improving the information that unemployed workers have about the eligibility requirements of the program could enhance filing, and might offset the portion of the decline in recipiency that has been caused by the slippage in unionization. Changes in certain federal policy incentives, including a reduction in the taxation of UI benefits, could also have the effect of decreasing nonfiling.

The above changes could have a positive effect on the recipiency rate by directly affecting UI policies. At the same time, however, it is possible that these changes could be offset by more fundamental, structural elements of the system, which also may explain some of the decline in UI recipiency. For example, because states finance the vast majority of UI benefits through a tax on employers, any interstate competition to attract businesses could serve to reduce UI tax rates (as well as any other corporate taxes that are set by the states) to a level lower than would prevail in the absence of competition. Because it is clear that, in the long run, the relationship between solvency and benefits is a direct one, then decreases in taxes would necessitate decreases on the benefit side as well, all else being equal.

Although a number of studies have found that UI taxes do not play a significant role in business location decisions, all that is required for competition to develop is a perception by some states that UI taxes do affect such decisions. There is evidence that this perception does exist in many states. One recent study found that almost half of all states cite low UI tax rates in their economic development literature as a positive reason to relocate to that state. The study also found empirical evidence that states do compete in setting UI tax rates, and that this competition has had the effect of reducing average tax rates (Bassi and McMurrer 1996). This finding supports economic analysis suggesting that interstate economic competition would result in “inefficiently low
levels of UI benefits "[being] provided" (Hoyt 1996, MM-10). Thus, if interstate competition were present in the UI system, it would likely result in an ongoing decline in the relevance of the system, potentially undermining other direct policy efforts to increase the percentage of the involuntarily unemployed who receive benefits.

Conclusions

All else being equal, the extensions of UI coverage to new groups of workers should have raised the percentage of unemployed workers who receive UI benefits. However, as coverage has expanded since 1954, the percentage of the unemployed that actually receives benefits has declined. The simultaneous occurrence of these trends in coverage and recipiency represents cause for concern. It suggests that the overall UI system, even as it directly changes by covering a larger percentage of workers, has not been adjusted to respond to the evolving realities of the work force.

The combined effect of the two trends also suggests that one form of equity within the system has been eroded, as employer taxes that are paid on the wages of an increasing percentage of the labor force have gone to finance benefits for a decreasing share of the unemployed population. Stated somewhat differently, costs of the system are currently spread across a larger number of employers, while the percentage of workers who actually receive benefits has decreased. This effect increases to the extent that employers can pass UI payroll taxes on to workers in the form of lower wages, and the effect is greater in states that have low taxable wage bases, where low-wage workers necessarily pay a disproportionate share of the taxes that are passed on by employers. Overall, it is clear that the real benefits accruing from the increase in the percentage of the labor force covered under the system have been rendered significantly less important as they have been offset by a substantial decline in the capacity of the UI system to be a presence in the lives of involuntarily unemployed individuals.

Editors' Note. As this book goes to press, recent research on some issues addressed in this chapter has become available. On the issue of interstate competition in UI tax policy, Wayne Vroman finds no persuasive evidence that such competition has occurred. Similarly, Vroman finds no evi-

NOTES

Much of the research in this chapter is based on analyses that the authors have conducted as staff members of the Advisory Council on Unemployment Compensation. Additional information in some areas can be found in the three annual reports of the Advisory Council. The views expressed in this chapter are those of the authors and do not necessarily represent those of the members or the staff of the Advisory Council on Unemployment Compensation

1 Many states, however, chose to employ more liberal coverage standards from the beginning, particularly on requirements regarding the size of firm. The existence of more liberal coverage standards in various states has continued throughout the history of the program

2 This provision did not apply to employees of churches or other religious organizations. Nonprofit employers were offered the option of either reimbursing the state for only those benefits chargeable to them or paying the state UI tax in the same manner as other covered employers. Nonprofit employers were also offered the option of forming a group to pool their benefit liabilities through a common reserve fund. All nonprofit organizations remained exempt from the federal unemployment tax.

3 The reimbursement option was made available to all state and local government employers, and such employers remained exempt from the federal unemployment tax.

4 Estimates suggested that at least 50 percent of agricultural workers would be included as a result of this change.

5 Costs for both groups are financed entirely by the federal government out of general revenues.

6 See testimony from various agricultural groups at Advisory Council on Unemployment Compensation hearing, New York City, September 8-9, 1994.

7 This figure represents the estimate of the additional cost of extending agricultural coverage to all farm workers in those states that have not yet extended coverage. It was derived by extrapolating the experience and negative agricultural balances in the State of California.

8 There has been no evaluation of the effect of this program, and there are no statistics available on the extent to which it has been used.

9 The IUR is defined as the number of regular UI benefit claimants divided by the average number of people in UI-covered employment over four of the last six completed calendar quarters. The TUR is defined as the number of all active unemployed job seekers divided by the total civilian labor force.

10 The specific measure of recipiency used by researchers in examining this question has varied. Corson and Nicholson (1988) examined both ratios but focused upon the IU/TU, which they call the UI claims ratio. Blank and Card (1991) also examined this measure, which they call the fraction of insured unemployment. Vroman (1991) focused upon the IU/TU ratio as well. Baldwin and McHugh (1992) examine IU/TU, but they include EB recipients in addition to regular state UI recipients.
It is likely that part of this change in dynamics can be attributed to the unusual back-to-back recessions during the 1980-1983 period. Some recipients who exhausted benefits during the first recession were likely to have been ineligible for benefits during the second recession, thereby limiting the increase in recipiency during the second recession.

