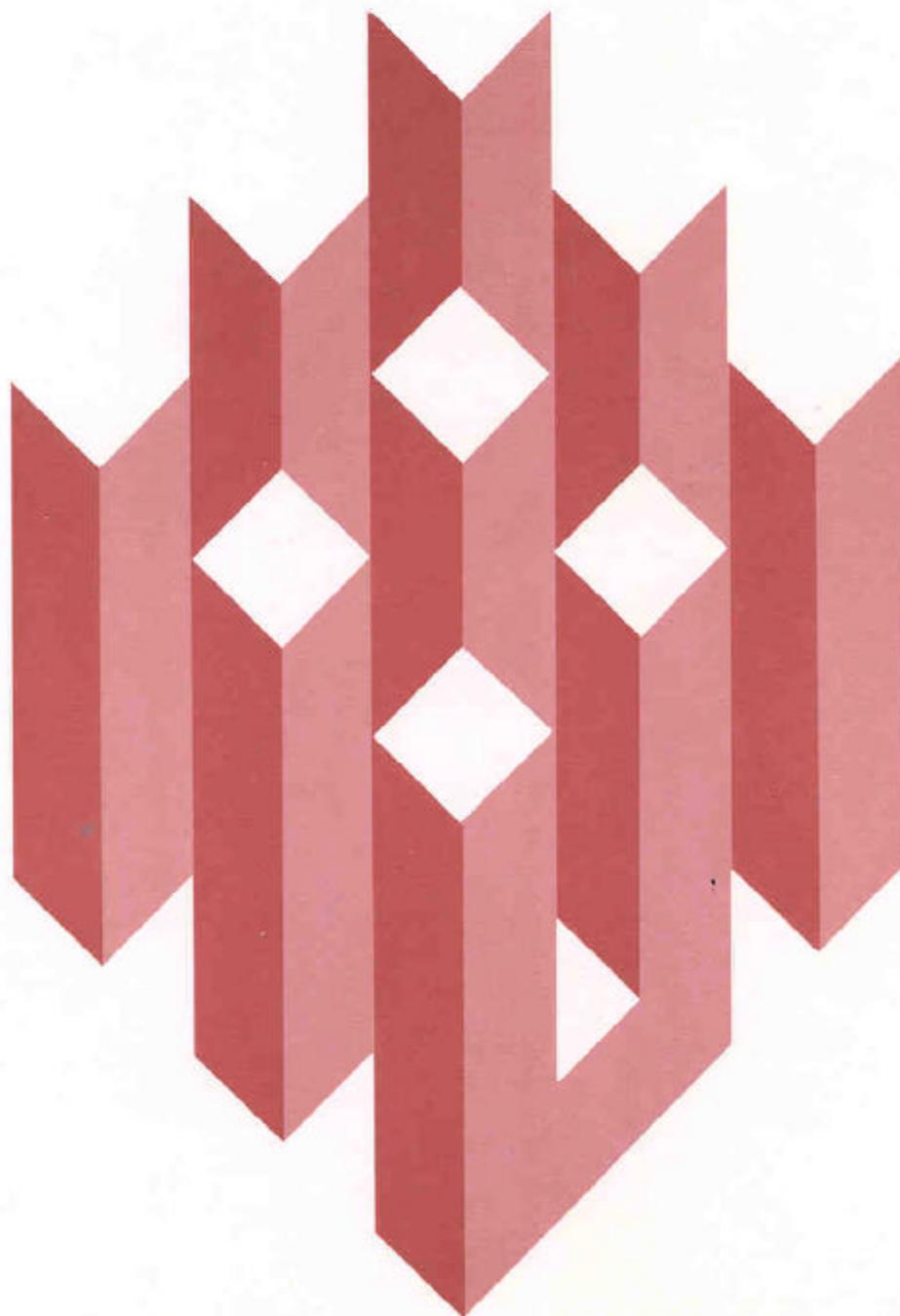


The Secretary's Seminars on Unemployment Insurance



Unemployment Insurance
Occasional Paper 89-1

U.S. Department of Labor
Employment and Training Administration



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Occasional Paper 89-1

U.S. Department of Labor
Ann McLaughlin, Secretary

Employment and Training Administration
Roberts T. Jones
Assistant Secretary of Labor

Unemployment Insurance Service
Marv Ann Wyrsh, Director

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The Unemployment Insurance Occasional Paper Series presents research findings and analyses dealing with unemployment insurance issues. Papers are prepared by research contractors, staff members of the unemployment insurance system, or individual researchers. Manuscripts and comments from interested individuals are welcome. All correspondence should be sent to UI Occasional Papers, Unemployment Insurance Service, Frances Perkins Building, Room S-4519, 200 Constitution Ave., N.W., Washington, D.C. 20210.

INTRODUCTION

When I began as the Secretary of Labor, one of my goals was to position the Department to address the issues of the 1990's. A number of persons suggested that I should examine the operation of the 50-year old unemployment insurance program, paying particular attention to why fewer and fewer unemployed were receiving benefits.

After consideration of this suggestion, I decided the best way to examine this issue was for the Department to sponsor a series of seminars on unemployment insurance issues, and that participants include the various stakeholders in the system--employers, employees, and the public. I chose the seminar model because I wanted to encourage the idea of careful deliberations about so complex a system, whose design and operations over the past 5 decades have come about through careful balancing of interests. In commissioning seminar papers, and in sponsoring discussion on three specific topics, I hoped to further the dialogue on the widest possible range of potential policy issues, and to create a model for subsequent deliberations.

This compilation of discussion papers and proceedings summaries from the series of seminars sponsored during 1988, serves as a companion piece to the Report on Unemployment Insurance issued by me in January 1989.

Both the Report of the Secretary on Unemployment Insurance (UI) and this document represent particular outcomes of one of the goals I set for myself when I came to the Department--to position the Department to address the new issues confronting our changing labor force in the 1990's.

Thanks to the interest and hard work of the participants who not only gave of their time in the seminars, but also read and reviewed the discussion papers, as well as the summary proceedings, I believe that we achieved our goals.

I encourage this important dialogue to continue.



Ann McLaughlin
Secretary
U.S. Department of Labor

**THE SECRETARY'S SEMINARS
ON UNEMPLOYMENT
INSURANCE:**

**DISCUSSION PAPERS
AND SUMMARIES**

January 1988

Prepared for:

U.S. Department of Labor
Employment and Training Administration
Unemployment Insurance Service
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Prepared by:

Mathematica Policy Research, Inc.
P.O. Box 2393
Princeton, New Jersey 08540-2393

Project Officer: Michael Miller

CONTENTS

PART 1	EXECUTIVE SUMMARY: SECRETARY'S SEMINARS ON UNEMPLOYMENT INSURANCE.	3
PART 2	CAUSES OF DECLINING CLAIMS DURING THE 1980s <i>by Walter Corson and Walter Nicholson.</i>	13
	REFERENCES	49
	SUMMARY OF DISCUSSION: THE FIRST SECRETARY'S SEMINAR	51
	SEMINAR PARTICIPANTS.	57
PART 3	UNEMPLOYMENT INSURANCE INCOME MAINTENANCE AND REEMPLOYMENT TRADEOFFS IN A COMPETITIVE WORLD ECONOMY <i>by Walter Corson and Walter Nicholson.</i>	61
	REFERENCES	89
	SUMMARY OF DISCUSSION: THE SECOND SECRETARY'S SEMINAR	93
	SEMINAR PARTICIPANTS.	99
PART 4	ALTERNATIVE USES OF UNEMPLOYMENT INSURANCE: THE UNEMPLOYMENT INSURANCE DEMONSTRATIONS <i>by Stuart Kerachsky and Walter Corson</i>	103
	REFERENCES	135
	SUMMARY OF DISCUSSION: THE THIRD SECRETARY'S SEMINAR.	137
	SEMINAR PARTICIPANTS.	143

PART 1

**EXECUTIVE SUMMARY:
SECRETARY'S SEMINARS ON UNEMPLOYMENT INSURANCE**

During 1988, a series of Secretary's Seminars on Unemployment Insurance were held at the U.S. Department of Labor under the sponsorship of Secretary of Labor Ann McLaughlin. These seminars, which were attended by representatives of business, labor, and the general public, examined research on three important UI policy issues. The first seminar, held on June 27, 1988, addressed the widening gap between total and insured unemployment. The second seminar, held on September 29, 1988, explored the tradeoffs between the income maintenance and reemployment goals of the UI system as they pertain to choosing potential UI duration policies. The third seminar, held on October 20, 1988, examined alternative uses of unemployment insurance--in particular, how the reemployment of claimants might be fostered, with discussion of a series of demonstrations of such initiatives. A summary luncheon was held on December 2, 1988, to review with the Secretary the discussions in the three seminars, in addition to other unemployment insurance issues.

The three papers included in this volume served as background documents for the seminar participants. Following each of the papers is a brief summary of the discussion in the session. These summaries seek to provide an accurate representation of the views expressed during the seminars, although specific comments are not attributed to individual speakers. A list of participants in each seminar follows the summaries.

The remainder of Part 1 contains executive summaries of each of the three papers.

SEMINAR NUMBER 1: DECLINING UI CLAIMS DURING THE 1980S

In recent years, concerns have been raised about whether the state-federal system of unemployment insurance (UI) is continuing to provide the degree of protection for unemployed workers that it did in earlier decades. The reason for such concern is that claims for UI benefits that are payable under regular state programs declined significantly during the 1980s relative to total unemployment. More specifically, the ratio of UI claims to total unemployment averaged about 0.41 during the 1970s, compared with about 0.35 during the 1980s--a reduction of approximately 15 percent.

