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Reemployment Bonus Experiments and Public Policy in **Solving the Reemployment Puzzle: From Research to Policy**

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Reemployment Bonus Experiments and Public Policy

INTRODUCTION

The idea of reemployment bonuses originated in 1974 in Japan, where unemployed workers can receive a cash bonus for accepting a new job, but they cannot receive reemployment bonuses more frequently than once every three years. Reemployment bonuses also have been used in South Korea since 1995 (Martin and Grubb 2001; Wandner 2002).

Between 1984 and 1989, four reemployment bonus experiments were conducted in the United States. They provided varying levels of lump sum payments to permanently separated workers who took new, full-time jobs within six to 12 weeks after becoming unemployed and held those jobs for at least three to four months. These experiments were conducted to learn about the behavioral response of unemployment insurance (UI) recipients to the availability of UI benefits. Researchers designed a reemployment bonus system intended to speed the return to work of dislocated workers in a manner that would benefit employees and might be cost-effective. The concept behind these experiments was that UI claimants would be better off if they went back to work sooner and took similar jobs that paid similar wages to the jobs they would have taken in the absence of their bonus offers. Bonus offers were tested to see if the government sector could be better off financially, which would be true if the cost of offering bonuses was offset by a decrease in UI payments to unemployed workers and an increase in tax receipts during their longer periods of employment.

The reemployment bonus experiments were completed in the early 1990s, but as of today reemployment bonuses have not been implemented as part of U.S. labor market policy. The Clinton administration proposed federal reemployment bonuses in 1994, but the legislation was not enacted. In 2003, the Bush administration proposed Personal

Reemployment Accounts (PRAs), which included a reemployment bonus component targeted to dislocated workers. While that legislation was not enacted, PRA demonstration projects began in 2005. The Bush administration proposed PRAs as part of the Workforce Investment Act (WIA) reauthorization later that year. Because of a new administration initiative, the PRA initiative was abandoned in 2006 and was replaced with a proposal for training vouchers—Career Advancement Accounts—which became a component of President Bush’s new emphasis on an “ownership society.”

Reemployment Experiments

Some job-ready dislocated workers might delay searching for or taking a new job. The reemployment bonuses tested in the experiments provided an incentive to speed the return to work. The treatments consisted of the bonus offer by itself or the bonus in conjunction with the provision of job search assistance (JSA). Reemployment bonuses provide incentives to motivate workers to return to work and to encourage adjustments to structural economic change. These demonstrations encouraged dislocated workers to recognize and act upon the likely reality that their old jobs were gone forever and that there were steps that they could take to prepare for new employment. The bonuses provide incentive payments to individuals for successful early reemployment in suitable jobs. The purpose of these payments is to encourage dislocated workers to intensify their job search efforts and accept suitable new employment within a specified time period.

The intent in providing bonuses is not to encourage workers to take short-term jobs or jobs below their earnings potential. Rather, reemployment bonuses are offered as lump-sum payments, with the amount of the payment equal to some portion of the individual’s entitlement to UI benefits. Tying the reemployment bonus to UI benefits can equalize the bonus incentive across claimants, since each person’s bonus would be the same proportion of their UI benefit entitlement and would also be related to their usual wage level. To encourage participants to consider a longer time horizon and accept only suitable jobs, those individuals who qualify for reemployment bonuses can only receive a bonus payment after they maintain employment for some minimum specified period of time.

While the reemployment bonus experiments attempted to encourage permanently separated workers to find new jobs quickly, the bonuses might have had an adverse effect on employers, if workers subject to recall had responded to the bonus offers. More specifically, the reemployment bonus experiments answered two questions related to this concern: 1) What effect does a reemployment bonus have on workers subject to recall? 2) Can the effect be large enough that it would induce some workers to seek new employment? The answer is that no such impact was found (O'Leary, Spiegelman, and Kline 1995, pp. 267–268).

HISTORY OF EXPERIMENTS

The Illinois Reemployment Bonus Experiment was conducted in 1984–1985, sponsored by the Illinois Department of Employment Security and funded by state reserves for the Employment Service (ES) program. These reserves are monies held centrally by each state to supplement funding allocated to operate local ES offices (Woodbury and Spiegelman 1987). The experiment was designed, overseen, and evaluated by staff of the W. E. Upjohn Institute for Employment Research. The Upjohn team was interested both in the theoretical and empirical economic implications of a bonus and in the potential for developing a cost-effective program. The state of Illinois was hoping to identify and implement a cost-effective program that would increase incentives to return to work.

The apparent success of the Illinois Experiment encouraged further experimentation. The experiment reduced UI durations by just over one week without any reduction in postunemployment wages for the treatment group. It was also cost-effective for the UI trust fund: for each dollar spent on the reemployment bonus payment, UI regular benefits were reduced by more than two dollars. Reemployment bonuses looked like an ideal program to implement. But before reemployment bonuses could be considered for policy purposes, the research and policy community had some remaining questions. Could the results of the experiment be replicated? If replication was successful, what would be the best bonus offer level and time limit (qualification period) for designing the most cost-effective program?

Independent of the Illinois Experiment, the USDOL sponsored the New Jersey Experiment, which included a reemployment bonus treatment group (Corson et al. 1989). This project was designed and became operational in 1985 and 1986, before the results of the Illinois Experiment became available. The New Jersey Experiment was not designed to replicate or validate the Illinois Experiment.

In 1987, with the evaluation of the Illinois Experiment completed and the New Jersey Experiment operations over, the department sponsored two additional reemployment bonus experiments. These experiments used the Illinois model rather than the New Jersey model as their starting point for design and replication. The projects were funded using a portion of the \$5 million that had been specifically added to the department's fiscal year 1987 budget to fund additional UI Experiments.

Two reemployment bonus demonstrations were conducted in 1988 and 1989—one in Pennsylvania and one in Washington State (Corson et al. 1991; Spiegelman, O'Leary, and Kline 1992). In contrast to the Illinois demonstration, these experiments had much more modest results. While half of the 10 treatments tested by the two experiments provided net benefits to claimants, society, and the government sector as a whole, only two of the treatments provided net benefits to one particular component of the government sector—the UI trust fund.

To better understand the results of the reemployment bonus experiments, a pooled analysis was conducted of the Pennsylvania and Washington State data (Decker and O'Leary 1992, 1995). The analysis controlled for differences between the two experiments and resulted in added precision to the estimate of impacts. The increased precision, however, did not improve the outcomes; reemployment bonuses were found to be cost-effective only to claimants.

In most cases, research and policy reviews of reemployment bonuses have been with regard to a broad, untargeted program, rather than more narrowly targeted programs like Worker Profiling and Reemployment Services (WPRS) and Self-Employment Assistance (SEA) that make use of a worker profiling mechanism. These reviews created modest expectations for reemployment bonus programs. These expectations have been further dampened by external validity concerns about an ongoing program. More recently, however, O'Leary, Decker, and Wandner (2005) found reemployment bonuses to be more promising if they are more narrowly targeted to UI claimants using the WPRS targeting process.

DESIGN OF THE REEMPLOYMENT BONUS EXPERIMENTS

Overview

All of the reemployment bonus experiments had eligibility requirements that had to be met before unemployed workers could participate in the projects as members of the treatment or control groups. The requirements were selected to do three things: 1) assure that workers filed for or drew UI benefits, 2) deal with UI administrative concerns, and 3) select workers who had experienced some degree of work displacement. Treatment design dealt mostly with the determination of the potential bonus amount, the period of time during which workers could qualify for the bonus, and the conditions under which they could receive the bonus.

All four experiments took place in single states. Selection of participating local offices was conducted with varying concern about how representative the participating local offices were of the state as a whole. Sampling of claimants within each local office was conducted using random assignment methods. The sample size was selected considering the need for precision for individual treatments and any subgroups that would be analyzed.

Eligibility Requirements

Eligibility requirements varied greatly

All the reemployment bonus experiments had requirements relating to the filing and eligibility for UI benefits. For the New Jersey Experiment a project participant had to be a recipient (monetarily and non-monetarily eligible); for the other experiments the participants had to be monetarily eligible at the time of the offer (Table 10.1). It was desirable to make the offer early, and in some cases prior to the receipt of a UI first payment, to speed the early intervention nature of the reemployment incentive. Nonetheless, in all of the experiments, bonuses could only be received by a participant who had become a UI recipient. The purpose of making an offer before a final determination of UI eligibility was to speed the intervention and to seek a cost-effective outcome.

Table 10.1 Eligibility Requirements for the Reemployment Bonus Experiments

	Illinois	New Jersey	Pennsylvania	Washington
Unemployment Insurance eligibility criteria	Initial claims only.	First payments only.	Initial claims only. Regular UI claims. Initially satisfy monetary eligibility conditions. Not separated from job due to a labor dispute. Sign for a waiting week or first payment within six weeks of benefit application date.	Initial claims only. Eligible to receive benefits from the state UI trust fund. Monetarily valid claims at the time of filing.
Dislocated worker criteria	Eligible for full 26 weeks of potential duration. Register with Job Service. (Excludes workers on temporary layoff and in union hiring hall.) Age at least 20 and not older than 54.	Age 25 or greater. Three years' tenure on prior job. Exclude temporary layoffs: expect recall on a specific recall date. Union hiring hall exclusion.	Union hiring hall exclusion. Exclude employer attached: must not have a specific recall date within 60 days after benefit application.	

The extent of dislocated worker screening criteria varied greatly. Screening was extensive in New Jersey, while it was nonexistent in Washington. The Illinois and Pennsylvania experiments fell in between. Although the experiments were focused on permanently separated employees, the degree of screening varied, largely because of analytical differences in the evaluations of the experiments. Evaluation analysis of subgroups was expected to make the experiments more comparable and to focus on subgroups in need of services, including groups having greater difficulty returning to work.

Serving dislocated workers

The policy goal of the experiments was to serve permanently separated unemployed workers, who might also share other characteristics of dislocated workers. The dislocated worker screens used in the experiments were not necessarily the same as those that would be used in an operational program. At the time of initiation of the experiment, no consensus had emerged about what those screens might be, and, as long as sample sizes were large enough, the screens could be simulated by imposing more restrictive screens on the experimental participants after the fact.

The experiments also represented different philosophies. The New Jersey and Illinois experiments were conducted earlier and imposed screens restricting the age and tenure of participants. By the time the Pennsylvania and Washington experiments were conducted, there was greater understanding that screening on the basis of age might not be permissible in an ongoing, federally sponsored program and that a strong tenure screen might need to be relaxed in an operational system. In addition, the Washington design was explicitly based on the expectation that any more restrictive screens would be imposed analytically on the experimental data after the fact.