The IUR/TUR and IU/TU ratios can be statistically predicted quite accurately for the years up to 1980 by knowing only two variables: (1) the year (a reflection of the long-term decline of the system) and (2) the unemployment rate (because of the tendency for the ratio to increase significantly during periods of high unemployment). Since 1980, however, the recipiency ratios no longer consistently demonstrate the same statistical relationship to these two variables.

Any apparent discrepancy in totals is due to rounding error.

Baldwin and McHugh's findings (1992) have been reformulated in the text in order to facilitate greater comparability between these results and those of other studies. In particular, Baldwin and McHugh report that state policy changes account for 97.4 percent (rather than 54 percent) of the total net change in the IU/TU ratio. Overall, they find three primary factors that decreased the IU/TU ratio, along with other factors that partially offset the decrease. Thus, when only the three factors that decrease the ratio are combined, they are larger than the net decline. As a result, each of the factors independently appears to be a large percentage of the net decrease. In order to determine the relative impact of each factor, the percentage of the overall negative impact upon the IU/TU ratio that is attributable to each of those factors must be calculated. These calculations indicate that state policy changes account for 54 percent of the decline in IU/TU, decreased unionization for 29 percent, and decreases in the manufacturing sector for 16 percent. The remaining 1 percent is attributable to the lagged unemployment level.

Any apparent discrepancy in totals is due to rounding error.

A recent supplement to the Current Population Survey (CPS) will allow this question to be answered more definitively, but the results will not be available for some time.

Corson and Rangarajan (1994) emphasize that this result is unexpected and suggest that it should be viewed with caution.

The analysis reported in this section draws heavily on work by Bassi and Chasanov (1996). While data limitations make it impossible to distinguish among many of these reasons for nonreceipt of UI benefits among the unemployed, the Survey of Income and Program Participation (SIPP) is arguably the best available information for these purposes. Using the CPS, Blank and Card estimate that between 1977 and 1987, only 43 percent of the unemployed met their state's eligibility requirements. Their estimate is, however, very rough because the absence of retrospective earnings data in the CPS introduces error into the eligibility simulations (which require quarterly earnings data for 18 months prior to unemployment). Two special CPS supplements (1989-90 and 1993) do, however, include information on why unemployed individuals do not receive UI benefits. Consequently, the CPS can be used to analyze somewhat different issues than can be analyzed with the SIPP. Vroman (1991) is an example of this approach. The SIPP is preferable for two main reasons: (1) it contains longitudinal, quarterly earnings data, which are necessary for simulating UI monetary eligibility, and (2) the most recently available cohorts of the SIPP include information on whether individuals quit or lost their jobs. Individual monetary eligibility can be estimated for each individual in the SIPP by applying simulation models of UI eligibility to the SIPP data.

In interpreting this table and those that follow, it should be noted that some variables in the SIPP (e.g., hourly wage rate and union status) are frequently missing. Consequently, only a subset of the SIPP sample is available for cross-tabulating UI receipt by these variables. As a result, the disaggregated UI receipt rates may be substantially different from the overall receipt rate.

Further, the levels of UI receipt reported in the SIPP (like most other relevant data bases that are not based on administrative data) tend to be several percentage points below the officially
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reported levels. There are several possible explanations for this discrepancy. First, the officially
reported statistics include individuals who have filed for benefits, although some of these individ-
uals are not actually receiving benefits. Second, it is likely that receipt of benefits is frequently
underreported by respondents to the SIPP (and other major surveys). Third, the officially reported
statistics on UI receipt implicitly weight unemployment spells by their duration, whereas the data
in table 22 are based on spells of unemployment and do not make any durational adjustment
Since individuals experiencing short spells of unemployment are less likely to apply for UI, this
conceptual difference in the two measurements undoubtedly accounts for some portion of the dis-
crepancy.

20 See, for example, Baldwin and McHugh (1992), Blank and Card (1991), Burtless and Saks

21 Individuals who had no earnings during the base period (i.e., new entrants or reentrants to
the labor force) were excluded from the analysis.

22 These estimates understate monetary eligibility to the extent that individuals have underre-
ported their income in the IPP. According to the simulations, approximately 3 percent of the
unemployed who are calculated to be ineligible for UI report that they do, in fact, receive UI ben-
efits. Thus, either the simulations are incorrect because of underreported income, or these individ-
uals are receiving UI benefits in error. Undoubtedly, some additional individuals who are
simulated to be ineligible do, in fact, meet the monetary eligibility rules in their states but do not
receive benefits.

An additional source of error results from using the state in which an individual resides as the
basis for the simulations. To be accurate, the simulations should be based on the state in which an
individual works (although this information is not available in the SIPP). Unlike underreporting
of income, however, this latter source of mismeasurement is unlikely to cause any systematic bias
in these estimates of eligibility.

23 A small percentage of these individuals may have a long-term continuous labor force
attachment but may fail to meet the two-quarter earnings requirements because of two or more
spells of unemployment within a short period of time.

24 It should be noted that not all states use all three of the general monetary requirements dis-
cussed in this paragraph. The individuals who are reported as being ineligible by each of the
requirements are only those whose state has such a provision in its law. Thus, individuals who
worked only one quarter, but whose states do not require earnings in at least two quarters, are not
included in the groups of workers who are identified as having been disqualified for failing to
meet that requirement.

25 The Advisory Council on Unemployment Compensation made other recommendations
related to nonmonetary eligibility, including the elimination of exclusions of seasonal workers
from UI eligibility in some states, and the elimination of requirements in some states that workers
seek full-time employment.

26 For evidence on the extent to which employer UI taxes are shifted to workers, see, for
example, Anderson and Meyer (1994).
References