This decline in regular UI claims varied significantly from year to year during the 1980s. Relative to previous experience, the declines were largest during 1983 and 1984 and somewhat smaller at the beginning and end of the period examined. The decline in regular UI claims also varied widely across states. It was greatest in some of the major industrial states (Illinois and Michigan), but practically all states experienced a decline to some degree. Among the 11 largest states, only California exhibited an increase in the UI claims ratio during the 1980s. Finally, claims under all UI programs (including extended benefits) declined by an even greater extent than did claims under the regular state programs. Most of this decline can be attributed to explicit policy changes made in these programs and to the decline in regular UI claims.

This Seminar paper examined the reasons for the decline in claims under the regular state UI programs, based on extensive statistical analyses of national data over the 1948-1986 period, analyses of more detailed data from all states over the 1971-1986 period, and in-person interviews with UI officials in the largest states. In general, the analyses found that no single factor explained the observed decline in UI claims over the 1980s; rather, the decline was caused by changes in the general labor market and by a number of policy changes made at both the federal and the state levels.

These findings can be summarized under four categories.

- o Changes in the nature of the labor market in the 1980s. The higher overall levels of unemployment experienced during the 1980s, the decline in the proportion of unemployed individuals whose previous job was in manufacturing (an industry that has traditionally accounted for an important share of UI claims), and shifts in the geographic distribution of unemployment could have affected the claims ratio. The most important findings in this area were:
 - The decline in manufacturing unemployment relative to total unemployment during the 1980s accounted for between 4 and 18 percent of the observed decline in the UI claims ratio.
 - Shifts in the geographic distribution of unemployment accounted for about 16 percent of the decline in the UI claims ratio.
- o Changes in federal UI laws. Changes introduced in the late 1970s and early 1980s--such as the partial taxation of UI benefits, the adoption of less generous extended benefits programs, and the incorporation of compulsory pension-offset

provisions--may have reduced incentives to collect UI benefits during the 1980s. The most important finding here was that the partial taxation of UI benefits accounted for between 11 and 16 percent of the decline. Similarly, changes in federal trust-fund policies and in emergency loan provisions may have encouraged states to "tighten up" their own programs.

- o Changes in state law and policy. States are constantly changing their UI laws which govern the eligibility of individuals for UI and the amount of benefits to which they are entitled. They also adjust their administrative procedures for determining initial and continuing eligibility for UI. The widespread adoption of restrictive measures in any of these areas might have contributed to the decline in regular UI claims. The most important findings here were that--
 - Increased monetary eligibility requirements for UI and reduced maximum potential durations of benefits available under state programs accounted for between 8 and 15 percent of the decline.
 - Increases in disqualifying income denials (probably reflecting the pension-offset provisions) accounted for about 10 percent of the decline.
 - Changes in other nonmonetary eligibility requirements, countered by some reductions in worktest denials, accounted for between 3 and 11 percent of the decline.
- o Changes in measured unemployment that were unrelated to UI claims. If unemployment were measured more accurately during the 1980s than in previous decades or if unemployment were subject to an upward "drift" not associated with general economic conditions, then the UI claims ratio might have declined even in the absence of any explicit policy changes. This potential explanation was found to have had only a small effect on the decline. More specifically, the increasingly accurate measurement of unemployment by the Current Population Survey (CPS) accounted for between 1 and 12 percent of the decline.

Several observations about these findings can be useful to the formulation of UI policy. First, the importance of the manufacturing decline in explaining the trend in the 1980s suggests that, although this decline was not caused by changes in UI policy, some useful policies might be undertaken in the future. Such policies might entail providing other workers with the types of information about and access to the UI system that seem to have been available to manufacturing workers. Second, the impact of the federal policy changes, while important, were probably small enough in each case that such policy changes might profitably be debated in their own right, rather than focusing on their overall impact on the type of safety net that is provided by the UI program. Third, the findings indicated that states made changes to their laws to tighten their program and

eligibility provisions, and that such tightening accounted for between 22 and 39 percent of the decline in UI claims during the 1980s. However, relatively little evidence was found that states tightened their administrative operations. Some of these state actions may have been motivated by fiscal pressures from the federal government, but a clearcut reaction to those pressures by the states was not documented. Finally, although the analysis focused on the decline in claims under regular state programs, substantial declines also occurred in extended benefits programs, both because explicit policy changes were made to those programs and because the decline in regular state UI made it less likely that extended benefits would become payable in a state.

SEMINAR NUMBER 2: INCOME MAINTENANCE AND REEMPLOYMENT TRADEOFFS

Unemployed workers need income support while they are unemployed, as well as assistance and encouragement in finding new jobs. Unemployment insurance (UI) programs seek to meet these support goals by making appropriate decisions about such program features as eligibility provisions, weekly benefit amounts, the duration of benefits for which recipients are eligible, and reemployment assistance services. However, achieving the twin goal of income maintenance and reemployment assistance poses difficult tradeoffs for policymakers, since the adoption of policies that are successful at achieving one of the goals may hinder success at achieving the other.

This Seminar paper explored such tradeoffs as they pertain to decisions about potential UI duration policies. Put simply, the tradeoffs seem clear: longer potential durations of UI benefit receipt offer the promise of covering the complete unemployment spells of a greater number of recipients, but, as empirical evidence indicates, longer durations may also encourage recipients to remain unemployed for a longer period of time, thereby delaying reemployment. However, the issue is more complex, since (1) longer UI durations may offer recipients the opportunity to upgrade their skills or adopt other methods to help them find better jobs; (2) effective reemployment services may also help counter the disincentives inherent in longer UI durations; and (3) alternative emphases on the insurance or the income maintenance goal of UI programs will affect decisions about durations.

Compounding the complexity of these tradeoffs are business cycles that may necessitate adjusting the policy decisions that are reached. For instance, during cyclical downturns, the average unemployment spell lengthens, and the job-search environment becomes more difficult for unemployed workers. If UI is to continue to provide the same protection to these workers that it does during more normal periods, benefit extensions may be necessary. Although this rationale for extensions during cyclical downturns seems clear, a number of important issues must be addressed to implement such a policy:

- o How should the program be implemented and phased-out? Should the program be automatic or discretionary?
- o What labor-market measures, if any, should be used to initiate extensions?
- o How long should counter-cyclical extensions be--should they depend on the depth of the recession?
- o Should all individuals who exhaust their entitlements under regular UI programs be eligible for extensions during recessions, or should some additional eligibility requirements be imposed?
- o How should such extensions be financed?

Since its beginning in 1935, the evolution of the unemployment insurance system in the United States has reflected the income maintenance and reemployment tradeoffs as they pertain to both the regular program and counter-cyclical extensions. Potential durations under the individual state UI programs have varied from an average of 13 to 16 weeks in the 1930s to the 26-week maximum that is found in all but one state today. At times, a few states have instituted maximum durations of 30 weeks or more. Beginning with the 1958 recession, federal legislation has extended the duration of benefits beyond the regular state programs during most economic downturns. These extensions have been provided through both temporary programs and, beginning in 1971, the permanent Extended Benefits (EB) program, which becomes available automatically when unemployment rates exceed specified levels. When combined with the regular state programs, these extended benefits programs have provided from 32 to 65 weeks of potential benefits during

recessionary periods. Other program components, such as individual eligibility conditions and mechanisms to target benefits in areas that suffer the greatest labor-market weakness, have also varied considerably over the years.

The policy decisions about the duration of benefits that have been made by other developed countries differ in some important respects from those made in the United States. Most importantly, these countries have tended to (1) adopt longer durations for their regular UI programs than those that prevail in the United States; (2) structure programs for exhaustees of the regular program in ways that more closely resemble income maintenance programs than do the extended benefits programs in the United States; (3) institute somewhat larger programs of reemployment assistance within their UI programs; and (4) make few changes in their programs during cyclical downturns. Many of these differences appear to reflect underlying differences in labor markets.

SEMINAR NUMBER 3: ALTERNATIVE USES OF UI

Since its inception, the unemployment insurance (UI) system has generally served well in protecting workers against extreme financial hardship when they lose their jobs. This income support system was designed to provide relatively short-term, partial aid to alleviate wage loss until the efforts of workers--or, alternatively, of employers--could restore workers to employment. These efforts are encouraged by both the claimant work-test and employer experience-rating provisions of UI. Particularly when structural dislocation occurs, the matching of workers with jobs may also need facilitating, and this has been the role of the Employment Service (ES) and, more recently, Job Training Partnership Act (JTPA) programs.

Economic shifts in recent years have posed increased challenges to this program structure. The pressure of foreign competition and the restructuring of key industries have created persistent employment problems for dislocated and other experienced workers, even through the current strong economic expansion. Those employment problems have contributed to long spells of unemployment and UI benefit claims, and to concomitant pressures on state UI trust funds. All of these problems

suggest strongly that there are real opportunities to improve the efficiency with which our society returns workers to employment.

This Seminar paper explored the manner in which the UI system, either alone or in concert with complementary programs, can enhance the reemployment prospects of claimants. New ideas or policy options have generally represented either an extension of recent developments in employment security or employment and training programs or a bolder new direction. Some options entail changing the financial incentives facing unemployed workers or potential employers. Such changes could be accomplished by restructuring the use of UI funds for at least some claimants, or by using external funds. Other policy options focus more on the provision of reemployment services and the establishment of linkages between the UI system and agencies that provide these services. Such options recognize the UI system's unique advantage as the common point of entry into the social service network for most unemployed workers, and the appropriateness of that system to identify those workers early in their UI spells and to refer them to services.

Because only limited information is currently available on most new policy options, important questions remain about how they can be operationalized, their ability to respond to current problems, and their benefits relative to their costs. A powerful and widely used method for generating this information is a demonstration of one or a combination of policy options operated directly within the context of a state program. With careful design and implementation, a demonstration can yield reliable information to weed out unpromising options and to show the way toward successful policies and programs in the future.