Developed in 1993, profiling was required for use with reemployment bonuses in the “UI flexibility” provisions of the proposed Reemployment Act of 1994 and again as part of Personal Reemployment Accounts (PRAs) in 2003. As a result, any future reemployment bonus program proposal likely will use the same worker profiling targeting process. Thus, designs of the reemployment bonus operating systems should incorporate a worker profiling mechanism, and the profiling mechanism should be used to adjust the estimated impacts when applied to the reemployment bonus experimental data.

Design of the Experiments

The goal of the early experiments was to have a significant impact on worker behavior. The level of the bonus amount had to be sufficient to motivate unemployed workers to seek the bonus. The duration of the bonus offer had to be long enough to allow for success in seeking new employment. In Illinois, policymakers wanted the bonus design to be cost-effective to the government sector as well as to the UI trust fund. By contrast, in New Jersey the bonus amount was intentionally set high to assure that there would be a large response to the offer. In this sense, the New Jersey Experiment was a “first pass” at a reemployment bonus, with the expectation that fine tuning would have to be done in the future if the experiment had its expected impact.

The Illinois design provided a fixed \$500 bonus amount, about four times the UI weekly benefit amount (WBA) at the time. Treatment group members had to become reemployed within 11 weeks of initially filing their UI claims. Since the bonuses were offered soon after filing for UI benefits—when claimants registered with the local Employment Service—and the claimants were eligible for up to 26 weeks of UI benefits (not including extended benefits), researchers believed the experiment could yield cost-effective results.

In New Jersey, the bonus offer was one-half of the remaining UI benefit entitlement at the time a new job was taken. It was designed as a UI benefit cash-out program, so that claimants could receive a portion of their remaining UI entitlement as a reward for not exhausting their entitlement. The offer generally was made in the eighth week of UI benefit receipt, when claimants would have about 18 weeks of potential duration remaining, if they qualified for the maximum duration of benefits. As a result, the initial offer averaged \$1,644—about nine times the UI weekly benefit amount. By its value declining over time, the New Jersey offer was designed to encourage rapid search for and taking of a job. The declining offer also tended to encourage a cost-effective outcome, since it encouraged reemployment at the beginning of the qualification period. This offer could result in large declines in unemployment durations. In New Jersey, unlike Illinois, however, there was no assurance that the treatment group members would be eligible for a full 26 weeks of benefits.

The Pennsylvania and Washington design reflected what had been learned in Illinois, and reflected that experiment's promise of apparent success. (The New Jersey design was set aside.) The bonus offers were multiples of the worker's weekly benefit level. This approach was appropriate given the finding that claimants in the Washington Experiment who received less than the UI maximum weekly benefit responded more strongly to bonus offers than those constrained by the UI maximum benefit amount (O'Leary, Spiegelman, and Kline 1995, p. 267). From the Illinois experience, a bonus equivalent to approximately four weeks of UI benefits offered each week for approximately 11 weeks seemed adequate. (The offer of half of the remaining entitlement used in the New Jersey Experiment was clearly too much.) The new experiments tested benefit levels that bracketed the Illinois bonus amount (four times the WBA) and tested some qualifications that were similar to the earlier offers as well as others that were about half as much.

The resulting design provided for four treatment groups in Pennsylvania and six in Washington (Table 10.2). The dimensions of each design were the level of the bonus (high and low in Pennsylvania; high, medium, and low in Washington) and the qualification period or duration of the bonus offer (short and long).

The Pennsylvania and Washington experimental designs were developed at the same time and were coordinated. The Washington Experiment had an offer of four times the weekly benefit amount and a qualification period that tended to be about 10 ½ weeks. The Pennsylvania long-qualification-period (12-week) treatments paid either three or six times the UI weekly benefit amount, thus bracketing Illinois's offer of four times the weekly benefit amount. Some of the bonus offers were similar. The short qualification/high bonus offer and long qualification/high bonus offer treatments were nearly identical between the two experiments (Decker and O'Leary 1995, p. 536). As a result, it was hoped that the evaluation findings of the two experiments would be complementary and reinforcing.

In all of the experiments, participants had to work a minimum period of time, the "reemployment period," before they were eligible for a reemployment bonus. In Illinois, Pennsylvania, and Washington, the reemployment period was four months—defined as 16 weeks in Pennsylvania. This parameter was not considered to be sensitive to variation, so there was no experimental variation within any of the experiments

Table 10.2 Treatment Design for the Reemployment Bonus Demonstrations**Illinois**

Bonus offer	Qualification period	Bonus payment	Reemployment period
\$500	11 weeks	1	4 months

New Jersey

Bonus offer	Qualification period	Bonus payments	Reemployment period
Half of remaining UI entitlement; initial offer good for two weeks, then declines by 10% per week in each successive week.	12 weeks	2 (60% after 4-wk. reempl. period; 40% after 12-wk. reempl. period.)	4 weeks; 12 weeks

Pennsylvania

Bonus offer	Qualification period		Bonus payment	Reemployment period
	6 weeks	12 weeks		
3 × WBA	Low bonus, short qualification period	Low bonus, long qualification period	1	16 weeks
6 × WBA	High bonus, short qualification period	High bonus, long qualification period		

Washington

Bonus offer	Qualification period		Bonus payment	Reemployment period
	(0.2 × potential UI duration) + 1 week	(0.4 × potential UI duration) + 1 week		
2 × WBA	Low bonus, short qualification period	Low bonus, long qualification period	1	4 months
4 × WBA	Medium bonus, short qualification period	Medium bonus, long qualification period		
6 × WBA	High bonus, short qualification period	High bonus, long qualification period		

NOTE: WBA = weekly benefit amount.

(Robins and Spiegelman 2001). New Jersey was an outlier, with a four-week reemployment period to receive the first reemployment bonus payment and 12 weeks to receive the second payment.

Qualifying for Bonus

To be eligible to receive a reemployment bonus, treatment group members in Illinois had to take new jobs, earning at least \$30 per week, and hold them for four months. The New Jersey Experiment required workers to take a new job, which could not be temporary, seasonal, part-time (under 32 hours per week), and could not be provided by a relative or by the immediately preceding employer. As a tenure requirement, the worker had to hold that job for four weeks to get 60 percent of the bonus and for 12 weeks to get the remaining 40 percent (Corson et al. 1989, pp. 121–123). In Pennsylvania, workers had to start working in a new job, which could not be part-time (under 32 hours per week). Workers had to continuously hold the new job for 16 weeks. In Washington, workers had to take a new job, which could not be part-time (under 34 hours per week). The tenure requirement was continuous employment for a period of four months.

Thus, the common qualification requirement was to start a full-time job—defined three different ways—with a new employer and hold it for a three- to four-month period.

Site Selection

In all cases except in Illinois, the site selection process attempted to make the sites reasonably representative of the state as a whole. In Illinois, however, 22 local ES offices were selected, but they were all located in northern and central Illinois. Site selection ensured that a variety of rural and urban sites would be represented, but the selection process was largely for administrative convenience.

In New Jersey and Pennsylvania, site selection was based on survey sampling methodology. In New Jersey, 10 sites were chosen from a total of 38 local UI offices. Fourteen local offices were excluded as being too small to support the experiment. Local offices were then stratified geographically to assure that they were representative of the state in terms of mix of industries, local office setting, and other char-

acteristics. Finally, 10 local offices were randomly selected, with the probability of selection based on local office size, as measured by their claimant population.

In Pennsylvania, 12 local UI-ES offices were randomly selected from 12 clusters selected based on UI–Job Service geographic regions within the state and the average duration of UI receipt. In Washington, 21 of 31 ES offices were selected. Of the 10 offices excluded, seven were the smallest offices in the state and were found not to be able to support the experiment, two were participating in another experiment, and one was excluded because of its integration with the Portland, Oregon, metropolitan area.

DEMONSTRATION FINDINGS AND ANALYSIS

Demonstration Findings

The demonstration findings derive from two outcome measures—the impacts on 1) UI receipt and 2) postunemployment earnings—and the benefit-cost analysis.

Impact on receipt of UI

The UI receipt impacts of the experiments are summarized in Table 10.3. The Pennsylvania and Washington data are regression-adjusted estimates from a pooled sample (Decker and O’Leary 1995). The results of the reemployment bonus experiments generally show a significant decline in benefits received in the benefit year. The results are largest in the Illinois Experiment, with a reduction in benefits of over one week.

The results for Pennsylvania and Washington are uneven and much smaller. The most generous bonuses—high bonus/long eligibility—had the greatest impact, but the results are not consistent for the other treatments. These results are disappointing in that they do not show a graduated impact, increasing from low bonus to high, and the size of the impacts is smaller than for the Illinois Experiment. The pooled data analysis for the Pennsylvania and Washington experiments confirm the smaller UI impacts of the two new experiments, yielding an estimate of half a week, which is less than half the result in Illinois.

Table 10.3 Estimated Impacts of the Reemployment Bonus Treatments on UI Outcomes and Earnings

Treatment	Weeks of benefits in benefit year	Earnings (\$ per claimant)
Illinois	-1.15***	8 (Qtr. 1)
New Jersey	-0.97***	176** (Qtr. 1)
	(benefit year)	
	-0.44**	79 (Qtr. 2)
	(2nd year)	
	-1.72***	46 (Qtr. 3)
	(over 6 years)	
		79 (Qtr. 4)
Pennsylvania		
PT 1 low-short	-0.63*	19 (Qtr. 1)
PT 2 low-long	-0.39	87 (Qtr. 1)
PT 3 high-short	-0.46	116 (Qtr. 1)
PT 4 high-long	-0.84***	70 (Qtr. 1)
Washington		
WT 1 low-short	-0.04	-178** (Qtr. 1)
WT 2 med.-short	-0.25	-54 (Qtr. 1)
WT 3 high-short	-0.71**	63 (Qtr. 1)
WT 4 low-long	-0.59**	36 (Qtr. 1)
WT 5 med.-long	-0.31	-42 (Qtr. 1)
WT 6 high-long	-0.80**	102 (Qtr. 1)
Combined		
PA-WA treatments	-0.51***	26 (Qtr. 1)

NOTE: New Jersey earnings are based on interview data. * significantly different from zero at the 90 percent confidence level (two-tailed test); ** significantly different from zero at the 95 percent confidence level (two-tailed test); *** significantly different from zero at the 99 percent confidence level (two-tailed test).

