EXECUTIVE SUMMARY

A. Overview

The standard measure of the UI Recipiency Rate (Standard Rate) has fallen from the 1970s to the 1990s, suggesting an erosion in the effectiveness of the UI system. This rate declined sharply from the mid-seventies to the early eighties. From the early eighties to the nineties, the Standard Rate increased modestly, but is still below its mid-seventies level. While researchers have identified many reasons for the low UI recipiency rates over the past twenty years, many questions remain as to the causes behind the low rate and steps that policy and program officials might take to increase it.

While the Standard Rate is the most commonly used measure to evaluate the effectiveness of the UI program, researchers have developed alternative UI recipiency rates to address some of the limitations of the standard measure. The standard measure is expressed as the ratio of the insured unemployed (i.e., the number of regular UI claimants) to the total number unemployed. Alternative measures have been designed to better capture the effectiveness of the UI program by including the full range of UI programs available to the unemployed (beyond the regular program) and by more accurately defining the UI target population (a subset of unemployed workers).

B. Purpose and Methodology

The purpose of this report is to examine why the Standard Rate, as well as alternative recipiency rates, declined sharply in the early eighties and continued to remain well below their mid-seventies level in the early nineties. We critically reviewed the findings from the research literature to explore the factors others have identified to explain the drop in the UI recipiency rate. The literature review enabled us to identify factors for inclusion in our empirical analysis and to assess the effects of factors that could not be included in our own analysis.

Our empirical analysis is based primarily on the methodology used by Burtless and Saks (1984) and focuses only on changes in the UI recipiency rate over recessionary periods. It is important to compare similar economic periods because the UI recipiency rate is higher during recessionary periods and lower during periods of economic expansion. We first replicated the analysis from Burtless and Saks, estimating the effects of various factors that influenced the rate used in their original analysis from the seventies recession (1975-76) to the eighties recession (1981-83). We then extended their earlier analysis by testing the effects of additional factors during that period. Next, we updated the analysis to include data from the most recent recessionary period in the nineties (1991-92). We chose the period in the nineties to be consistent with the periods of rising unemployment rates selected by Burtless and Saks. Finally, we extended their analysis by using the Standard Rate and two additional measures of UI recipiency selected to measure the performance of the UI programs during recessionary periods.

Our conclusions about the effects of various factors on the UI recipiency rate are based on the findings from both the critical review of the literature and our empirical analysis. We also present evaluation design options to address some of the limitations of current knowledge.

C. UI Recipiency Rate Measures

Four UI recipiency rate measures were selected for the empirical analysis. These are:

- **Standard Rate:** number of weekly claims for regular program unemployment insurance benefits, as a proportion of all unemployed workers;[1]

- **All Programs Rate:** number of weekly claims for all program (regular, extended and federal) unemployment insurance benefits, as a proportion of all unemployed workers;

- **Standard Short-term Rate:** number of weekly claims for regular program unemployment insurance benefits, as a proportion of job losers unemployed less than 27 weeks; and

- **All Programs Job Loser Rate:** number of weekly claims for all program (regular, extended and federal) unemployment insurance benefits, as a proportion of all job losers.

The final three UI recipiency rates deviate from the Standard Rate by changing the definition of UI claimants, unemployed workers, or both. Because the All Programs Rate and the All Programs Job Loser Rate include all UI program claimants, Wandner and Stengle (1996) argue that they are generally better measures of UI coverage during recessionary periods when extended benefit programs are provided. The All Programs Job Loser Rate differs from the All Programs Rate because it targets a subset of unemployed workers (i.e., job losers) who would be most likely to qualify for UI benefits. The Standard Short-term Rate only includes regular program claimants and the general "target population" for the regular state program, job losers unemployed less than 27 weeks. This final measure was used in the original Burtless and Saks analysis. All three alternative rates are larger than the Standard Rate because they use either a more expansive definition of UI claimants and/or a more restrictive definition of unemployed workers.

From the seventies to the eighties, all four recipiency rates declined sharply (***Exhibit 1***). The largest reductions are for the All Programs Rate and the All Programs Job Loser Rate. These rates declined by more than the Standard Rate because of the large cutbacks in the extended benefit programs that were implemented in the early eighties. From the eighties to the nineties, the Standard Rate increased slightly. There is not, however, a large change in either the All Programs or All Programs Job Loser rates over this period, due to the small number of extended claimants. If, however, the analysis were extended to periods following March 1992, there would be an increase in both of these rates because of the extension of benefits through the Emergency Unemployment Compensation (EU3) program.[2] The Standard Short-term Rate follows the same general pattern as the Standard Rate, though there is a much sharper drop-off in the Standard Short-term rate in the early eighties that corresponds with fewer short term job losers receiving regular program benefits.