The Department of Labor is currently operating or planning five major demonstrations of new policy options. These are:

- o The New Jersey UI Reemployment Demonstration Project. This demonstration is a multi-focus test of claimant targeting, program enrichment, program linkages, and a reemployment bonus. It was designed to examine some of these options separately, and some in combination. Operations began in July 1986 and ended in September 1987. The final report is due in early 1989.

- o The Washington State Reemployment Bonus Demonstration. This demonstration is testing a number of different reemployment bonus schemes to determine the combination of bonus components (the size of the bonus and/or length of the bonus offer) that is most effective. This demonstration is currently underway, and the period of operations will end this Spring.
- o The Pennsylvania Reemployment Bonus Demonstration. This demonstration is testing many of the same features as the Washington State demonstration, but in a different economic setting. It is also testing the benefits of enriched job-search assistance offered with a reemployment bonus, and the degree to which program benefits accrue to some workers at the expense of others (i.e., displacement). This demonstration is currently underway, and the field period will end in September 1989.
- o The Washington State Self-Employment Demonstration Project. This demonstration will provide financial assistance in the form of self-employment allowances plus business-training and support services to unemployed workers who wish to become self-employed. The demonstration is currently being designed.
- o The Three-State Self-Employment Demonstration Project. This demonstration will extend to three additional states the test of self-employment allowances and business-service support for unemployed workers who wish to become self-employed. It is also currently being designed.

PART 2

CAUSES OF DECLINING UI CLAIMS DURING THE 1980s

A. INTRODUCTION

In recent years, concerns have been raised about whether the state-federal system of unemployment insurance (UI) is continuing to provide the degree of protection for unemployed workers that it did in earlier decades. A number of observers have pointed to what appears to be a marked decline in the proportion of unemployed individuals who are collecting UI as an important indicator of the necessity of remedial policy actions. While quantitative research in this area supports the notion that fewer of the unemployed are collecting benefits than was true prior to the 1980s (see Burtless, 1983; and Burtless and Saks, 1984), the reasons for the decline are marked by considerable uncertainty.¹ This paper summarizes a major research project (the findings from which are discussed in-depth in Corson and Nicholson, 1988), whose purpose was to examine UI coverage² of the unemployed in some detail. Based on extensive quantitative analyses of state data on unemployment and UI collection, together with qualitative analyses based on discussions with UI officials in several large states and an analysis of some individual-level data, the project was intended specifically to explain recent trends in UI coverage and to offer some evaluation of potential policy responses (if any). In this introductory section, we examine some data on UI claims in order to illustrate the nature of the decline that has occurred. In later sections, we then explore the reasons for this decline and their consequences for policy.

1. National Trends

Table 1 presents two commonly used indicators of UI coverage of the unemployed by decade over the longest period permitted by the availability of national data, 1948 to 1986. The first of these measures is the ratio of average weekly UI benefit claims under state programs during

¹See, for example, the testimony presented to the Government Operations Committee in 1986 (U.S. Congress, 1986).

²Throughout this paper, we use the term "coverage" to refer to the extent to which unemployed workers collect UI. Hence, the term is used less precisely and somewhat differently from how it is used in the unemployment insurance literature, in which "coverage" is usually taken to mean the extent to which workers in particular jobs may be eligible to collect benefits because their employer pays UI taxes on their wages.

TABLE 1
 ALTERNATIVE MEASURES OF UI COVERAGE OF
 THE UNEMPLOYED BY DECADE,
 1948-1986

	Ratio of State UI Weeks Claimed to Total Unemployment	Ratio of Insured Unemployment Rate (IUR) to Total Unemployment Rate (TUR)
1940s	.489	.948
1950s	.492	.911
1960s	.426	.727
1970s	.413	.603
1980s	.347	.434
Overall Mean	.428	.701

NOTE: The data are averages of quarterly figures.

a quarter to the state's average total unemployment (as reported by the Current Population Survey) during that quarter. Although some conceptual and timing issues must be confronted when interpreting this ratio, it is probably the best available approximation to the proportion of the unemployed who claim UI. In this paper we will refer to this measure as the "UI claims ratio," so as to avoid the burdensome repetition of its component variables.

The second measure of UI coverage reported in Table 1 is the ratio of the insured unemployment rate (IUR) reported by the Unemployment Insurance Service to the total unemployment rate (TUR) reported on the Current Population Survey. Although this second measure is conceptually similar to the first, since it also compares the number of UI claims filed with the number of unemployed workers, different denominators for the IUR and the TUR make the interpretation of this ratio somewhat less straightforward. Specifically, the IUR is defined as the ratio of UI claims to total employment covered by UI, whereas the TUR represents total unemployment divided by the total number of individuals in the labor force. Hence, trends in the extent to which jobs are covered by the UI system can affect the IUR/TUR ratio in two ways--by affecting the number of UI claims that might be filed, and by affecting the ratio of the total labor force to the number of jobs covered by UI. Expanding UI coverage to previously uncovered jobs will have both positive and negative effects on the IUR/TUR ratio, whereas the effect for the UI claims ratio would be unambiguously positive.

Whichever measure is used to reflect UI coverage, the data reported in Table 1 show a long-term decline, with a more pronounced decline occurring during the 1980s. The UI claims ratio for the 1980s declined by about 0.07 from the 1970s level--or by about 15 percent. That decline was statistically significant and was mirrored in most other figures on UI coverage. The decline in the IUR/TUR ratio for the 1980s was even more pronounced, and the longer-term decline of this measure appeared to be larger than the decline observed for the UI claims ratio. The disparate patterns of the two measures probably stems from changes in the inclusion of certain types of jobs under UI. In the 1960s and 1970s, job coverage under UI was expanded

considerably, primarily to jobs characterized by relatively low rates of UI collection. Because of this change in its base, the IUR declined more relative to the TUR than did UI claims relative to total unemployment during this period. However, in terms of the UI claims ratio measure, this job-coverage explanation does not apply to the 1980s. The decline in the IUR/TUR ratio between the 1970s and the 1980s reflects primarily a decline in UI claims. It is this decline which provided the focus of our research.

2. Experience of Individual States

The extent of UI coverage and the extent of its decline have varied widely from state to state. Such variance is illustrated in Table 2 for the eleven largest states. Mean values for the UI claims ratio variable in Table 2 have been adjusted for seasonality and for the overall level of unemployment, but the unadjusted data also showed similar variability. As might have been expected, the ratio of UI claims to total unemployment was highest in states in which manufacturing represents a large proportion of their workforce and which have a reputation for relatively "generous" UI programs (for example, Massachusetts). The ratio was relatively low in states that are less oriented toward manufacturing (Florida) and in states with a reputation for "tough" UI programs (Texas).

Estimated rates of decline in apparent UI coverage also varied widely among the largest states, as Table 2 clearly illustrates. UI coverage appears to have increased slightly in California during the 1980s, while Illinois and Michigan experienced major declines. With the exception of California, however, all of the states showed declines in the UI claims ratio measure of UI coverage, and in most cases those declines were statistically significant.¹ The different magnitudes reported in Table 2 do suggest that state-specific factors may have played an important role in determining observed changes in UI coverage. That possibility provided a major starting point in

¹The same pattern was evident over all states. Only 4 states (California, Colorado, Kansas, and Wyoming) had statistically significant increases in the UI claims ratio in the 1980s, while 35 states had statistically significant reductions.

TABLE 2

ADJUSTED MEAN RATIO OF WEEKS CLAIMED UNDER
UI STATE PROGRAMS TO TOTAL UNEMPLOYMENT
FOR THE 11 LARGEST STATES,
1971-1986

	Adjusted Mean 1971-1979	Adjusted Mean 1980-1986	Percent Change
California	.399	.419	+5.0*
Florida	.255	.200	-21.6**
Illinois	.499	.301	-39.7**
Massachusetts	.507	.452	-10.9**
Michigan	.468	.292	-37.6**
New Jersey	.536	.433	-19.2**
New York	.481	.381	-20.8**
North Carolina	.340	.291	-14.4**
Ohio	.341	.308	-9.7*
Pennsylvania	.549	.433	-21.1**
Texas	.208	.194	-6.7

NOTE: The data are adjusted by regression to control for seasonality and the total unemployment rate.

*Difference is statistically significant at the .05 level in a two-tail test.

**Difference is statistically significant at the .01 level in a two-tail test.

the selection of analytical strategies for our research. The observed variation in UI coverage by state also suggested that shifts in the regional distribution of unemployment may have contributed to the measured decline in national UI coverage. That issue was also briefly addressed in our analysis.

B. POSSIBLE REASONS FOR THE DECLINE IN UI COVERAGE

In order to understand why UI coverage of the unemployed may have changed, one must understand the nature of the state-federal unemployment insurance program in the United States. In general, unemployment insurance benefits are paid only to workers who are laid off from jobs that are covered by the UI system and who meet certain monetary and nonmonetary eligibility standards. In numeric terms, the most important groups of unemployed individuals who are not eligible to collect under the program include:

1. Unemployed individuals who have not lost a job (e.g., labor-force entrants, reentrants, and, to a major extent, workers who quit voluntarily)
2. Unemployed job losers whose job was not covered by UI
3. Job losers from covered employment who do not have sufficient previous employment to be eligible for UI
4. UI claimants who fail to meet continuing eligibility standards that define their availability for work under UI law
5. UI claimants who have exhausted their benefit entitlements

Changes in the economic or policy environment that affect the relative significance of these groups can have a direct impact on measured UI coverage. In this section we describe some of the changes that may have had such an effect.