SOURCE: Illinois: Woodbury and Spiegelman (1987); New Jersey: Corson and Haimson (1996), pp. 27, 36; Pennsylvania, Washington, and combined: Decker and O'Leary (1995).

The New Jersey data are not comparable because that treatment included mandatory participation in job search assistance. Nonetheless, the combined impact of the offer of both JSA and the reemployment bonus is less than that for the reemployment bonus alone in Illinois during the first benefit year (Corson et al. 1989). The New Jersey Experiment, however, included a six-year follow-up study, and the total six-year result yielded an effect nearly double the first-year effect. It also exceeded the Illinois one-year impact. In the New Jersey Experiment, both the JSA-only and the JSA-plus-reemployment-bonus treatments had long-term effects on UI receipt, indicating that these two treatments led to jobs that were more stable, and the reemployment bonus contributed to this stabilization (Corson and Haimson 1996).¹

Impact on postunemployment earnings

The postunemployment earnings of participants in the reemployment bonus experiments answered the question, “Did the experiments produce a less favorable job match, resulting in lower earnings in the new jobs?” The reemployment bonus offer might have induced unemployed workers to take a less suitable job at a lower wage, in order to take advantage of the bonus offer. The results from all four experiments, however, show that this did not happen.

Table 10.3 presents the earnings impacts for the experiments. There is no significant change in earnings for the Illinois, Pennsylvania, and Washington participants in the first quarter of employment following UI claims status, with one exception—that of a negative and significant impact for one Washington treatment. These findings are confirmed by the pooled data analysis for the Pennsylvania and Washington experiments, which also find no significant impact. The New Jersey Experiment shows positive results for the first quarter after the UI claim, but these results reflect, in part, the presence of the offer of job search assistance.² The conclusion is that reemployment bonuses result in more rapid reemployment because of more intense job search, and not from a willingness to take less favorable jobs or jobs with lower earnings.

Benefit-cost analysis

From the benefit-cost analysis of the Illinois Experiment, the net benefits from the perspective of the UI trust fund were both dramatic

and promising when the analysis was published as the lead article in the September 1987 issue of the *American Economic Review*. The evaluation estimated that the net benefits per claimant were \$90. The bonus offer was found to have reduced benefit payments by \$2.32 for each \$1.00 in reemployment bonuses paid, for a benefit-cost ratio of 2.32.

These strong positive results spurred the replication and extension of the experiment in Pennsylvania and Washington. The Illinois results, however, were not confirmed. Only 2 of the 10 treatments in these two states produced net benefits to the Unemployment Trust Fund. The results for the pooled sample were negative for the government sector and for society but positive for claimants.

The first goal of the Pennsylvania and Washington experiments was to replicate the Illinois Experiment. In Washington, the medium/long treatment (WT5) duplicated Illinois. No treatment in Pennsylvania duplicated the Illinois design, but the low/long (PT2) and high/long (PT4) treatments effectively bracketed the Illinois design. None of these three treatments produced net benefits for the UI trust fund. Three Pennsylvania treatments provided net benefits to the government sector as a whole.

The second goal of the new experiments was to fine-tune the design of the Illinois Experiment to find the most cost-effective combination of bonus amount and qualification period. Since there was no graduated and increasing impact on UI receipt as the bonus amount increased and the qualification period lengthened, this goal was not achieved either.

The conclusions from these new studies were that 1) the basic findings of Illinois could not be duplicated, and 2) no reemployment bonus design would pay for itself. The new experiments were not cost-effective to the UI trust fund. They also did not appear to result in net benefits for the government sector. Meanwhile, the New Jersey results were positive to all sectors, but these results were not comparable to the other studies (Table 10.4).

Explaining the Results

Failure to confirm the results of the Illinois Experiment led researchers to search for the reasons for the observed results. One response was the pooled data analysis for Pennsylvania and Washington, noted

above. It was hoped that pooling data would provide more insight into the effects of the new experiments by improving the precision of the individual state estimates. The results of this analysis, however, only confirmed the results of the two separate evaluations (Decker and O'Leary 1995).

Further analysis of the Illinois results was conducted, looking for explanations for its stronger findings compared to the other three experiments. Davidson and Woodbury (1991) found that the favorable results of the Illinois Experiment may have been due to the availability of temporary emergency-extended UI benefits, known as Federal Supplement-

Table 10.4 Estimated Net Benefits of the Reemployment Bonus Experiments (\$ per claimant)

Treatment	Claimant	Government		Society
		UI trust fund	Gov't total	
Illinois	—	90	—	—
New Jersey	400	45	165	565
Pennsylvania				
PT1 low-short	-312	41	-53	-365
PT2 low-long	142	-1	42	184
PT3 high-short	127	-10	28	155
PT4 high-long	171	-31	20	191
Washington				
WT1 low-short	-168	-71	-122	-289
WT2 med.-short	-87	-65	-91	-178
WT3 high-short	198	-37	23	222
WT4 low-long	-224	51	-16	-241
WT5 med.-long	-124	-79	-117	-241
WT6 high-long	328	-80	19	347
Pennsylvania and Washington combined	14	-25	-21	-7

NOTE: For New Jersey, results estimates were broader than the UI Trust Fund and include the entire U.S. Department of Labor. — = not available.

SOURCE: Illinois: Woodbury and Spiegelman (1987); New Jersey: Corson and Haimson (1996), p. 93; Pennsylvania, Washington, and PA-WA combined: Decker and O'Leary (1995).

tal Compensation (FSC), during the first half of the period of operation of the project. These benefits continued to be available after initially being enacted to ease the impact of the 1980–1982 recession. Thus, they provided up to 26 additional weeks of extended benefits to UI recipients who had exhausted their entitlement to regular UI benefits. The potential savings to the UI trust fund for FSC-eligible UI claimants was much greater because of their much greater total UI entitlement, i.e., up to 52 weeks. Workers eligible for FSC were found to be much more responsive to the reemployment bonus than those not FSC-eligible. While the benefit-cost ratio for all claimants was found to be 2.32, the ratio for those not eligible for FSC was about 1.4, which is closer to that for the average for Pennsylvania (Davidson and Woodbury 1991; O’Leary, Spiegelman, and Kline 1995, p. 267). The much more favorable impact of the reemployment bonus offer for FSC-eligible claimants provides a partial explanation for the much greater cost-effectiveness of the Illinois Experiment.

Comparisons have also been made between the individual experimental results. The stronger results of the Pennsylvania Experiment relative to Washington have been examined. One conclusion was that the tighter labor market in Pennsylvania during the 1988–1989 experimental period may have made it easier to find a job (O’Leary, Spiegelman, and Kline 1995, p. 267).

For individual experiments, subgroup analysis has been conducted. One subgroup that has been analyzed is dislocated workers. This target group was reflected to some extent in the selection of the eligible population to varying degrees in Pennsylvania, New Jersey, and Illinois, but not in Washington. In the Washington evaluation (Spiegelman and Woodbury 1987, pp. 116–120, 193, 202–203), the impacts and cost-effectiveness of the experiment for dislocated workers are analyzed, but this analysis is restricted to a subgroup of participants having only one dislocated worker characteristic (long tenure). A benefit-cost analysis for such long-tenure workers results in a conclusion that from “the perspective of the UI system, or the government as a whole, none of the alternative bonus offer programs look particularly attractive as a dislocated worker program” (Spiegelman, O’Leary, and Kline 1992, p. 202). A more recent analysis of worker dislocation described below, however, examined a much wider range of factors that are associated with worker dislocation.

Another explanation for the larger impact on UI receipt of the Illinois Experiment compared to that of New Jersey was in the design of the bonus offer—a constant \$500 reemployment bonus in Illinois, which might have had a different effect on UI spells of unemployment than the New Jersey declining bonus (Decker 1994). Despite differences in the size and structure of the two bonuses, their offer had a similar impact on exit rates from UI receipt during the bonus qualification period. It was only after the end of the bonus qualification period that UI exit rates began to differ. For the Illinois Experiment, there was no impact on exit rates after the qualification period, while in the New Jersey Experiment there was a significant decline in exit rates. Thus, the New Jersey Experiment reduced UI receipt more among short-duration claimants than among long-duration claimants, who are more likely to exhaust their benefits. By contrast, the Illinois model had a substantial impact on long-duration claimants, reducing UI exhaustions. This finding provides part of the answer to why the Illinois model had a greater impact on UI receipt than the New Jersey Experiment. It does not, however, explain why Illinois' constant bonus had a greater impact than the Pennsylvania and Washington bonuses.

Reemployment Bonuses with Worker Profiling

Generally, the evaluation of the four reemployment bonus experiments was conducted and reviewed with the assumption that a permanent program would have the same eligibility conditions as the individual experiments. As we have seen, however, the experiments had greatly different eligibility criteria, from simple UI eligibility criteria in Washington State to the addition of more rigorous screening for characteristics associated with permanent worker dislocation in the other three experiments. New Jersey had the most rigorous worker dislocation screening.

In the Washington State experiment it was recognized that an operational program would likely need more rigorous screening to better target dislocated workers. As was seen above, the evaluation considered the impact of restricting eligibility to dislocated workers, but its analysis only dealt with one factor associated with dislocation, i.e., job tenure.

While the Washington Experiment did little targeting analysis, other analysis has shown that selection of dislocated workers to par-

ticipate in reemployment bonuses and other reemployment services could be more effective and efficient. The six-year follow-up study of the New Jersey Experiment (Corson and Haimson 1996) revealed the impact that profiling could have on the net impact results of the UI Experiments. The study conducted a simulation of what would have been the impact on the original New Jersey evaluation findings if the operational profiling mechanism adopted for use in New Jersey starting in 1994 for the WPRS program had been in use during the experimental period in 1986–1987. It found that “using a profiling model to target reemployment services on workers with high probabilities of UI benefit exhaustion directs reemployment services to a group of workers who are likely to benefit from the services. These estimates also imply this approach to targeting is a relatively efficient way to provide services. Services are directed to a specific group of displaced workers who can benefit more from the services than a broader group of displaced workers, thereby generating relatively large savings in UI receipt for the given level of expenditures on services” (Corson and Haimson 1996, p. 75).