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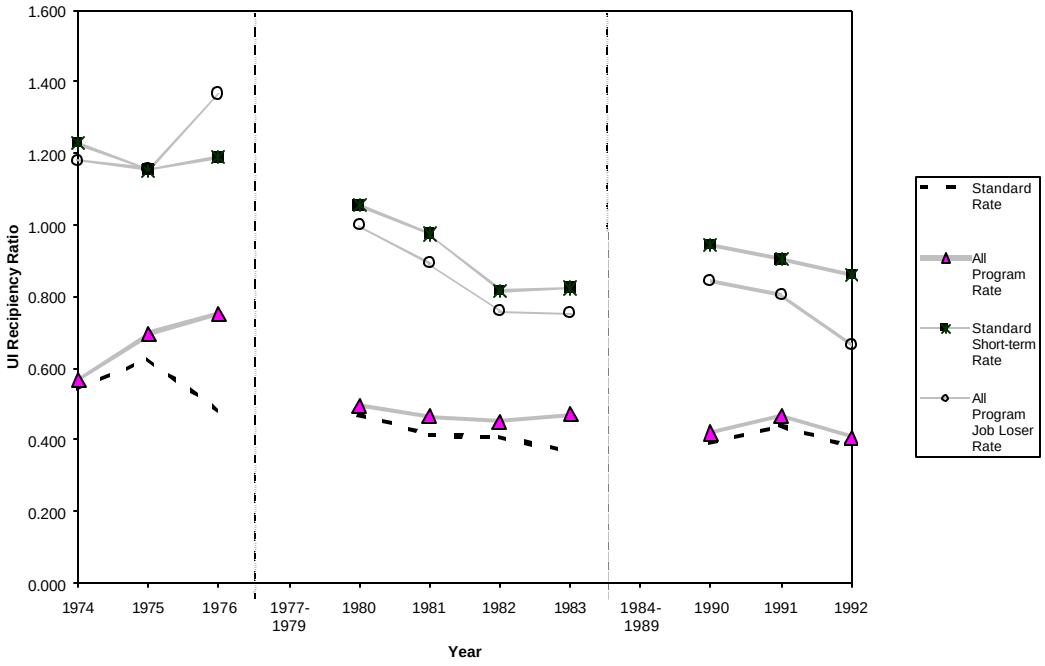
[1] The regular program includes claims from the regular state program, the Unemployment Compensation program for Federal Employees (UCFE), and the Unemployment Compensation program for Ex-service members (UCX).

[2] Based on observed trends from Wandner and Stengle.

Exhibit 1: Alternative UI Recipiency Rates from the Seventies Recession to the Nineties Recession



D. Factors that Influence the Standard Rate

The average Standard Rate dropped sharply from 0.56 in the seventies recession (1975-76) to 0.39 in the eighties recession (1981-83).[3] The average Standard Rate increased slightly from 0.39 in the eighties recession to 0.43 in the nineties recession (1991-92). We summarize the factors behind these changes based on our critical review of the literature and independent empirical analysis. Unless otherwise specified, the findings reflect the effects of factors on changes in the Standard Rate.[4]

[3] The average recipiency rate for the seventies recession is equal to the sum of the number of UI claimants in March 1975 and March 1976 divided by the sum of the number of unemployed workers in those periods. Similarly, the average recipiency rate for the eighties recession is equal to the sum of the number of UI claimants in March 1981, March 1982, and March 1983 divided by the sum of the number of unemployed workers in those periods.

[4] Because studies in the previous literature used alternative measures of the recipiency rate, the statistics below represent the approximate effect on the Standard Rate. Caution should be used in interpreting the reported effects as point estimates, because the time period of analysis and the recipiency measures used across studies vary.

1. Literature Review

We examined the effects of four factors identified in the previous literature that could not be assessed in the empirical analysis. A summary of the most credible findings from the previous literature is provided below. Except for the last, these findings pertain only to the period over which the recipiency rates declined most precipitously:

- Decline in unionization*: Blank and Card (1991) estimated that the decline in unionization explained approximately 25 percent of the decline in the Standard Rate from 1977 to 1987.*[5] *While their analysis has shortcomings, there is not a strong reason to believe their estimate is too large or too small. A new analysis of the impact of unionization was not feasible within the scope of this project, but could be addressed in future work.*
- *Federal taxation of UI benefits*: Anderson and Meyer (1996) concluded that this factor alone could account for 25 percent of the recipiency decline from 1979 to 1987.[6] Their analysis also has some shortcomings but it seems clear that federal taxation had a significant impact. The effect of the federal taxation of benefits could not be addressed in the empirical analysis because of data limitations.
- *Changes in the measurement of overall unemployment from the CPS*: Corson and Nicholson (1988) found that changes in CPS measurement of unemployment could explain from two to ten percent of the decline in the Standard Rate from 1971 to 1986.
- *Cost-shifting from state UI programs to other federally funded programs*: Vroman (1997) concluded that cost shifting had little impact on the recipiency rate because states could not save money by shifting UI recipients to other transfer programs.