1. Composition of the Unemployed

Changes in the characteristics of the unemployed population can have a clear impact on the proportion who receive UI benefits. For example, a secular decline in the relative importance of prime-age males among the unemployed would have a negative impact on the proportion of the

unemployed who receive benefits, since women and younger workers are more likely to be entrants or reentrants to the labor force and hence not be eligible for benefits. Similarly, since women and younger workers often have somewhat less job experience than do prime-age males, relatively more workers in these groups may not have sufficient base-period employment to qualify for UI benefits. Because the proportion of males older than age 20 declined from nearly 60 percent of the unemployed in 1950 to less than 45 percent in 1985, some decline in the receipt of UI benefits might have been expected over this longer period.¹ Since the early 1970s, however, such compositional changes in the unemployed have been rather small, or, as we shall show, have instead tended to favor the increased coverage of the unemployed.

The industrial attachment of the unemployed may also have some influence on rates of UI receipt. For example, the relative increase in service jobs in recent years has exerted a downward influence on the extent of UI receipt because relatively fewer workers who have such jobs may be monetarily eligible for UI. Alternatively, information about and access to the UI program may be somewhat greater in manufacturing jobs. For example, initial UI claims from mass manufacturing layoffs are sometimes taken at the work site rather than at the UI office; similarly, union membership may expand the availability of information about UI filing procedures to workers. Thus, the relative decline in manufacturing jobs and the consequent decline both in the number of mass layoffs and in the number of unionized workers may have exerted some downward pressure on the prevalence of UI receipt.

In addition to these long-term influences, the business cycle also exerts a major (although short-term effect) on the incidence of UI receipt. As demand declines, layoffs increase. Since job losers are more likely to be eligible for UI benefits than are other groups of the unemployed, the proportion of the unemployed who receive benefits should rise during recessionary periods. Because

¹However, it should be noted that this argument is not about UI receipt by demographic groups *per se*, but rather about the effects of the differential characteristics of the groups. Furthermore, to the extent that UI eligibility can be measured directly (say, by job experience or by the cause of unemployment), there is no direct reason for expecting differential receipt among otherwise similar groups.

unemployment shifts toward manufacturing industries during cyclical downturns, there may be some additional reasons for expecting an increase in observed UI coverage of the unemployed. However, this effect is limited by concomitant increases in the duration of unemployment. As unemployment spells lengthen, relatively more workers will be unemployed for a period long enough to exhaust their UI entitlements. Thus, even though they may continue to be unemployed, they will not appear in the UI claims figures.

2. Federal Policy Changes¹

A number of changes in UI policy that were implemented at the federal level in the late 1970s and early 1980s had the effect of reducing the scale of some unemployment compensation programs and of altering the incentives to collect UI benefits under practically all programs. They are discussed in the following four subsections.

a. The Taxation of UI Benefits

Prior to 1979, UI benefits were exempt from the federal income tax. Although such treatment was consistent with the treatment of most other transfer payments, this policy came under extensive scrutiny during the mid-1970s as several authors pointed to the adverse incentive effects of tax exemption (see Feldstein, 1974). Beginning in 1979, UI benefits were first made taxable for single individuals whose incomes exceeded \$20,000, and for married taxpayers filing jointly whose incomes exceeded \$25,000. Further legislation in 1982 lowered these income limits to \$12,000 and \$18,000, respectively, for UI benefits received after January 1, 1982. Currently, all UI benefits are subject to taxation. Such increasingly high rates of taxation could have a major effect on incentives to apply for and to remain on UI.

¹For a more thorough description of changes in UI laws, see Rosbrow (1986).

b. The Pension Offset

Prior to the 1980s, a few states reduced UI benefit payments to individuals when they were also collecting pensions or social security benefits, but no explicit federal guidelines governed such policies. As part of the Unemployment Compensation Amendments of 1976, states were required to institute (by 1980) explicit pension offsets for all employer-financed pension payments (including the employer-paid portion of OASDI benefits). In our discussions with state UI officials, we found that the manner in which this pension offset is actually administered differs widely among the states, especially the manner in which OASDI benefits are handled. Still, officials in states that made deductions believe that these pension provisions have a detectable impact on their UI caseloads by making it more difficult for older workers to collect benefits.

c. Changes in Extended Benefits Programs

In the early 1980s, substantial changes were made to the permanent extended UI benefits (EB) program, and the emergency program that was instituted in response to the 1982-83 recession (FSC) differed significantly from a similar one instituted during the 1970s (FSB). In very general terms, the changes made extended-benefits policy during the 1980s considerably less generous than was the case in the previous decade.¹ These changes in extended-benefits policy have two implications for the UI claims issue. First, measures of UI activity that include claims made under the extended-benefits program will exhibit an obvious, policy-induced decline when measured for the 1980s. Since this decline is relatively well understood, however, it was not a primary focus of our analysis. A second, less obvious effect of the changes in the extended benefits programs is to reduce incentives for individuals to collect benefits under regular state programs. Although empirical estimates of the effect of potential UI duration on the actual duration of benefits received vary, one set of fairly conservative estimates concludes that each week of additional potential duration leads to about a 0.10 to 0.15 week of additional actual duration (Moffitt, 1985).

¹For an in-depth discussion of the implementation and nature of the FSC and FSB policies, see Corson and Nicholson (1985) and Corson, Grossman, and Nicholson (1986).

Since the limitations on extended benefits programs introduced during the 1980s substantially reduced potential durations, the impact on reducing regular UI claims could also have been substantial.

d. UI Trust Fund and Loan Provisions

During the 1980s, many important changes were made to the federal regulations that govern the states' UI trust funds and to the provisions for making loans to these funds.¹ Starting in 1982, emergency loans to state trust funds (except for "cash flow" loans) carried interest charges; they had previously been interest-free. In 1983, states were given further incentives to rebuild their solvency through a series of provisions that deferred interest charges and future increases in Federal Unemployment Tax Act (FUTA) taxes if the states would undertake specific steps to reduce their UI benefit activities and increase their UI taxes. In addition to these explicit changes, the federal government also made it clear that states were expected to repay their loans, and that FUTA penalty taxes (which had seldom been used prior to the 1980s) would indeed be imposed on states that had outstanding debts. The net result of all of these changes was a clear tightening of states' budgets for their UI programs, and such tightening may have affected the behavior of state policymakers. For example, Burtless and Vroman (1985) observed a "flurry of state legislative activity" in response to the tightening of trust fund and loan provisions, and, at least implicitly, they attribute a large portion of the observed decline in UI claims to this activity.²

3. Actions at the State Level

Federal trust-fund provisions did not constitute the only pressure on states to restrict activities under their UI programs during the 1980s. States had borrowed substantial amounts from the federal UI trust fund during the 1975-77 recession, and the back-to-back recessions in

¹For a thorough discussion of these actions, see Vroman (1986).

²Also see the testimony presented to the Committee on Government Operations, U.S. House of Representatives on May 22, 1986 (U.S. Congress, 1986).

the early 1980s led to substantial additional borrowing. To regain solvency to their UI programs, a number of states raised their UI tax rates in the early 1980s, which may have placed political pressure on the states to impose limitations on their UI programs.¹ Although, as we show later in this section, it is difficult to discern a general pattern in the reactions of states to these pressures, two general types of changes might have occurred.

a. Legislative Changes

Four types of state legislative changes could reduce UI coverage:

1. Changes in Monetary Qualifying Requirements. Increases in base-period wages or weeks worked for UI eligibility would have a direct effect on the ability of the unemployed to collect UI.
2. Changes in Nonmonetary Qualifying Requirements. Tougher nonmonetary requirements that govern how voluntary leaving or misconduct is defined would reduce the ability of the unemployed to collect UI. Similarly, tougher requalification requirements for these cases would reduce the ability of the unemployed to collect UI.
3. Changes in the Generosity of Benefits. Reductions in the potential duration of UI benefits and reductions in weekly benefit amounts relative to average wages would reduce the incentive to collect UI and increase the incentive to accept wage offers, thus reducing both weeks of unemployment and, possibly, the probability of claiming UI when unemployed.
4. Changes in Work Search and Other Nonmonetary Continuing Eligibility Requirements. Tougher continuing eligibility requirements and tougher disqualification penalties would reduce the collection of UI among the unemployed.

Some states did make changes in each of these provisions in the early 1980s. For example, Michigan increased the number of weeks of work necessary to qualify for UI benefits, as well as the amount of earnings necessary to qualify as a week of work. Other states made similar changes to monetary qualifying requirements. In terms of the generosity of benefits, some states froze automatic increases in weekly benefit amounts, while others, without automatic indexing, failed to

¹Although we do not have direct measures of such pressures, a number of state officials with whom we spoke indicated that employers seem to have become more active in challenging UI claims than they had been in the past.

increase benefit maximums in line with increases in average wages. In one case, Pennsylvania, the duration of benefits was reduced in two stages, from a uniform 30 weeks to a two-tier system of 26 and 16 weeks, and a temporary reduction in weekly benefit amounts over a minimum amount was also enacted. In the area of nonmonetary qualification, a number of states eliminated the ability of individuals who had quit or who were otherwise disqualified to collect benefits after a waiting period. Instead, disqualification periods were for the duration of unemployment.

b. Administrative Changes

Changes in how states examine initial and continuing eligibility for UI benefits, even in the absence of legislative changes, could affect the degree to which the unemployed claim UI benefits. For example, the definition and application of the UI "work test" can generally be changed by program administrators without legislative mandate. In our discussions with state officials, we found that some states had begun asking claimants to list their contacts with employers; in the past, claimants were required only to indicate that they were able and available for work. Other changes in how claims are taken and monitored may also affect UI coverage. In general, however, these changes appear to have made filing both easier and less subject to intensive monitoring. For example, the increased use of mail claims probably had this effect. More generally, reductions in the level of administrative funding which have occurred in the 1980s have reduced the level of monitoring that can be undertaken by states. Reductions in administrative funds have also prompted some states to close local offices, however, which might have reduced UI claims by making UI less accessible to the unemployed.