The original Pennsylvania reemployment bonus evaluation (Corson et al. 1991) included no analysis of targeting bonuses to dislocated workers. Corson and Decker (1996), however, found that the effectiveness of the reemployment bonuses offered in Pennsylvania would have increased if profiling had been used to select participants rather than using the broad screens that were used in the experiment. Setting the minimum probability of exhaustion at 0.7 for eligibility for a bonus, profiled workers were found to experience a longer duration of unemployment than unprofiled workers. The unemployment duration results were statistically significant.

This analysis suggests that the impacts and cost-effectiveness of a reemployment bonus could be increased by focusing on using worker profiling. It also suggests that some of the concerns about the external validity of these experiments could be reduced by targeting a permanent program with worker profiling. External validity concerns could be allayed in a number of ways, including these three: worker profiling would 1) target a small group of workers; 2) target only permanently separated, laid-off workers having characteristics of dislocated workers; and 3) create uncertainty about who would be selected.

Without profiling, potentially all UI beneficiaries could be eligible for an offer of a reemployment bonus, much as was the case in the Washington Experiment. Potentially about eight million U.S. beneficiaries could have been offered a bonus in 2007. With a bonus receipt rate of, say, 25 percent, approximately 2 million ($8 \text{ million beneficiaries} \times 0.25$) UI beneficiaries a year might receive a bonus. By contrast, while virtually all new UI claimants are profiled, only about 10 percent of them are referred to reemployment services. These workers are referred to a variety of reemployment services, and those that are not job-ready are referred to education and training services. Only a portion of these profiled UI claimants would be likely to be offered a reemployment bonus. However, assuming that all referred workers were offered reemployment bonuses, and again assuming a 25 percent receipt rate, approximately 200,000 ($8 \text{ million} \times 0.1 \times 0.25$) reemployment bonuses would be paid each year, to less than 3 percent of UI beneficiaries. In general, for any group of laid-off workers applying for UI benefits, only a small portion would be offered a bonus. Such a small program would result in unemployed workers' having less knowledge about the program and a likely small behavioral response.

Targeting permanently separated, laid-off workers would be done in the first part of the worker profiling process. Workers would then be selected using a statistical model with input of personal and labor market characteristics. The result is that workers who would be offered a reemployment bonus would not be on temporary layoff and would be less likely to be among the short-term unemployed.

Employees and employers would not be certain whether individual unemployed workers would be referred to reemployment services or not. Furthermore, they would not be sure which of these referred workers would be offered a reemployment bonus. For permanently separated workers, referral to reemployment services would depend on the personal and labor market characteristics that go into the worker profiling model. Referral would further depend on the budget constraint of the state workforce agency, which can refer varying numbers of workers, either to reemployment services or to reemployment bonus offers. With worker profiling, labor representatives, employers, or fellow workers would not be likely to advise workers to collect a reemployment bonus, since such a small percentage of these workers would actually receive the offer.

An analysis simulating profiling of reemployment bonuses was conducted with data for the Pennsylvania and Washington experiments, the two experiments that seemed to have the greatest policy relevance (O'Leary, Decker, and Wandner 1998, 2005). The analysis made use of profiling of reemployment bonuses for two reasons: First, reemployment bonuses seemed to be policy-appropriate only for permanently separated dislocated workers. This conclusion had already been confirmed by the adoption of worker profiling as a component of the Clinton administration's 1994 targeted reemployment bonus proposal. Second, the Pennsylvania and Washington state results were modest, with half of the treatments in those two states found to be cost-effective to society and to the government sector, but only two treatments found to be cost-effective for the UI system. As a result, no optimum reemployment bonus design had been found.

Worker profiling was conducted using the model proposed by the USDOL (1994b), estimated separately for Pennsylvania and Washington based on data from the experiments from 1988 to 1989. Profiling was applied to individuals in both the treatment and control groups in each state. Two thresholds for profiling were applied, setting the likelihood of exhausting entitlement to UI at 50 and 75 percent. Starting with the full sample of participants in the two experiments, profiling reduces the samples to those who meet the profiling probability levels. The results presented in Table 10.5 reflect the model for the experiment period, with a likelihood of exhaustion set at 50 percent.

The net benefit results of the analysis of the profiled reemployment bonus data showed that profiling improved the results from the perspective of the UI program. When using mean values across all treatments in each state, results with profiling generally were stronger than results without. Setting the profiling threshold at 50 percent was more cost-effective than at 75 percent. The result of comparing bonus amounts (high and low in Pennsylvania and high, medium, and low in Washington) and eligibility period (short and long in both states) showed that the combination of low bonus amount and long eligibility period was the most cost-effective. These estimates "suggest that such a targeted bonus offer would yield appreciable net benefits to the UI trust fund if implemented as a permanent national program" (O'Leary, Decker, and Wandner 1998). The policy recommendation was for adoption of a low bonus amount of about three times the weekly benefit amount and

Table 10.5 Pennsylvania and Washington Reemployment Demonstrations, Summary of Net Benefits from the Perspective of UI System (\$)

Demonstration and treatment	Based on full sample (no profiling)	Based on claimants above 50th percentile using profiling model
Pennsylvania bonus offers		
Low bonus/short qualification	40	-119
Low bonus/long qualification	24	108
High bonus/short qualification	-56	-138
High bonus/long qualification	-28	68
Washington bonus offers		
Low bonus/short qualification	-62	-2
Low bonus/long qualification	9	110
Medium bonus/short qualification	-88	6
Medium bonus/long qualification	-129	-141
High bonus/short qualification	-76	-97
High bonus/long qualification	-132	-94

SOURCE: O'Leary, Decker, and Wandner (1998).

a long qualification period of about 12 weeks. Using the 2008 national average weekly benefit amount, the bonus amount would average \$900.

External Validity Concerns: Response to the Demonstration Findings

Overview

In evaluating and reviewing the reemployment bonus experiments, researchers have pointed to four types of external validity concerns: 1) low take-up rates for qualified treatment group members, 2) potential for induced insured unemployment, 3) subsidizing short-term layoffs, and 4) potential and unknowable displacement effects.

In the evaluation of the Illinois Experiment, the possible impacts of external validity issues were discussed, including take-up rates and displacement, but only the take-up issue was analyzed (Woodbury and Spiegelman 1987, pp. 526–528). Later studies have looked at all of these issues. Different researchers have placed emphasis on different external validity concerns.

Increased bonus take-up rates

The reemployment bonus experiments leave unresolved the question of what the actual rate of receipt of a reemployment bonus would be in an ongoing program. While that question cannot be answered, an upper limit can be estimated by determining what the increase in receipt would be if the take-up rate were 100 percent. This approach takes into consideration the fact that in an ongoing program, UI claimants eligible for a reemployment bonus would be far more likely to be aware of the bonus offer, and that they would be more likely to apply for and receive the bonus. Such an estimate is clearly an upper bound estimate because some eligible workers did not apply for reasons other than lack of information, and ongoing programs never experience 100 percent participation rates.

For the Illinois Experiment, Woodbury and Spiegelman examine the issue of take-up rates. Of the 4,186 treatment group members, 25 percent qualified for the bonus but only 13.6 percent received the bonus. Thus, since only 54 percent of the treatment group members who qualified for the bonus collected it, Woodbury and Spiegelman (1987, pp. 527–528) estimate what would have happened if take-up rates had risen to 100 percent with no accompanying decline in UI benefit receipt or unemployment. They calculate that the result would be a decline in the benefit-cost ratio from 2.32 to 1.26.

Among the four reemployment bonus experiments, the range of take-up rates varied from 53 to 80 percent. This implies that if all eligible claimants collected the reemployment bonus, the cost of the program would increase by as little as one-fifth and by as much as one-half.

Induced insured unemployment: delayed switchers

While it is possible that reemployment bonuses could induce the incidence of a spell of unemployment (“induced incidence”) that would not occur in the absence of the bonus, this issue has not been raised or analyzed. Rather, the chief concern of policymakers has been the potential for a delay in switching from an old job to a new job (“delayed switching”), which would create a brief period of unemployment during which a bonus could be collected.

Delayed switching of jobs might result in the offer of a reemployment bonus only under limited conditions. Under current UI law, a bonus

offer could be made only to workers who suffer a layoff. They cannot voluntarily quit and qualify to receive UI. Workers also cannot have sought and secured a job prior to the date of the layoff. In the absence of the reemployment bonus, these workers would have taken new jobs without an intervening period of unemployment. To take advantage of the potential reemployment bonus offer, these workers would then have to delay the start date of the job or reject the job offer.

Meyer (1996, p. 48) addresses the issue of delayed switching because he finds that the fraction of layoffs that do not result in unemployment range from 18 to over 30 percent.³ Delayed switching would be of particular concern if laid-off workers could search for new work prior to their layoff date, accept a job offer only after a period of intervening unemployment, and collect a reemployment bonus for taking the new job. Delayed switching could be discouraged, however, if one reemployment bonus administrative step were expanded. Namely, prior to the payment of a bonus, the UI agency would have to determine from the new employer whether the employee had experienced continuous employment for three or four months. At the same time, the date of the employer's job offer could be collected, with a bonus eligibility requirement that the job offer date could be no earlier than the date of the reemployment bonus offer.

The concern about induced unemployment is related to the concern that employed workers could self-select into the program once it became operational. This occurrence would be of particular concern if a reemployment bonus program was untargeted and open to all UI recipients. Workers might know with certainty that if they met the program criteria they would qualify for and receive the bonus. With use of worker profiling for targeting, however, a small portion of permanently laid-off workers would be offered a reemployment bonus, and this concern should be greatly reduced.

Induced filing: nonfilers for UI benefits

A large portion of potentially UI-eligible unemployed workers never file for benefits—especially those unemployed workers who experience short spells of unemployment. Introduction of a reemployment bonus would raise the value of UI receipt and likely induce some UI nonfilers to file for benefits. Meyer (1996, pp. 43–44) discusses this issue, and he suggests that it would have a potentially large effect, cit-

ing an estimated “fraction of eligibles receiving UI ranging from 0.55 to 0.83.”⁷⁴ Meyer goes on to estimate that the increase in the percentage of unemployed workers filing for benefits would be between 7 percent and 12 percent, while the actual percentage could be higher because of the likely disproportionately heavy participation rate by short-duration unemployed workers, who previously would not have found applying worthwhile.