2. Empirical Analysis

For the empirical analysis, we examined the effect of three factors on the Standard Rate that were also examined by Burtless and Saks. Because the effects of the factors examined varied by the period of analysis, below we summarize the results by recessionary periods from the seventies to the eighties (1975-76 to 1981-83) and from the eighties to the nineties (1981-83 to 1991-92).

a) Changes from the Seventies Recession to the Eighties Recession

- *Compositional characteristics of unemployed workers:* This factor had a negligible impact on the Standard Rate over this period. These findings reaffirm the original findings by Burtless and Saks (1984) that were based on the Standard Short-term Rate.

[5] Their original estimates are based on UI "take-up" rates. The Advisory Council on Unemployment Compensation (1996) approximately translates this into an effect on the Standard Rate.

[6] Their original estimates are based on UI "take-up" rates. The Lewin Group approximately translates this into an effect on the Standard Rate.

- *Geographic shifts in the distribution of unemployed workers*: Geographic shifts in the distribution of unemployed workers had a small effect on the decline in the Standard Rate over this period. Based on simulations, this factor accounted for less than five percent of the decline in the Standard Rate. These findings also reaffirm the original findings by Burtless and Saks.

- *Administrative and policy changes in state UI programs*: These factors might explain a substantial portion of the decline that appears to be unexplained by other factors. Many states implemented policy and administrative changes that tightened UI eligibility at about the same time that the recipiency rate fell sharply. However, our analysis was unable to identify a significant effect for any specific factor because states were implementing such a wide range of changes at differing times.

b) Changes from the Eighties Recession to the Nineties Recession

In comparison to the period from the 1970s to the 1980s, the Standard Rate, as well as the factors that influence this rate, were much more stable:

- *Compositional characteristics of unemployed workers:* Similar to the previous period, changes in the compositional characteristics explained only a small portion of the overall changes.[7]

- *Geographic shifts in the distribution of unemployed workers*: Geographic shifts in the distribution of unemployed workers accounted for 11 percent of the increase over this period.

- *Administrative and policy changes in state UI programs*: As in the previous period, it was not possible to estimate the magnitude of the effect of state policy and administrative changes, though there was evidence that some states tightened eligibility requirements. The number of restrictive policy changes, however, were generally much smaller in comparison to the previous period.

E. Factors that Influence the Alternative UI Recipiency Rate Measures

While there were differences in the trends among the alternative recipiency rates, the effects of the factors included in our empirical analysis did not substantively change when alternative UI recipiency rates were used. The one minor exception is in the effect of geographic shifts in the unemployed from the eighties to the nineties. Based on one simulation, geographic shifts in the distribution of job losers unemployed less than 27 weeks accounted for a very large share of the relatively small change in the Standard Short-term Rate from the eighties to the nineties recession (approximately 60 percent). This difference is due to both the relatively small change

[7] While there were generally small changes in the demographic composition of unemployed workers from the seventies to the eighties and from the eighties to the nineties, over the entire period there were some significant changes in the composition of unemployed workers by age, sex, and industry. Still, however, the overall effects of these changes on the UI recipiency rate were relatively small. Certain changes, such as the increase in the proportion of men over the age of 25, were offset by other changes, such as the effect of the decline in the proportion of unemployed workers in manufacturing.

in the Standard Short-term Rate plus a somewhat more pronounced shift in the state distribution of short-term job losers in comparison to the distribution of all unemployed workers. Similar to the results for the Standard Rate, however, this factor explained virtually none of the relatively large decline in the Standard Short-term Rate from the seventies to the eighties.

F. Design Options

While we were able to examine several factors that influence the UI recipiency rate, the methodological problems and data limitations limit the degree to which a point estimate can be provided for the effect of any single factor on the UI recipiency rate. Given these limitations, it is unlikely that further research on the effect of state policy and administrative changes during the early eighties will yield useful information for policy-making purposes. More promising future research avenues include analyzing the effects of policy differences on current cross-state differences in state UI recipiency rates, exploring other factors not included in our empirical analysis (e.g., unionization, federal taxation of benefits), and analyzing differences across groups of unemployed workers by receipt of UI benefits. We propose five design options for further study of the UI recipiency rate.