4. The Manner in Which Unemployment Is Measured

The design and estimation methods of the Current Population Survey (CPS) are constantly undergoing changes, primarily with the objective of obtaining better estimates of the labor force and its components. Although many of these changes are too minor to have had much of an impact on the overall measurement of the unemployed and on apparent changes in UI coverage, one

set of changes does require discussion.¹ This set of changes pertains to how population benchmarks were introduced from the 1980 census (see Buckley et al., 1982). More specifically, the 1980 Census found that the population exceeded the population projected by the CPS using 1970-Census-based weights. In all, 193,000 additional unemployed individuals were found, a number which amounted to about 2.4 percent of the number of unemployed that was initially estimated for 1981 with the 1970s' weights. Because this number was sizable when the 1980 Census-based benchmarks were introduced, unemployment estimates for the 1970s had to be adjusted to avoid a sharp break in the series. The precise process used to make these computations could have affected the size of the observed decline in the UI claims ratio during the 1980s. In Section D we illustrate the potential quantitative significance of such effects.

5. Preliminary Quantitative Assessment

Table 3 reports some basic quantitative information on the characteristics of the unemployed and of the UI program for the 1971-1986 period that may help differentiate among the various explanations for the decline in measured UI coverage. These data are presented at three levels of aggregation: (1) national data, (2) data for the 11 largest states (those for which the CPS is large enough to permit drawing direct estimates of the unemployment rate²), and (3) data for all of the states. In order to provide more easily interpretable comparisons between the 1970s and the 1980s, all data in Table 3 have been adjusted for seasonality and for the total unemployment rate.

¹Another major change in the CPS that occurred during our observation period was a two-step expansion in sample sizes and sampling areas (about 9,000 households were added in 1978 and 1980, and the number of sampling areas was expanded by about 25 percent). The purpose of this expansion was to provide more accurate annual estimates of labor-force categories at the state and SMSA levels. Since these expansions should have affected only the variability of CPS estimates and not the mean values, the expansion should not have affected our analysis.

²Although CPS estimates of the unemployment rate in these states were available for our entire period of observation, data on the composition of the unemployed are available only since 1978. Table 3 records these data as "not available." As described later, the absence of such compositional information posed important problems for our analyses of state-level data.

TABLE 3

REPRESENTATIVE DATA ON POTENTIAL EXPLANATIONS FOR THE DECLINE IN UI CLAIMS,
1971-1986

	National Data			Data from 11 Largest States			Data from All States		
	Adjusted Mean ^a 1971-1979	Adjusted Mean ^a 1980-1986	Percent Change	Adjusted Mean ^a 1971-1979	Adjusted Mean ^a 1980-1986	Percent Change	Adjusted Mean ^a 1971-1979	Adjusted Mean ^a 1980-1986	Percent Change
CHARACTERISTICS OF THE UNEMPLOYED									
Demographic:									
Proportion female	.460	.448	-2.6	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Proportion ages 16-19	.246	.199	-19.1**	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
ages 20-24	.233	.220	-5.6**	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
ages 25-54	.435	.510	17.2**	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
ages 55-64	.066	.059	-10.6**	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
ages 65+	.020	.012	-40.0**	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Economic:									
Proportion job losers	.475	.496	4.4**	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Proportion job leavers	.124	.113	-8.9**	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Proportion unemployed less than 5 weeks	.425	.429	0.9	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Proportion unemployed 27 or more weeks	.134	.137	2.2	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Proportion construction	.091	.095	4.4*	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
Proportion manufacturing	.244	.212	-13.1*	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
UI PROGRAM CHARACTERISTICS									
Minimum Qualifying Wages/Average Weekly Wage	n. a.	n. a.	n. a.	3.033	3.203	5.6*	3.328	3.426	2.9
Maximum Weekly Benefit Amount/Average Weekly Wage	n. a.	n. a.	n. a.	0.434	0.466	7.4**	0.492	0.481	-2.2
Weekly Benefit Amount as a Proportion of the High-Quarter Wage	n. a.	n. a.	n. a.	0.0401	0.0397	-1.0**	0.0406	0.0403	-0.7**
Maximum Duration	n. a.	n. a.	n. a.	26.72	26.56	-0.6**	27.03	26.48	-2.0**
Entitlement Percentage	n. a.	n. a.	n. a.	52.58	51.77	-1.5	48.04	46.35	-3.5**
Proportion Monetarily Eligible	0.826	0.864	4.6**	0.847	0.883	4.3**	0.820	0.848	3.4**
Wage Replacement Rate	0.366	0.355	-3.0**	0.356	0.354	-0.6	0.384	0.366	-4.7**
Proportion Eligible for Maximum Duration	n. a.	n. a.	n. a.	0.699	0.698	-0.1	0.621	0.615	-0.9
Separation Issue Denial Rate:	101.51	83.08	-18.2**	107.89	90.35	-16.3**	134.75	104.42	-22.5**
Voluntary leaving	72.07	51.96	-27.9**	74.97	54.77	-26.9**	98.67	68.41	-30.7**
Misconduct	26.95	30.66	13.8*	31.10	34.83	12.0*	35.27	36.72	4.1**

TABLE 3 (continued)

	National Data			Data from 11 Largest States			Data from All States		
	Adjusted Mean ^a	Adjusted Mean ^a	Percent Change	Adjusted Mean ^a	Adjusted Mean ^a	Percent Change	Adjusted Mean ^a	Adjusted Mean ^a	Percent Change
	1971-1979	1980-1986		1971-1979	1980-1986		1971-1979	1980-1986	
Nonseparation Issue Denial Rate:	12.85	13.46	4.7	12.26	12.17	-0.7	12.69	15.47	21.9**
Disqualifying income	1.59	2.80	76.1**	1.37	2.04	48.9**	1.69	3.40	101.2**
Able and available	7.48	6.52	-12.8**	7.43	6.57	-11.6**	7.35	7.17	-2.4**
Refusal of available work	0.48	0.33	-31.3**	0.50	0.31	-38.0**	0.63	0.38	-39.7**
Reporting requirements	3.29	2.46	-25.2**	2.92	1.99	-31.8**	3.01	3.25	8.0**
Worktest Denial Rate	11.25	9.30	-17.3**	10.85	8.86	-18.3**	10.98	10.79	-1.7

N.A. = Not available.

^aAdjusted by regression to control for quarter and the total unemployment rate, except when the variables describe the laws directly. The variables that were not adjusted were minimum qualifying wages/average weekly wage, maximum weekly benefit amount/average weekly wage, weekly benefit amount as a proportion of the high-quarter wage, maximum duration, and the entitlement percentage.

*Difference is statistically significant at the .05 level in a two-tailed test.

**Difference is statistically significant at the .01 level in a two-tailed test.

The information reported in Table 3 does not provide an obvious explanation for the decline in UI claims during the 1980s. On the whole, changes in the demographic characteristics of the unemployed (slightly fewer females and a greater representation of prime-age workers) should have had the effect of increasing UI claims. The increasing prevalence of job losers among the unemployed should have had a similar effect. On the other hand, a slight increase in long-term unemployment and a significant decline in the importance of unemployment from manufacturing should have had the effect of reducing UI claims.

A similarly ambiguous picture is provided by the information on UI program characteristics in Table 3. Evidence of the tightening-up of program operations at the state level is provided by a significant increase in minimum qualifying wages (at least in the 11 largest states) and some reduction in average maximum potential duration. The large increase in benefit denials because of disqualifying income (probably due to the pension offset requirements) also illustrates some significant tightening.¹ However, increases in the proportion of UI claimants who are found to be monetarily eligible for benefits, as well as some reductions in UI benefit denials for worktest reasons, tended to reflect the relaxation of requirements and procedures to some extent. Most measures of weekly benefits and their relationship to average wages changed little over the period.

In overall terms, then, the aggregate data reported in Table 3 do not point to a single dominant cause for the decline in UI claims during the 1980s. Rather, it seems that several of the potential explanations discussed earlier in this section each probably played a role in bringing about the observed result. In order to determine the relative significance of these explanations, we

¹Counter to intuition, the reduced denial rate for voluntary leaving may also signify a tightening of administrative requirements. In our discussions with state UI officials, several pointed out that this decline arose from concomitant changes in state laws which increasingly tended to disqualify voluntary leavers for their entire spell of unemployment rather than for a specified time period. The decline in denials may thus reflect the reduced willingness of job leavers to file for UI.

undertook extensive regression analyses of the national and state-level data on UI claims. The results of those investigations are briefly summarized in the next section.¹

C. REGRESSION RESULTS

To examine the quantitative significance of various potential explanations for the decline in UI claims during the 1980s, we regressed the UI claims ratio on a large number of variables that sought to capture the influences of the changing composition of the unemployed and changing UI laws and administrative practices over the period. All such regressions included seasonal dummy variables and a binary variable which took the value 0 during the 1970s and 1 during the 1980s. The coefficient for this latter variable can be interpreted as the average decline in the UI claims ratio between these two periods that is unexplained by changes in the explanatory variables in the regression equation. Later, in Section D, we use these regression results together with other quantitative analysis to apportion the explained decline in the UI claims ratio among its various components.

Table 4 reports the results of two very simple regressions of this type on national data. The first of these shows an unexplained decline in the UI claims ratio of .08 (on a 1970s' average of approximately 0.41). Controlling for changes in the composition of the unemployed reduced this unexplained decline by about .01, to .07. Variables that reflect the proportion of the unemployed who were unemployed longer than 26 weeks and the proportion of the unemployed from manufacturing jobs provided the most significant explanatory power for these compositional variables. Interestingly, the inclusion of these variables reduced the total unemployment rate (TUR) coefficient in the regressions to statistical insignificance, thereby indicating the importance of compositional factors in explaining UI claims over the business cycle. Unfortunately, because such variables were not available for our more extensive analyses of state-specific data, we were forced to fall back on the TUR as our single cyclical indicator. As we describe below, however, we

¹For additional details on this research, see Corson and Nicholson (1988).