The goal of a reemployment bonus program, however, is to shorten the duration of long-term unemployed workers. Using worker profiling to make reemployment bonus offers, nonfilers might be encouraged to apply for UI benefits in the hope of being offered a reemployment bonus. However, to the extent that induced filers represent short-term unemployed workers, the worker profiling process is likely to assign them a low probability of exhausting their UI benefit entitlement, and they would not receive a reemployment bonus offer. Given a low bonus offer (e.g., three or four times the UI weekly benefit amount) and a low probability of being offered the reemployment bonus, short-duration unemployed workers may continue to find little incentive to file for UI benefits.

Subsidizing short-term layoffs

Unemployment insurance is an important supplement to wages in layoffs. It can affect the behavior of employers and employees. For example, employers and employees formerly counted on workers receiving UI benefits each July in the automobile industry because of model changeovers. Meyer (1996, p. 45) suggests that reemployment bonuses could become an incentive to lay workers off. He notes that under the eligibility criteria of the experiments, reemployment bonuses cannot be provided to workers who return to their previous employer. He notes, however, that some workers on layoff are not subject to recall, and they might receive a bonus. It is doubtful that this incentive would come into play for at least three reasons under any likely potential federal legislation. First, under the eligibility conditions, workers on temporary layoff would not be on permanent layoff, would not pass the profiling screening, and therefore would not be offered a bonus. Second, if workers on temporary layoff eventually were informed that they were not subject to recall, a bonus would not be offered to them because they would no longer be newly unemployed. Third, the worker profiling

mechanism is likely to exclude them from eligibility whether they are subject to recall or not, since they are not likely to have the characteristics of the long-term unemployed.

Displacement effect

A reemployment bonus could result in displacement if workers responding to the bonus offer sought and took jobs that would have otherwise gone to other unemployed workers. In an ongoing program, this adverse effect could affect those unemployed workers who were offered a bonus but did not find a job or those who were never offered a bonus. The displacement effect could be small if bonus recipients found jobs with little or no impact on other unemployed workers. Alternatively, the effect could be so great that there would be little or no increase in total employment; there would be a redistribution of jobs from other workers to reemployment bonus recipients.

The displacement effect was seriously examined in connection with the Pennsylvania and Washington experiments. In the Pennsylvania Experiment (Corson et al. 1991, pp. 205–216), the evaluation explicitly attempted to estimate displacement effects. Analysis of these estimates, however, found that their statistical power for detecting a significant displacement effect was extremely limited. The results were not statistically significant.

Davidson and Woodbury (1993) estimated the displacement effect of the reemployment bonus experiments using a partial equilibrium matching model of the labor market. They found that there would be little displacement of UI-eligible workers who were not offered a bonus. They found larger impacts for UI-ineligible workers who were never offered the bonus. Overall, they found that 30–60 percent of the gross employment effect of a reemployment bonus program would be offset by displacement of the UI-ineligible workers. Even though the gains to UI-eligible workers would be greater than the losses to the UI-ineligible workers, there would be no way of offsetting the losses in a reemployment bonus program.

In an earlier study, Davidson and Woodbury (1990) concluded that “reductions in covered (program participant) unemployment do not come at the expense of increased uncovered (nonparticipant) unemployment, and in this sense the bonus program entails no displacement effect.”

The Advisory Council on Unemployment Compensation (1995) reviewed the results of the reemployment bonus experiments. It expressed concern about the potential displacement effect of reemployment bonuses, especially in a world of involuntary unemployment in which job openings are sufficient for only a small number of job seekers. They dismissed the effects of reemployment bonus incentives as “marginal at best.”

It seems difficult to believe that there would be a substantial displacement effect for a reemployment bonus, particularly during non-recessionary times when the U.S. labor market is characterized by reasonably strong employment growth. In addition, the potential size and impacts of a narrowly targeted reemployment bonus program appear to be too small to have an appreciable displacement effect. In an economy where annual new hires averaged over 50 million between 2001 and 2007 (BLS 2008), it would not be likely that offers of reemployment bonuses in an ongoing program would be as high as 500,000, and bonus receipt would be far lower. Generally, the displacement effect of an ongoing reemployment bonus program seems likely to be very small.

The effect of targeting reemployment bonuses

Offering a large, untargeted reemployment bonus as a permanent part of the UI program could certainly encourage entry into the UI program. Workers would know that they are eligible for a bonus, and filing for UI benefits could increase as a result. However, the application of worker profiling to reemployment bonuses decreases the number of individuals who are potentially eligible for reemployment bonus offers and increases the uncertainty that the offer will be made. A program with targeting that uses worker profiling thus is likely to “temper any potential entry effect” (O’Leary, Decker, and Wandner 1998, 2005).

Summary

External validity issues regarding reemployment bonuses were raised as part of the evaluation of the Illinois Experiment, but with considerable confidence of a positive net outcome because of the large positive impact of the experiment in general. With the weak Pennsylvania and Washington results that followed, the tide turned. The Illinois results were called into question, and the new, modest results were

not clearly cost-effective. Analysis of external validity turned opinion against the reemployment bonuses.

While these concerns about external validity appear to be exaggerated, they are real. In particular, take-up rates in an ongoing program would clearly increase and would result in small increases in filing for UI benefits. The other effects appear likely to be small.

Given some external validity concerns, the cost-effectiveness of the largely untargeted reemployment bonuses would have to be raised appreciably before they could be recommended for public policy use. Worker profiling is a targeting device that would substantially increase this cost-effectiveness.

POLICY IMPLICATIONS OF REEMPLOYMENT BONUSES

While reemployment bonuses have not been implemented as a part of the UI program, bipartisan policy interest in establishing them as a federal initiative has emerged since the early 1990s. Two legislative proposals were developed by the executive branch and introduced by members of Congress. The Clinton administration proposed the Reemployment Act of 1994, and the Bush administration proposed Personal Reemployment Accounts in 2003.

Reemployment Act of 1994: A Failed Legislative Proposal

The next year the department proposed to implement reemployment bonuses as part of the proposed Reemployment Act of 1994 (USDOL 1994a); the bill was introduced but never enacted because the Democrats lost their majority in Congress later that year. Part E of the legislative proposal contained UI flexibility provisions that would have amended the Federal Unemployment Tax Act. The amendment would have permitted states to change their state UI laws to allow the payment of reemployment bonuses to certain workers and short-time compensation to workers who are working reduced hours for an employer. It also would have made the self-employment assistance program permanent, which was later accomplished.

The UI flexibility provisions arose from late-night brainstorming sessions held by Secretary Reich at the department. The sessions developed solutions to alleviate a jobless recovery from the 1990–1991 recession. The UI flexibility provisions offered a way to help the unemployed and, at the same time, work around funding problems that were hindering the providing of reemployment services. They presented an initial opportunity to use UI funds—“a big pile of money,” as Reich characterized the funds—in an environment in which funding was scarce. Reich hoped to use more UI funds in the future to fund the retraining for dislocated workers, but the opportunity never presented itself.⁵

Reich reviewed the evidence supporting the reemployment bonuses and was convinced that they would be effective, if there was careful targeting using the worker profiling mechanism. He was also involved in discussions about the potential moral hazard problem that would exist if an operating reemployment bonus program encouraged entry into the UI program by workers who were seeking only to obtain the bonuses.⁶

Section 252 of the proposed Reemployment Act contained a reemployment bonus provision that would have allowed states to enact reemployment bonus provisions in such a way that the bonuses could have been as large as four times the weekly benefit amount. (The U.S. average weekly benefit in 2008 was approximately \$300, so the average maximum bonus offer under that bill would have been approximately \$1,200.) Eligibility for the program was restricted to individuals who met four conditions: 1) they were unemployed, eligible for UI, and determined as likely to exhaust their entitlement to UI; 2) they found full-time employment in no more than 12 weeks; 3) they found employment with a new employer; and 4) they retained full-time employment for not less than four months.

Thus, the reemployment bonus provisions of the proposed Reemployment Act were modeled after the design of the Pennsylvania and Washington reemployment bonus experiments in all of their key components (Table 10.6). The program would have had four characteristics: 1) it was targeted to UI beneficiaries who were likely to exhaust their UI benefits as determined by the worker profiling mechanism; 2) the benefit level for the bonus was set at the most cost-effective level; 3) the bonus calculation was a multiple of the UI weekly benefit amount

to encourage wide participation; and 4) a single delayed payment was made to try to assure that good, long-term job matches were made.

The reemployment bonus provisions of the Reemployment Act did not look like the provisions of the Pennsylvania and Washington Reemployment Bonus Experiments by accident. Policymakers at the department were intent on learning from the experiments and designing actual programs that were likely to be cost-effective when applied in the field. The evaluators of the reemployment bonus experiments were asked to share the policy implications that came from their evaluations. The researchers and policy analysts in the department worked closely with the departmental policymakers to develop the final proposals.

Department staff had read Bruce Meyer's analysis of the reemployment bonuses and had tried to deal with his questions about UI program entry effects in an ongoing program. In the department's 1994 reemployment bonus proposal, staff members added worker profiling to the proposal to attempt to prevent entry problems. Department staff believed that applying the worker profiling mechanism to reemployment services would result in a more targeted, more cost-effective program that would limit or eliminate entry effects. However, their beliefs were not supported by analysis until 1998, when O'Leary, Decker, and Wandner (1998) "profiled the bonus." The authors had conducted this study because they wanted to simulate profiling the bonus to estimate whether a more targeted reemployment bonus program would be more cost-effective and less subject to moral hazard problems.

Nonetheless, in 1994 the department took a leap of faith when it endorsed the reemployment bonus policy. The results from the research showed that UI recipients responded to the offer of reemployment bonuses and went back to work sooner and did not take lower-wage jobs. However, the bonus offers without the targeting of worker profiling were not cost-effective for the Unemployment Trust Fund. Meyer argued that reemployment bonuses without targeting would perform worse in an ongoing program than in the experiments. Larry Katz believed that reemployment bonuses were a good idea and that they would be more cost-effective when the offer of the bonuses was contingent upon participants' being profiled. He was wary, however, of reemployment bonuses because of Meyer's concerns.⁷ When Alan

Table 10.6 Reemployment Bonuses: Demonstrations and Legislative Proposals

	Pennsylvania demonstration	Washington demonstration ^a	Proposed Reemployment Act of 1994	PRAs (HR 444)
Eligibility				
UI eligibility	Yes	Yes	Yes	Yes
Dislocated worker selection criteria	Screens	Screens	Profiling	Profiling
Design options				
Bonus amount ^b (\$)	900 1,800	600 1,200 1,800	1,200	3,000
Bonus calculation	WBA multiple	WBA multiple	WBA multiple	Flat amount
Qualification period	6 wks. 12 wks.	6 wks. 11 wks.	12 wks.	13 wks.
Reemployment period	16 wks.	4 mos.	4 mos.	0 wks./ 6 mos.
Number of payments	1	1	1	2
Most cost-effective profiled design				
Bonus amount (\$)	900	900		
Qualification period	12 wks.	11 wks.		