TABLE 4
 NATIONAL REGRESSIONS ON THE UI CLAIMS RATIO,
 1971.1 TO 1986.4

Independent Variable	(1)	(2)
Quarter 1	0.0661** (0.0172)	0.0095 (0.0151)
Quarter 2	0.0128 (0.0166)	0.0301** (0.0094)
Quarter 3	-0.0217 (0.0166)	0.0223 (0.0122)
1980-86 Dummy	-0.0799** (0.0144)	-0.0688* (0.0124)
TUR	0.0121* (0.0051)	0.0016 (0.0073)
Proportion Job Losers	--	0.4778 (0.2701)
Proportion Unemployed 27+ Weeks	--	-0.6384** (0.1336)
Proportion in Manufacturing	--	0.6765* (0.1996)
Proportion in Construction	--	1.1360* (0.4910)
Constant	0.3156** (0.0331)	-0.0217 (0.0465)
R^2	0.51	0.90
F(d.f.)	14.0 (5,58)	63.0 (9,54)
Mean of Dependent Variable	0.3802	0.3802

NOTE: Standard errors are shown in parentheses.

*Coefficient is statistically significant at the .05 level in a two-tail test.

**Coefficient is statistically significant at the .01 level in a two-tail test.

were able to control for the changing composition of the unemployed in a variety of other ways in these analyses.

Table 5 reports the representative results of our study of the UI claims ratio in the 11 largest states. As the first equation shows, the unexplained decline in UI claims in these states (.066) was slightly smaller than is shown by the national data, but was still quite significant. For the second equation in Table 5, we included state-specific dummy variables to control for possible unexplained differences in the level of UI claims ratios among the states. Since we wished to draw inferences about the states, using this "fixed effects" model provided an appropriate way to control for such differences (see Maddala, 1987). By adopting this estimation procedure, we reduced the unexplained decline in the UI claims ratio (to .054), probably because using state dummy variables provided a better way to control for differences in the labor markets of the states than did including only the TUR.

For the third equation in Table 5, we included a number of variables that sought to quantify the restrictions and incentives provided under the UI programs of the 11 largest states. Most of these variables were already discussed in connection with Table 3. Two additional variables were included: (1) a dummy variable that represented whether the state provided uniform potential UI durations to all claimants; and (2) a binary variable that indicated whether extended benefits were being paid in the state during a particular quarter.¹ In general, all of these variables had the expected sign in explaining the UI claims ratio (except for the uniform-duration variable, whose coefficient was not significantly different from zero), and all had coefficients of a plausible magnitude.² The inclusion of these variables tended to explain about 40 percent of the previously unexplained decline in the UI claims ratio (which fell to .033). Their inclusion

¹Specifically, the value of this variable was 1.0 if the state was paying benefits under either the EB, FSB, or FSC programs.

²For further discussion, see Section D of this paper and the more detailed presentation in Corson and Nicholson (1988). The positive coefficient for the voluntary leaving denial rate is consistent with the observation reported in Section B that low values for this rate tended to reflect more stringent policies with respect to voluntary quits.

TABLE 5
 THE EFFECTS OF UI PROGRAM CHARACTERISTICS
 ON THE UI CLAIMS RATIO: BASIC RESULTS
 (11 Largest States)
 1971.1 TO 1986.4

Independent Variables	(1)	(2)	(3)
1980-86 Dummy	-0.066** (0.010)	-0.054** (0.006)	-0.0328** (0.0072)
TUR	0.010** (0.002)	0.001 (0.002)	-0.0055** (0.0017)
Minimum Qualifying Wages/ Average Weekly Wages			-0.0364* (0.0031)
Wage Replacement Rate			0.5993** (0.0940)
Maximum Duration			0.0192** (0.0056)
Uniform Duration			-0.0054 (0.0109)
Voluntary Leaving Denial Rate			0.0004** (0.0002)
Misconduct Denial Rate			-0.0018** (0.0004)
Disqualifying Income Denial Rate			-0.0101** (0.0026)
Work Test Denial Rate			-0.0039** (0.0008)
Extended Benefits			0.0286** (0.0061)
State Dummies	No	Yes	Yes
R ²	0.12	0.66	0.76
F(d.f.)	20.3 (5,698)	91.8 (15,688)	93.4 (24,679)
Mean of Dependent Variable	0.382	0.382	0.382

NOTE: All regressions include three quarterly dummy variables and a constant term. Standard errors are reported in parentheses.

*Coefficient is statistically significant at the .05 level in a two-tail test.

**Coefficient is statistically significant at the .01 level in a two-tail test.

also reversed the sign of the coefficient of the TUR variable, perhaps because these variables controlled adequately for the composition of the unemployed.

Table 6 summarizes our results from a series of cross-sectional, time-series regressions for all of the states. These results tended to resemble those for the 11 largest states, although most of the coefficients were smaller in absolute value. A possible explanation for this reduced significance is that the denominator for the claims ratio variable is measured less accurately in states other than in the 11 largest, and, perhaps, that the other variables in the model are subject to somewhat greater random variability in the smaller states. In any case, the results for all states tended to support the regression results for the 11 largest states. However, because we felt that the data from the largest states were more reliable and because we could supplement these data with information from our visits to most of those states, we tended to focus on the 11-state sample for the bulk of our analysis.

D. APPORTIONING THE DECLINE IN UI CLAIMS

In this section we use our regression analysis together with a variety of other techniques to place rough bounds on the size of various influences on UI claims during the 1980s. The results of our calculations are summarized in Table 7. The first entry in the table reports the actual observed change in the state UI program claims ratio between the periods of 1971-79 and 1980-86 (0.0618). Relative to a base figure of approximately 0.41 for the UI claims ratio during the 1970s, this figure represents a decline of about 15 percent in this measure of UI coverage. In the remainder of Table 7, we attempted to apportion this decline among a number of possible causes. For each of these potential causes, we report a "high range" and a "low range" estimate for the possible quantitative size of the effect. Overall, our high-range estimates account for virtually all of the observed decline in UI claims, whereas our low-range estimates account for about 55 percent. For some of the estimates, the difference between our high- and low-range estimates is quite large, but for others this difference is relatively small, indicating our belief that we have

TABLE 6
 THE EFFECTS OF UI PROGRAM CHARACTERISTICS
 ON THE UI CLAIMS RATIO: ALL STATES
 1971.1 TO 1986.4

Independent Variables	(1)	(2)
1980-86 Dummy	-0.0505** (0.0028)	-0.0350** (0.0030)
TUR	0.0039** (0.0007)	-0.0023** (0.0008)
Minimum Qualifying Wages/ Average Weekly Wages		-0.0211** (0.0013)
Wage Replacement Rate		0.2038** (0.0145)
Maximum Duration		0.0053** (0.0009)
Uniform Duration		-0.0160** (0.0078)
Voluntary Leaving Denial Rate		0.0000 (0.0000)
Misconduct Denial Rate		-0.0010** (0.0001)
Disqualifying Income Denial Rate		-0.0031** (0.0005)
Work Test Denial Rate		-0.0027** (0.0002)
Extended Benefits		0.0248** (0.0027)
State Dummies	No	Yes
R ²	0.64	0.71
F(d.f.)	107.0 (55,3208)	123.0 (64,3199)

NOTE: All regressions include three quarterly dummy variables and a constant term. Standard errors are reported in parentheses.

*Coefficient is statistically significant at the .05 level in a two-tail test.

**Coefficient is statistically significant at the .01 level in a two-tail test.

TABLE 7

COMPONENTS OF THE OBSERVED DECLINE IN THE
UI CLAIMS RATIO IN THE 1980s

Effect	High-Range Estimate		Low-Range Estimate	
	Change Attributable to Effect	Percent of Total ^a	Change Attributable to Effect	Percent of Total ^a
Total Change Based on National Data	-0.0618	100.0	-0.0618	100.0
Economic Effects				
Increase in TUR	+0.0037	(6.0)	0.0000	0.0
Decline in unemployment from manufacturing	-0.0108	17.5	-0.0019	3.1
Shift in geographic distribution of unemployment	-0.0099	16.0	-0.0099	16.0
Changes in Federal UI Policy ^b				
Partial taxation of benefits	-0.0102	16.5	-0.0070	11.3
Less generous extended benefits programs	-0.0042	6.8	0.0000	0.0
Changes in State UI Policy				
Increase in qualifying weeks	-0.0065	10.5	-0.0021	3.4
Change in gross wage replacement ^c	-0.0012	1.9	-0.0024	3.9
Reductions in maximum durations	-0.0030	4.9	-0.0030	4.9
Reduction in voluntary separation denial rates ^d	-0.0081	13.1	0.0000	0.0
Increase in misconduct denial rates	-0.0067	10.8	-0.0015	2.4
Increase in disqualifying income denial rates	-0.0067	10.8	-0.0053	8.6

TABLE 7 (continued)

Effect	High-Range Estimate		Low-Range Estimate	
	Change Attributable to Effect	Percent of Total ^a	Change Attributable to Effect	Percent of Total ^a
Reduction in worktest denial rates	+0.0078	(12.6)	+0.0005	(0.8)
Changes in Unemployment ^e				
More accurate measurement of unemployment in 1980s	-0.0076	12.3	-0.0009	1.5
Total Change Explained	-0.0634	102.6 ^f	-0.0335	54.2
Total Change Unexplained	--	--	-0.0283	45.8

SOURCES OF ESTIMATES

The high-range state policy estimates are based on the 11-state analysis of the UI claims ratio (Table 5) and regression-adjusted trends in explanatory variables (Table 3). The low-range state policy estimates are based on the all-state analysis of the UI claims ratio (Table 6) and regression-adjusted trends in explanatory variables (Table 3). The remaining estimates are based on non-regression analyses, which are described in the text.

^aPercentages in parentheses refer to effects that tended to increase the UI claims ratio.

^bThe effects of pension offset legislation are incorporated in the estimates for the effect of state disqualifying income denials. We made no attempt to estimate directly the effects of the more stringent trust fund and loan provisions applied to states. Thus, these effects are reflected in the observed changes in state laws and administrative procedures.

^cIn this case, the "low range estimate" exceeds the "high range estimate" because the 11-state data were used consistently for all the high-range state policy estimates, while the all-state data were used for the low-range state policy estimates (see the text for further discussion).

^dA reduction in voluntary separation denial rates is regarded as a tightening of state procedures (see the text for further discussion).

^eA separate estimate is included for the possible macroeconomic "drift" in the number of unemployed (see the text for further discussion).

^fThe total change "explained" adds to more than 100 percent for the high-range estimates, because a number of the estimates are made separately, and because the interactions among effects are not fully accounted for by this procedure.

identified the size of the effect rather precisely. In the next four subsections, we examine in detail how we calculated these estimates and why their precisions differ.

1. Economic Effects

As we discussed in Section C, one of the potentially most important influences on the UI claims ratio is the overall level of labor-market activity as measured by the total unemployment rate (TUR). In general, we expected that the higher levels of unemployment experienced during the 1980s (the average TUR was more than one percentage point higher during the 1980s than during the 1970s) would increase the UI claims ratio. But most of the reasons for expecting such an increase are associated with changes in the composition of the unemployed that are correlated with changes in the business cycle. Once we accounted for these compositional factors, our presumptions about the effect of the TUR on the UI claims ratio were less strong, and such factors as the increasing UI exhaustion rates associated with greater slack in the labor market might even have led to a negative correlation between the TUR and the UI claims ratio. In order to account for pure cyclical influences on the UI claims ratio, we adopted a simple netting procedure based on our regression analysis.¹ This procedure showed that cyclical factors, per se, had little effect on the UI claims ratio.

However, changes in the composition of the unemployed during the 1980s that were unrelated to cyclical factors did have a significant influence on the claims ratio. The most important effect was the decline in the relative importance of unemployed workers who previously held jobs in manufacturing industries. Since both our national regressions and our analyses based on individual-level data showed that the representation of manufacturing workers among the unemployed was an important determinant of the UI claims ratio, such a decline could have been an important determinant of the observed trend in that ratio.

¹Specifically, we used the cyclically adjusted changes in the independent variables from Table 3, together with the 11-state and all-state regression coefficients, to calculate for each equation a "pure" TUR effect (that is, an effect uncorrelated with changes in the other variables). This is the effect reported in Table 7.

Unfortunately, state-level data on the composition of the unemployed were not available for the entire time period covered by our primary statistical analysis and could not be used directly to estimate the effect of the decline in manufacturing unemployment. Instead, the estimates presented in Table 7 were developed from our national and individual-level regressions. Specifically, we used regression coefficients from our national regression (which tended to average about 0.6 for the percentage of unemployment in manufacturing variable) to estimate that the observed decline in manufacturing unemployment may have reduced the UI claims ratio by 0.0108 ($= 0.6 \times (0.250 - 0.232)$). Since we believed that intercorrelations in our national time series data may have exaggerated the manufacturing effect in our regressions, we tended to regard this as an upper-range estimate.

To develop a lower-range estimate of the manufacturing effect, we used the results from our analyses of individual-level data from the Panel Study of Income Dynamics (see Corson and Nicholson, 1988), which suggested that, other things equal, previous employment in manufacturing tended to increase the probability of UI receipt by about 0.25. Using this estimate, together with the observed 1.8 percentage point decline in the proportion of unemployed from manufacturing, we estimated a 0.45 percent decline in UI claims from manufacturing unemployment. In turn, this figure suggested a lower-range estimate¹ that attributed about 3 percent of the decline in the UI claims ratio to the decline in unemployment from manufacturing industries.

A final economic factor that we examined was the state-by-state distribution of the unemployed. Since we found that the magnitude of both the UI claims ratio and its decline varied substantially by state, changes in the geographic distribution of the unemployed between the 1970s and the 1980s could have affected the claims ratio. To determine the importance of these shifts in explaining the decline in UI coverage, we compared the claims ratio during the 1980s with an

¹This estimate should be regarded as a lower-range estimate because the PSID sample consists only of household heads, and previous manufacturing employment may be a more important determinant of UI receipt for non-heads of households.

alternative ratio computed on the basis of the distribution of unemployment in the 1970s. This alternative ratio was higher than the actual claims ratio in the 1980s, indicating that, without the shift, the claims ratio would have declined, but by a smaller amount. Overall, the shift in unemployment explained about 16 percent of the observed decline in the national claims ratio.

2. The Effects of Federal Policy

As we discussed in Section B, the most important changes in federal UI policy between the 1970s and 1980s were (1) the partial taxation of UI benefits, (2) the adoption of less generous extended benefits programs than had been implemented during the 1970s, (3) the adoption of compulsory pension offset legislation, and (4) the adoption of more stringent trust-fund and emergency-loan provisions. Because many of these actions occurred at about the same time, and because they applied to the nation as a whole, it was difficult to estimate their independent influences in our primary regression analyses. Hence, we adopted a more piecemeal approach. Here, we describe the method used to estimate the effects of the partial taxation of UI and of less generous extended benefits programs. We discuss the effects of pension offset legislation together with our analysis of state policies, since they tended to be exhibited fairly clearly in our analysis of the state-level data. Some of the state effects that we describe may also have been due to the fiscal measures that were adopted for UI at the federal level. However, since any effect of fiscal pressure on UI claims occurs indirectly through changes in state programs, we present estimates only for the state-level changes themselves, without attempting to assess the role that federal policy played in bringing them about.

There are strong theoretical and empirical reasons for believing that the increased level of taxation to which UI benefits were subjected during the 1980s should have affected the incentives of individuals to collect those benefits. In Table 7, we used two different approaches to place bounds on the likely effect of the partial taxation of UI benefits. Under both approaches, we made the conservative assumption that taxation reduced the average net wage replacement rate of all UI claimants by about 5 percent. To arrive at our high-range estimate, we used this assumed decline

in the wage replacement rate, together with the regression estimates of the effect of the wage replacement rate on the UI claims ratio, to calculate a decline in the UI claims ratio of -0.0102 due to partial taxation. Although this figure was a fairly large one, amounting to more than 16 percent of the decline in the UI claims ratio during the 1980s, it was quite consistent with the only direct empirical study of UI taxation undertaken on the basis of individual-level data (Solon, 1985).

To calculate our low-range estimate of the likely effect of the partial taxation of UI, we used the previous econometric literature on the incentive effects of UI wage replacement on unemployment duration. The literature suggested that each 10 percent increase in net wage replacement rates is associated with an extra half week of unemployment (see, for example, the surveys by Hamermesh, 1977; and Gustman, 1980). Using our assumed 5 percent decline in the wage replacement rate, we arrived at an estimated reduction in UI duration of 0.25 weeks, which translated into a reduction in the UI claims ratio of 0.0070. In our view, this was a lower-range estimate because the disincentive estimates from the UI literature typically include only changes in the UI duration of claimants who have started to collect UI, not the effects of such incentives on the probability of filing an initial UI claim. To the extent that this additional effect is also significant, our lower-range procedure may have underestimated the effects of partial taxation.

In our regression work, we modeled the availability of extended benefits with a simple binary variable. Because such benefits were available for approximately the same proportion of quarters in both the 1970s and the 1980s, we estimated no net effect on the UI claims ratio from changes in such policies. In Table 7 we have used this zero effect estimate as our lower-range value. However, other research on extended benefits policy during the 1980s (Corson and Nicholson, 1985; and Corson, Grossman, and Nicholson, 1986) found substantial reductions in the amount of benefits paid under extended benefits policies relative to what had been paid during the 1970s. In particular, sharp reductions in the scope of the EB program in the early 1980s meant that the emergency program that was implemented during the 1982-83 recession (FSC) served

primarily to fill the "holes" left by the EB changes rather than to add significantly to benefits, as had been the case with FSB a decade earlier. A precise computation of the effect of this policy change on the total potential duration of benefits available to regular UI claimants is made difficult by the complex structure of the FSC program (see Corson, Grossman, and Nicholson, 1986, for a description). For simplicity, we assumed that about 13 weeks of extra benefits were available during the quarters in both the 1970s and 1980s when two tiers (rather than one tier) of extended programs were available to claimants. Since the proportion of such quarters was 0.24 higher in the 1970s than in the 1980s, we assumed that the reduction in the generosity of extended benefits programs during the 1980s was equivalent to a reduction in potential durations of about 3 weeks (0.24×13). Previous research (Moffitt, 1985) has shown that each extra week of potential duration leads to approximately 0.15 additional weeks of UI collection, and about one-third of this extra week might have been from regular UI claims. In all, then, we estimated that the reduction in the generosity of extended benefits programs might have reduced average regular UI claims by about 0.15 weeks during the 1980s. Translated into the UI claims ratio, our calculation yielded a high-range estimate of 0.0042--approximately 7 percent of the overall decline in that ratio during the 1980s--that might be attributed to the declining generosity of extended benefits programs.