^a For the Washington demonstration, the qualification period was based on UI potential duration. Qualification period here is based on assumption that individuals qualified for full 30 weeks.

^b Pennsylvania and Washington demonstration bonus amounts were determined as multiples of the UI weekly benefit amount. Here, bonus amounts are calculated as multiples of the early 2008 national average weekly benefit amount of about \$300.

SOURCE: Corson et al. (1991); O'Leary, Decker, and Wandner (2005); Spiegelman, O'Leary, and Kline (1992); USDOL (1994b); HR 444.

Krueger became chief economist in August 1994, the decision to proceed with reemployment bonuses had already been made; otherwise he would have advised against it. He too was convinced by Meyer's arguments.⁸ Both Katz and Krueger believed that the research results for reemployment bonuses were weaker than those for comprehensive job search assistance and self-employment assistance. It was not until four years after the Reemployment Act was proposed that O'Leary, Decker, and Wandner (1998) demonstrated that profiling the bonus could raise reemployment bonuses' cost-effectiveness and narrow their targeting in a manner that could reduce concerns about UI program entry effects. By proposing the Reemployment Act of 1994, policymakers anticipated the research.

The academic community had been on a roller coaster regarding reemployment bonuses. The high point was in 1987, when the *American Economic Review* featured the Spiegelman and Woodbury (1987) article on the Illinois reemployment bonus experiment. In the next few years, however, further analysis clouded the optimism. Economists developed great doubts about the Illinois—and later the Pennsylvania and Washington—results. By 1994 the doubters predominated.⁹ The analysis of O'Leary, Decker, and Wandner (1998, 2005) did not show up as a working paper until 1998 and did not appear in an economic journal until 2005. By that time, most economists had lost interest in reemployment bonuses.

The reemployment bonus provisions of the proposed Reemployment Act show that public policy can study a set of carefully designed demonstration projects and develop policy in a manner that combines a close look at the research results with—as happened in 1994—a leap of faith.

Personal Reemployment Accounts: Another Failed Legislative Proposal

President Bush announced Personal Reemployment Accounts (PRAs) as part of an economic stimulus package on January 7, 2003. On January 29, 2003, legislation to create PRAs was introduced in the House of Representatives as H.R. 444, the Back to Work Incentive Act of 2003.¹⁰ Under H.R. 444, UI claimants deemed likely to exhaust their entitlement to benefits would be offered a \$3,000 PRA that could be

used to purchase reemployment services, including training, or could be used as a reemployment bonus. Reemployment services could be bought from public or private providers. Each reemployment service purchased would be drawn down against the \$3,000 PRA. Workers would be eligible for a reemployment bonus if they became employed within 13 weeks of becoming unemployed, but they could continue to collect UI benefits until they became reemployed. The amount available to pay the bonus would be \$3,000 or the PRA balance, if reemployment services were purchased. A reemployed worker would be immediately eligible for 60 percent of the bonus upon becoming reemployed. The remaining 40 percent would be payable if the worker retained the job for six months (Levine and Lordeman 2005).

Conceptually, PRAs have two components. One is a human capital account to help workers improve their human capital while they search for work, providing them with their choice of training and intensive services, as well as support services, including transportation and child care services. The other component is an incentive to search for work in the form of a reemployment bonus. Together, the PRAs “offer a new, innovative approach designed to provide unemployed Americans additional flexibility, greater choice, and more control over their employment search, as well as a reemployment bonus for those who find a job quickly” (House Education and Workforce Committee 2005).

Personal Reemployment Accounts: Policy Development

The Council of Economic Advisers (CEA), under the leadership of its chair, R. Glenn Hubbard, developed the concept and design of PRAs in late 2002.¹¹ The intent of Hubbard’s proposal was to make employment and training programs more market-oriented. A proposal that linked a training and reemployment service voucher offer and a cash bonus offer as an incentive to speed the return to work was an attractive market-oriented package. But a reemployment service voucher and a reemployment bonus are conceptually very different. The key to making the PRAs work would be how they were meshed together.

PRA also served another function. Because the United States was coming out of a recession, PRAs were part of a larger proposal to distribute approximately \$10 billion to the states as an economic stimulus package. The design of the PRAs would reflect concern about rapid

stimulus, even though most of the stimulus package disappeared as the economy improved. Nonetheless, the \$3.2 billion for PRAs survived. The market orientation of PRAs continued to make them an attractive proposal.

In the rush to give President Bush a new economic proposal by the beginning of 2003, the CEA had very little time to conduct the staff work necessary to develop the PRA proposal. Tom DeLeire was the staff labor economist at the CEA that year, on leave from Michigan State University. Under time constraints, DeLeire reviewed the literature on the reemployment bonus experiments. He consulted with Meyer, who had written a journal article on the UI Experiments—including the reemployment bonus experiments—that was widely read (Meyer 1995). Meyer provided broad policy advice about reemployment bonus legislation. He did not recommend an optimal reemployment bonus design for incorporation into the PRAs.¹² The Mathematica and Upjohn Institute researchers who conducted and evaluated the reemployment bonus experiments were not consulted—even though they could have provided practical advice on program design—nor were departmental staff who had worked on the reemployment bonus experiments.

The CEA had done enough analysis to get the basic design of the PRA reemployment bonus component right. The CEA justified PRAs based on the four reemployment bonus experiments that had been conducted as random assignment experiments. The evaluations of the experiments “showed that a bonus of \$300–\$1,000 motivated the recipients to become reemployed, reduced the duration of UI by almost a week, and resulted in new jobs that were comparable in earnings to those obtained by workers who were not eligible for the bonus and remained unemployed longer” (Council of Economic Advisers 2003).

The targeting of the PRA program design was taken from the reemployment bonus experiments: PRA offers were to be made to UI claimants who were likely to exhaust their benefits, using the same worker profiling methodology being used by the WPRS and SEA programs.

In its annual report, the CEA described PRAs as “not intended as a replacement for UI but rather . . . as a new component of the UI system. They would be offered as an additional option to those UI recipients who, under current UI rules, are referred to reemployment services” (Council of Economic Advisers 2003, pp. 123–126). Thus, PRAs would be a supplement to the UI program, and they would be targeted to workers using existing methods for referring UI claimants to reemployment services.

Most of the design decisions about the PRAs were driven by budgetary concerns and by the primacy of the voucher portion of the PRAs. There would be no entitlement to PRAs. They would only be offered up to the exhaustion of a total appropriation of \$3.6 billion. This appropriation was estimated to be sufficient to serve 1.2 million beneficiaries (in Program Year 2003) who were “very likely” to exhaust their entitlement to UI benefits. Qualifying unemployed workers would be given an account valued at \$3,000 that could be used to purchase reemployment services, training, and supportive services, although core reemployment services would continue to be provided free of charge. Workers who found a job within 13 weeks of receiving their first UI payment would be able to retain the balance of the account as a reemployment bonus.

In the 2003 *Economic Report of the President*, the council left open the timing and number of payments under the PRAs: “States would have the option of providing the cash balance as a single lump sum or in two installments of 60 percent and 40 percent, the latter after the recipient had been on the new job for six months” (Council of Economic Advisers 2003). Thus, the CEA would have permitted a single delayed lump sum payment as in the experiments, but in the interest of rapid infusion of funds into a weak U.S. economy, supporters of H.R. 444 opted for the second approach.

It is not possible to reconcile the CEA’s reading of the reemployment bonus experiment literature with the Bush legislative proposal. CEA staff believed that the bonus amount was too large and that it was being paid too soon. As the proposal moved from an early public policy initiative to a legislative proposal, a series of changes were made that had more to do with ideology than rigorous public policy analysis. These decisions certainly did not reflect the findings of the research.

Once the CEA had completed its analytical work, most of the development of PRA legislation was turned over to the Domestic Policy Council. The Domestic Policy Council worked with the ETA’s political staff to complete the development of the legislative proposal. USDOL research and policy staff who had worked on the experiments and on the development of the reemployment bonus proposal in the UI flexibility component of the proposed Reemployment Act of 1994 were aware of the development of the PRA proposal. They were requested to supply some background materials, but they were not included in discussions about the PRA program design.

In the fall of 2002, I initiated a meeting with the ETA's deputy assistant secretary, Mason Bishop, to provide him with information he could use in developing an effective and practical PRA design. The meeting did not go well. The presentation was met with disinterest, and he asked no questions about the information presented. No further meetings occurred. The negotiations between the Domestic Policy Council and the department thus were not informed by the research findings. At one point in these discussions, DeLeire asked to speak to me. Assistant Secretary Emily DeRocco said no.¹³

The lack of careful policy development meant that the PRAs had a number of design flaws. The most important was that the reemployment bonus offer was too large. The bonus was that large because the bonus offer was driven by the voucher offer amount, and no consideration was given to decoupling the bonus offer from the voucher amount. A reasonable training voucher amount would have been much larger than the reemployment bonus offer. The bonus offer should have been in the range that the reemployment bonus experiments found to be most cost-effective. (The national UI average weekly benefit amount in 2003 was \$254, so the reemployment bonus offer should have been no more than three or four times that amount, or no more than \$1,000. Thus, the PRA bonus offer was at least three times as great as it should have been.)

In 2003, it appeared that the PRA proposal might be enacted. Departmental research staff suggested that further analysis be conducted to support the PRA initiative: analyses based on prior experiments could help anticipate what would happen if PRAs were implemented, could allow the department to give guidance about how states could design and implement the bonus component of the PRAs, and could provide detailed administrative procedures for offering and paying the bonuses. Of particular concern was the fact that the department was proceeding with PRA demonstrations without prudent planning: the demonstrations were announced without careful consideration of how they should be designed and implemented.

Analysis of Personal Reemployment Accounts

Thus, to prepare for the implementation of PRAs, either as demonstration projects or as a national program, the department commissioned two studies to assess the likely impacts of the program and methods by

which the program could be implemented. The studies built upon existing data sets and evidence about the two components of the PRAs: the reemployment bonuses and the training vouchers.¹⁴

Decker and Perez-Johnson (2004) of Mathematica based their analysis on the ongoing ITA training voucher experiment as well as the Pennsylvania reemployment bonus experiment that Mathematica had conducted. The training voucher experiment tested a pure voucher option that looked much like the human capital account voucher portion of the proposed PRA program. Individuals could use the pure vouchers in the manner they thought best to purchase training. Counselors in the One-Stop Career Centers would meet with pure voucher recipients, but the recipients were free to make training decisions on their own about what kind of training to buy and whom to buy it from. The preliminary findings from the interim evaluation were that unemployed workers who were offered a pure voucher were more likely to receive training than individuals who received more counseling and direction, but they took training in similar areas to individuals offered the other voucher designs.

Decker and Perez-Johnson divided their study into three parts. The first part dealt with predicted impacts of the PRA reemployment bonus offers with respect to bonus receipt rates, impacts on UI receipt, and entry effects into the UI program. These were compared to the results under the reemployment bonus experiments. Decker and Perez-Johnson estimated that a \$3,000 bonus offer would substantially increase the rate of receipt of the bonus, from as little as 11–22 percent up to about 30 percent. The increase in participation was expected both because of the higher bonus offer amount and because the first installment of the bonus would be payable immediately rather than after four months on the new job. They also predicted that reductions in UI receipt would be greater because the bonus offer would be larger and because it would target a population that was likely to have longer UI durations in the absence of a bonus offer.

The second part of the study dealt with PRA design, trying to help states decide how large to make the PRA offer, whether it should be \$3,000 or set at a lower amount. Decker and Perez-Johnson pointed out trade-offs in setting the PRA level: a level of \$3,000 was approximately twice as great as the largest reemployment bonus level set under the experiments, but it would still be less than most local Individual Train-

ing Account offers under WIA. Lowering the overall offer below \$3,000 would bring the reemployment bonus offer closer to tested levels, but it would exacerbate the inadequacy of a training voucher. However, lowering the offer would also allow PRAs to serve more UI recipients.

The third part of the study developed recommended procedures for states to follow in developing and implementing their PRA programs. Decker and Perez-Johnson developed procedures that could make it easier for states to implement PRAs. They opted for simplicity to allow quick implementation and to accommodate a temporary three-year program that would be established under H.R. 444. They adapted procedures from the Pennsylvania Reemployment Bonus Experiment, thus providing procedures for offering bonuses, verifying employment, and making payments; the procedures were similar to those that would have to be developed under PRAs.

In another Personal Reemployment Account study, O'Leary and Eberts (2004) simulated the effects of PRAs using detailed transaction-level administrative data from the state of Georgia. They first estimated the costs for intensive, training, and supportive services based on state expenditure levels, relative utilization of each service, and relative valuations for the services. The simulations estimated the average cost per offer of a \$3,000 PRA to help states estimate how many offers to make during an enrollment cycle. The simulations also determined the likely pattern of use of the reemployment bonus, reemployment services, and income maintenance payments. Estimates were made under a baseline that assumed no behavioral response to the bonus offer, as well as estimates assuming a one- or two-week reduction in UI receipt.

Under the baseline estimate, O'Leary and Eberts (2004) determined that 40 percent of workers would receive a first payment under the reemployment bonus, while only 27 percent would remain employed and receive the second payment. They estimated the costs associated with the PRA offers for the bonus, purchase of services, and UI exhaustee payments at approximately \$2,500, with small increases as the behavioral impact increased because of higher bonus reciprocity. They concluded that a \$3,000 bonus offer would not be cost-effective, while a smaller targeted bonus could be.

O'Leary and Eberts estimated the number of PRAs that could be offered, assuming 100 percent take-up of the PRA offers. They also estimated a likely take-up rate of approximately 80 percent, based on

the reemployment bonus experiments and the resulting increased number of PRAs that could be offered. They estimated the sensitivity of their estimates of the number of PRAs that could be offered to changes in the assumed prices for services and found that the results were quite stable. They found that reducing prices of services by half would result in the ability to increase the number of offers by roughly 20 percent. Because of lack of data, they could not determine, however, how the imposition of prices for services that were previously offered free of charge would change the demand for services by workers who would be offered the PRAs.

O'Leary and Eberts estimated the likelihood that workers would go to either extreme: either only purchase services and not pursue a bonus, or pursue the bonus and not purchase any services. They found that an individual who purchased services and did not pursue the bonus would have to either experience an increase in earnings of 14 percent or, failing that, return to work six weeks sooner, to compensate for not receiving the full bonus offer. They determined that past research evidence made either of these results unlikely. Thus, as was to be expected with an overly generous bonus offer, the PRA design strongly encouraged pursuing the bonus.

For individuals who did not receive bonuses, O'Leary and Eberts considered whether \$3,000 would be sufficient to purchase a bundle of services. They found that there likely would be a shortfall of funds. They also estimated the increase in the number of PRAs that could be offered as the statewide maximum PRA offer was lowered.

In the Washington and Pennsylvania experiments, recipients of bonuses did not experience lower wages than the control group. While O'Leary and Eberts posited that paying workers the first bonus payment immediately upon their becoming unemployed might result in lower wages, they did not have data from which to estimate whether or how much wages might decline.

Thus, these two analyses predicted a number of adverse outcomes if PRAs were to be implemented. The PRA bonus offer was too large, so the reemployment bonus outcome would be cost-ineffective. Moreover, the overly large bonus would result in higher participation and receipt than a lower and more reasonable bonus offer. The training offer would be lower than the cap for training offers under WIA programs in most states, and thus use of the PRA to fund training would be limited, and training participation rates would be low.

Personal Reemployment Account Demonstrations

H.R. 444 was not enacted in 2003, but the Bush administration was still eager to try out PRAs. In August 2004, the USDOL announced plans to implement a PRA demonstration project. States were asked to apply. On October 29, 2004, Secretary Elaine Chao announced that seven states—Florida, Idaho, Minnesota, Mississippi, Montana, Texas, and West Virginia—had been awarded a total of nearly \$7.9 million to participate in a demonstration project that would allow unemployed workers to use personal reemployment accounts to find new jobs. The demonstration project was designed to test the effectiveness of PRAs (USDOL 2004).

To fund the demonstration, each state had to agree to obligate its entire fiscal year 2005 Wagner-Peyser Reemployment Services Grant (RSG) allocation to the project. Nationally, the Reemployment Services Grants totaled \$34 million in FY 2005. The PRA grant funds for these seven states otherwise would have been used to provide reemployment services to unemployed workers found to be likely to exhaust all of their entitlement to UI benefits under the WPRS system. The Bush administration had decided to terminate the Reemployment Services Grants after fiscal year 2005 funding, which for some ETA programs only became available for program year 2005. Thus the RSG funds were exhausted in June 2006. Because the administration had eliminated the grants from the president's budget request, department policymakers were glad to have the demonstration states terminate their funding of these WPRS reemployment services a year early. The department supplemented these Reemployment Services Grant funds by providing each state with an additional \$750,000 in federal discretionary funds from the ETA's budget to support the demonstration.

Preparation for proposed PRA legislation and the PRA demonstration project was conducted by department staff and by research contractors, who tried to make the best of a botched PRA design by using research findings to make the design and implementation of the demonstration projects work as well as possible. They used data and analysis from the reemployment bonus and training vouchers experiments, and they conducted simulations using state administrative data. Technical assistance and an evaluation were conducted by a contractor, Mathematica Policy Research.

The department developed the basic demonstration design, which closely followed the legislative design embodied in H.R. 444. The states would offer PRAs of \$3,000, with funding available to make a total of 2,000 offers for the seven participating states. States would charge participating workers for services other than WIA core services. They also had to develop their own cost list for all reemployment services. Reemployment bonuses would be paid to workers who received PRA offers and found full-time jobs by their thirteenth week of UI receipt. The bonus consisted of two payments, one paid upon employment and consisting of 60 percent of the account balance, the other payable after six months on the job and making up the remaining 40 percent.

The department gave the states options with respect to the design. They could choose the reemployment bonus amount to be the balance of the \$3,000 PRA offered, or some lesser amount. Four states—Florida, Minnesota, Mississippi, and Montana—chose to offer individuals the remaining balance in their account, as in the legislation. Texas, Idaho, and Minnesota, however, developed methods to reduce the bonus offers below \$3,000. States also determined the cost of services. Six of the states developed cost lists, while Idaho chose to offer all of its services through community colleges which already had developed price structures. States could offer the PRAs statewide or in selected local workforce areas. West Virginia was the only state that offered PRAs statewide (Hess 2004, 2005).

The PRA demonstration project began in 2004 in the seven selected states. In 2006, the department awarded a second round of funding to three of the original states—Idaho, Minnesota, and Mississippi—and provided new funding for Hawaii. The eight states received a combined total of \$12.5 million from the department to establish PRAs for a minimum of 3,543 workers. In fact, since not all workers used up all of the funds in their individual accounts, a greater number of workers were allowed to enter the project—4,038 in the original seven states.¹⁵

Claimants' participation in the demonstration projects was voluntary. The average acceptance rate was 64 percent, varying from a low of 46 percent in Minnesota to a high of 88 percent in Mississippi.

The evaluation of the PRA demonstration found that, as expected from the prior analyses, individuals who were offered PRAs were not interested in receiving training and did not expend much of their vouchers on training. Less than one-tenth of disbursements were used to pro-

vide funds for participants enrolled in training, and virtually no participants purchased intensive services (Table 10.7).

Because of the overly generous reemployment bonus, participation in the bonus increased greatly beyond the level found in the reemployment bonus experiments, with 45 percent of disbursements going to the payment of reemployment bonuses. While a rigorous net impact and cost-benefit analysis was not conducted because of project design weaknesses and lack of data, the bonus offer was so large that the reemployment bonus component of PRA could not have been cost-effective.

The most flexible form of funding was “supportive services.” This use of funds functioned, in effect, as a piggy bank that workers could break open any time they wanted. Forty-six percent of disbursements were used to fund supportive services. Allowable supportive services fell into three categories: 1) assistance with respect to a specific job offer; 2) intensive services, training, or logistical support for job search (e.g., child care and transportation); and 3) general expenses relating to job search activities. In the states without restrictive policies regarding the purchase of supportive services, the great majority of disbursements fell into this category. The largest purchases for supportive services were for the following: vehicles, including mileage; utilities, rent, and mortgage payments; clothing, uniforms, and supplies; and health screening and other medical expenses. Child care was a smaller purchase amount (Kirby et al. 2008, p. 56). Given the chasm between the intended and actual uses of the PRAs, the demonstrations were a disaster.

Personal Reemployment Accounts and Public Policy Issues

As the above discussion demonstrates, the Bush administration’s reemployment bonus portion of the PRAs differed in two major ways from the reemployment bonuses tested in the four earlier experiments: 1) the timing and 2) the size of the reemployment bonus payment.

First, as tested in the experiments and as proposed in the Reemployment Act of 1994, only a single bonus payment would be made, and it would only be made to individuals who find a job and retain it for at least four months. The timing of the payment was based on what was learned from the three reemployment bonus experiments. The minimum reemployment period before individuals would receive a single reemployment bonus payment was four months in Illinois, 16 weeks in

Table 10.7 PRA Demonstration Project, Average Disbursement per User as a Percentage of Total Expenditures

	States with restricted supportive purchases			States with broad allowable supportive service purchases				All states
	MS	WV	FL	ID	MN	MT	TX	
Type of disbursement								
Total bonuses	94	83	59	37	33	13	29	45
Intensive	0	1	1	0	1	0	0	1
Training	2	13	2	20	7	17	14	9
Supportive	4	17	41	63	67	87	71	55
Total services	6	17	41	63	67	87	71	55
Total expenditures	100	100	100	100	100	100	100	100

SOURCE: Kirby et al. (2008), p. 56.

Pennsylvania, and four months in Washington. The purpose of the delay was to be certain that an individual obtained and retained a new job. For Illinois, Pennsylvania, and Washington, “the four-month interval was believed to be sufficiently long to avoid encouraging claimants to accept short-term employment simply to qualify for a bonus” (Robins and Spiegelman 2001, p. 39). The test of finding a job comparable to that which would have been found in the absence of the bonus offer was that 1) the reemployment bonus induced taking jobs that paid the same wage and 2) the new job was held for a reasonable period of time.

Second, the bonus amounts tested in the Pennsylvania and Washington reemployment bonus experiments were two, three, four, and six times the UI weekly benefit amount. Given an average weekly benefit amount of approximately \$250 in the United States in 2005, these reemployment bonus amounts translated into \$500, \$750, \$1,000, and \$1,500. Analysis of the cost-effectiveness of the Pennsylvania and Washington reemployment bonuses after applying worker profiling to the original data yielded a determination that the low bonus offer was the most cost-effective. Thus, a reasonable maximum bonus offer based on the findings of these two experiments would have been no more than four times the weekly benefit amount—that is, \$1,000 or less.

As proposed, however, a PRA bonus could be as large as \$3,000, which was considerably outside the range of reemployment bonus offers experimentally tested. The offer amounts for the Pennsylvania and Washington state experiments were carefully selected to test the full range of possible cost-effective options. Thus, there was no justification for such a large reemployment bonus offer when smaller bonus offers had produced a significant impact on speeding claimants' return to work and smaller bonus offers were more cost-effective.

CONCLUSIONS

Reemployment Bonus Effectiveness

A number of lessons were learned from the bonus experiments:

- As predicted by job search theory, cash bonuses have a significant impact on job search behavior and lead to a reduction in the average duration of unemployment, resulting in a desirable speeding of reemployment. Larger bonuses also had the largest impacts on reducing unemployment durations.
- As expected from the empirical literature on UI work disincentives, the bonuses had no effect on wages, indicating no decline in the quality of jobs taken in response to the offer of reemployment bonuses. There also was no evidence that the bonuses had any effect on worker attachment to their previous employers, as they had no effect on worker recall to their prior jobs.
- On the other hand, because unemployment durations were not directly related to the dollar level of the bonus offer, there was not the continuously increasing effect that might have been expected. The large effect of intermediate-level bonuses makes findings less certain about what would be an optimum bonus.
- Reemployment bonuses are not cost-effective if they are not targeted to populations that have some or all of the characteristics of dislocated workers.

- A more targeted program using profiling promises to be cost-effective and to minimize external validity problems related to implementation of an ongoing program.
- The reemployment bonus experiments made sense from a public policy perspective. They gave legitimacy to reemployment bonuses, a concept that was initially met with considerable skepticism. The lessons learned from the experiments were applied in developing the legislative specifications for the proposed Reemployment Act of 1994.
- The design of the PRAs did not make sense. The reemployment bonus offer should have been much smaller than the PRA amount—no more than three or four times the average weekly benefit amount. The reemployment bonus offer should have been decoupled from any training voucher and should have been offered in a much smaller dollar amount than the training voucher component.

Research Implications for a Reemployment Bonus Design and Operation

Worker profiling. Use of worker profiling with a statistical model would target the appropriate population—dislocated workers who are likely to be unemployed for a long time. An offer of a reemployment bonus to workers who are likely to remain unemployed for a long time should result in larger reductions in compensated durations of unemployment.

Worker profiling also would reduce any concern about induced unemployment. The program would be narrowly targeted and offered to a small portion of UI claimants. This targeted group would have certain characteristics—e.g., long tenure, likely long unemployment durations—that would make claimants less likely to incur a spell of unemployment simply to receive the bonus. Use of a statistical model would also create uncertainty about eligibility even among those workers who might be eligible, reducing policy concern about entry into the UI programs to receive a reemployment bonus.

Ascertaining the job offer date. Before paying a reemployment bonus, the UI agency should check with the new employer to determine whether the employee satisfies the continuous, full-time employment requirement for the specified period of time. At the same time, consideration should be given to determining when the job offer was made, and specifically whether it was made prior to the beginning of the spell of unemployment. This approach would reduce the risk that a worker would delay acceptance of a new job to incur a period of intervening unemployment in order to receive a bonus.

Bonus design. A reemployment bonus should be constructed to be a multiple of the weekly benefit amount. It should not be in the form of a fixed dollar amount, in order to avoid higher usage by low-wage employees than by higher-wage employees. This design would be in accord with job search theory and labor supply models that predict that low-wage workers would make greater use of a fixed dollar amount bonus offer. Based on the Illinois data, however, there is only weak confirmation of this hypothesis (Meyer 1996, p. 270).

Bonus size. The bonus size should be moderate, in order to provide a sufficient incentive to get unemployed workers to respond and speed their early return to work, but not so large as to greatly change their labor market behavior, e.g., prompting them to move from employment to unemployment. A bonus of between three and four times the weekly benefit amount would be reasonable. In 2008, the average bonus offer would have been approximately \$900 if the bonus had been set at three times the weekly benefit amount (and approximately \$1,200 if set at four times the weekly benefit amount).

Bonus offer timing. The bonus should be offered as early as possible during spells of unemployment. It should be offered as soon as individuals are determined to be eligible to receive UI. Alternatively, the bonus could be conditionally offered at the time of filing a UI initial claim. It could be offered to claimants who are determined to be monetarily eligible and who are profiled as dislocated workers. This approach assumes that states can make monetary determinations and conduct profiling on a real-time basis. The offer, however, would be

conditional on claimants meeting nonmonetary eligibility stipulations, such as being involuntarily separated from a previous job.

The resulting program would be an effective instrument to encourage job-ready, dislocated workers to accelerate their return to employment. It would be a small program, with only a modest impact on local labor markets. It would not be a solution to unemployment by itself but one of many tools to encourage and enable unemployed workers to return to work.

Reemployment Bonus Policy

The research lessons learned about reemployment bonuses were used by the USDOL to develop the reemployment bonus provisions proposed in the Reemployment Act of 1994. The reemployment bonus design came directly from the conclusions drawn from the evaluations of the Pennsylvania and Washington state experiments.

In contrast, the reemployment bonus provisions in the Personal Reemployment Accounts legislative proposal and in the PRA demonstration project made no sense. The bonus offer was too large: the offer level was twice as large as the largest bonus tested by any of the experiments. As a result, the PRA reemployment bonus could not be cost-effective.

Reemployment bonuses still make good public policy sense. With refinements, reemployment bonus provisions that mirror those contained in the bill that would have become the Reemployment Act of 1994 should be adopted as a five-year sunset program that would be evaluated before being made permanent.

Notes

1. The New Jersey results reveal that the reemployment bonus had a significant effect on the long-term stabilization of employment. Both the JSA-only treatment and the JSA-plus-reemployment-bonus (RB) treatment had long-term impacts on UI weeks paid, although the impact of JSA-plus-RB was greater. For JSA-only, there were significant impacts in the first and second year, but not for the entire six-year period. For the JSA-plus-RB treatment, there was a significant effect for the entire period, as well as for each of the first two years.
2. In the New Jersey Experiment, however, the JSA-only treatment had no significant first-quarter effect on earnings. We must conclude that the reemployment bonus offer—in combination with the JSA offer—had a positive effect on earnings in the first quarter. There was, however, no significant effect for the JSA-plus-RB treatment for any of the six years of follow-up, or for the six years as a whole.
3. Bruce D. Meyer, in an interview with the author, August 25, 2008.
4. Vroman (1991) finds that over half of the individuals identified as nonfilers thought they were not eligible. While this response was the nonfilers' perception rather than their factual knowledge of the situation, many of these respondents were probably correct. The USDOL attempted to independently confirm this response with a study based on a follow-up 1993 CPS supplement (BLS 1997). The study was intended to match respondents' survey responses with their quarterly wage data to determine whether they were monetarily eligible. Because of a small non-filer sample, the Census Bureau did not conduct the match.
5. Robert B. Reich, in an interview with the author, November 21, 2008.
6. *Ibid.*
7. Larry Katz, in an interview with the author, September 25, 2008.
8. Alan Krueger, in an interview with the author, October 13, 2008.
9. *Ibid.*
10. On January 4, 2005, two bills were introduced in the 109th Congress that would have authorized PRAs as part of the WIA: H.R. 26, a stand-alone bill, and H.R. 27, a bill to reauthorize the WIA. The provisions of both bills were identical, and they, in turn, were identical to those of H.R. 444, which had been passed by the House of Representatives in the 108th Congress.
11. Much of the discussion in this section is based on an interview by the author with Tom DeLeire on July 19, 2005.
12. Meyer, interview.
13. Tom DeLeire, interview with the author, July 19, 2005.
14. I proposed these two projects to assist in the implementation of the PRA demonstration projects, not just to ensure that program managers and public policy officials would have a more realistic expectation about the likely outcomes of implementation of the PRAs.
15. Data and analysis for the PRA demonstration projects in Kirby et al. (2008) are restricted to the seven original states because Hawaii entered the project late.