3. The Effects of State Policy

Most of the quantitative research in the present project focused on estimating the effects of changes in the laws and administrative practices of the states on the UI claims ratio during the 1980s. We adopted this focus because we wished to examine the general hypothesis that states "tightened-up" on the operations of their UI programs during the 1980s, and because we felt that the available data were most appropriate for addressing this issue. To develop summary measures of such effects, we used regression results from the sample of the 11 largest states (Table 5) as our "high-range" estimates. Although these regression results were not uniformly the largest of all those that we obtained, the decline in the UI claims ratio was largest (in percentage terms) in some of these states, and many of our most statistically significant results came from regressions

on this subsample. The results for the pooled data set for all of the states tended to be smaller and somewhat less significant than for the subsample of the largest states. We believe that these results provided a suitable "low range" for our estimated effects. To calculate the specific results reported in Table 7, we used the 11-state and all-state regression coefficients together with the adjusted trend data from Table 3. Multiplying the trend numbers by the regression coefficients provided an estimate of how the observed trend affected the UI claims ratio. We now discuss each of these table entries.

a. Qualifying Weeks

For our measure of the earnings necessary to qualify for regular UI benefits, we used the ratio of the dollar value of such earnings required under state law to the average weekly wage in the state. This variable then represented the number of weeks that the average worker would have to work to earn sufficient wages to qualify for UI. Between the 1970s and 1980s, this number increased by an average of nearly 0.2 weeks in our 11-state sample and by about 0.1 week in our all-state analysis. Thus, on average, it became somewhat more difficult to qualify for unemployment benefits in the 1980s. Weighting these changes by the appropriate regression coefficients explained between 3 and 10 percent of the observed decline in the UI claims ratio.

b. Gross Wage Replacement Rates

Although the introduction of partial taxation was the most important effect in the 1980s on the level of wage replacement provided to workers by UI, slight changes in replacement also occurred because of state-initiated adjustments in weekly benefit amounts. On average, gross wage replacement rates fell very slightly in our 11-state sample and fell somewhat more significantly over all the states. Since we found that the UI claims ratio was positively correlated with the wage replacement rate, both of these changes helped explain some of the decline in that ratio. But the quantitative size of the explanation was rather small.

c. Changes in Maximum Duration

The maximum potential duration of benefits for which UI claimants were eligible declined in both of our analysis samples during the 1980s. The average decline amounted to 0.2 weeks in the 11-state sample and to 0.6 weeks in the all-state analysis. However, because the maximum potential duration variable had a larger effect in the 11-state sample, our estimates of the effect of these changes in potential duration on the UI claims ratio were virtually identical: such changes explained about 5 percent of the decline in the UI claims ratio during the 1980s.

d. Voluntary Separation Denials

As we reported in Section B, voluntary separation denial rates declined significantly in both of our analysis samples during the 1980s. However, we interpreted this decline as reflecting a tightening of procedures, as an increasingly greater number of states adopted legislative provisions to disqualify voluntary leavers from UI for the duration of their spells. Under this interpretation, the tightening of voluntary separation standards explained a significant part of the decline in the UI claims ratio in our 11-state sample (13 percent), but the effect was essentially zero in our all-state analysis. Thus, the wide range of estimates reported in Table 7 for voluntary separation provisions reflected some ambiguity about exactly how the statistics should be interpreted.

e. Misconduct Denial Rates

Misconduct denial rates increased significantly during the 1980s in both of our analysis samples. Because the increase was somewhat greater in the 11 largest states and because this variable had a more significant negative effect on the UI claims ratio in the regressions for these states, Table 7 reports a fairly broad range of estimated impacts for this increase. Overall, we estimated that between 3 and 10 percent of the decline in the UI claims ratio was due to this apparent tightening in how state UI programs handled misconduct dismissals.

f. Disqualifying Income Denial Rates

Disqualifying income denial rates increased significantly during the 1980s, reflecting primarily the adoption of compulsory pension offset legislation as required under federal law. The estimated impact of these changes on the UI claims ratio was approximately the same in both of our analysis samples, explaining about 10 percent of the decline during the 1980s. This decline was probably too large to be accounted for solely by the denied claims themselves, and the estimated effects of disqualifying income denials probably also reflected some deterrence of would-be claimants by the pension offset laws.

g. Worktest Denial Rates

Evidence on worktest denials offers a possible rebuttal to the notion that states tightened the administration of their UI programs during the 1980s, since these denials in fact declined significantly on a national level. This decline was quite large in our 11-state analysis (amounting to 18 percent), but was considerably smaller in the all-state analysis. Results from the 11-state analysis indicated that a loosening of worktest denial rates had a major countervailing effect on the decline in the UI claims ratio, whereas the results for the all-state analysis tended to imply that this effect was rather small. It does seem clear, however, that changes in worktest enforcement did not contribute to the decline in UI claims during the 1980s.

In overall terms, then, our regression results suggested that actions by the states did have some effect on the observed decline in the UI claims ratio. When combined, our lower-range estimates explained about 22 percent of the decline, whereas our upper-range estimates explained 39 percent of the decline. Thus, these results offer support for the notion that states did tighten up their UI programs during the 1980s, primarily through legislative changes rather than through administrative actions. Our quantitative estimates of the effects of this tightening, however, explained only about one-third of the observed decline in the UI claims ratio during the period and did not permit us to evaluate the extent to which these actions were prompted by fiscal pressure originating at the federal level.

4. Changes in Methods of Measuring Unemployment

As described in Section B, to the extent that the CPS measurement of the unemployed was somewhat less complete during the 1970s than during the 1980s, the UI claims ratio would appear to be somewhat higher in the earlier decade. Since the CPS has made significant efforts to improve the accuracy of its measures in recent years, we felt that it was important to determine whether such efforts could have affected our results. Our examination focused on how new population control numbers were introduced by the CPS. New figures for unemployment among (for example) Hispanics were introduced in 1985 (see Fenstermaker, 1985), and similar adjustments were made for undocumented immigration in 1986 (Passel, 1986). Since both of these adjustments had some effect on measured unemployment during our period of observation, they provided a definitive lower range for our estimates. Specifically, we estimated that these two relatively small changes increased measured unemployment by 0.27 percent during our sample period in the 1980s, thereby reducing the UI claims ratio by about 1.5 percent.

A larger effect may have been caused by the method whereby the new population controls from the 1980 Census were used to adjust the 1970s' unemployment data (see Buckley et al., 1982). The 1980 Census found that the population exceeded the population projected by the CPS using 1970 Census-based weights. In all, 193,000 additional unemployed individuals were found. We estimated that if, contrary to the linear interpolation procedure actually used, these individuals had been added to the unemployed in each year, unemployment during the 1970s would have been 1.58 percent higher during our sample period than it was actually reported to be (with the UI claims ratio being similarly lower during the 1970s). In conjunction with the corrections for Hispanics and undocumented immigration, this estimate would have accounted for about 12 percent of the decline in the UI claims ratio.

E. POLICY IMPLICATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

The extensive quantitative analyses conducted under this project suggest that a number of reasons, rather than a single overriding reason, explain the decline in the UI claims ratio during the 1980s. Several of these general findings are relevant to UI policy formulation.

First, the results clearly show that a significant portion of the decline appears to be attributable to the declining importance of manufacturing unemployment. Although this change cannot be said to have been caused by policy changes at either the state or federal levels, policymakers and program administrators might consider policies to provide other workers with the types of access that manufacturing workers seem to have to UI. Such improved access might include an increased level of initial claims-taking at the work place or additional information and out-reach activities. In addition, to the extent that the lower rate of UI applications outside of manufacturing partially reflects a higher rate of nonfiling among UI eligibles, further research on the reasons for such nonfiling might be quite useful for policy formulation.

Second, the most important direct impacts of federal policy on the UI claims ratio quantitatively seem to have been the implementation of the partial taxation of UI benefits, reductions in the availability of extended benefits during the 1980s, and (under our interpretation of state denial rates for qualifying income) the introduction of compulsory pension offset legislation. In all, these three federal policies might have accounted for as much as from 25 to 30 percent of the measured decline in the UI claims ratio. Since the purpose of each of these policy changes was at least in part to reduce UI claims, they clearly seem to have had that effect. Whether the gains achieved in terms of better benefit targeting exceed the costs in terms of reduced UI protection for some groups warrants further investigation, probably using microeconomic data.

Third, at the level of state UI policy, we identified a few trends in the provisions of UI laws that did lead to some tightening of program eligibility and benefit provisions. In all, these trends might have accounted for between 22 and 39 percent of the decline in UI claims during the

1980s. However, we found relatively little evidence that states tightened their administrative operations. Indeed, the trend toward lower worktest denial rates during the 1980s tends to suggest the opposite. Clearly, the states seem to have adopted provisions that made it somewhat more difficult for individuals with relatively little work experience or who had quit voluntarily to receive UI benefits, and, at the same time, they somewhat reduced the enforcement of continuing eligibility provisions. They also appear to have maintained existing weekly UI benefit levels fairly well, while contracting potential durations somewhat. Whether these changes were undertaken independently or were due primarily to fiscal pressures on state programs that originated at the federal level is difficult to determine given the available data and the diversity of state actions. Additional research on the relationship between federal and state actions would provide useful input into the choice among federal financing provisions in the future.

Finally, as noted previously, our analysis has focused on the reasons for the decline in claims under the regular state UI programs. However, as also noted, substantial declines occurred in the generosity of extended benefits programs in the 1980s relative to the 1970s which caused the decline in UI coverage under all programs to exceed the decline that we examined in the regular state programs alone. Although much of the reduction in extended benefits was due to explicit policy changes in those programs, the decline in regular state UI claims also played a part, since the insured unemployment rate, which is based on state UI claims, is used to determine when extended benefits are payable in a state. Thus, one implication of the decline in coverage in the regular state programs is a parallel reduction in the availability of extended benefits. Changes in extended-benefits trigger policy may thus be necessary to reflect the changing UI claims ratio.

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SUMMARY OF DISCUSSION:

THE FIRST SECRETARY'S SEMINAR

Seminar participants reached a clear consensus that the 1980s' decline in the proportion of the unemployed who collect UI benefits was a significant phenomenon, with important implications for understanding the operation of the program. Participants seemed satisfied that the Seminar paper accurately portrayed the decline, but some pointed out that choosing different time periods for examination (for example, focusing on cyclical troughs as opposed to decades) might have made the decline larger than was presented in the paper. Similarly, several participants believed that focusing more explicitly on all UI programs (including extended benefits programs), rather than on the regular state programs alone, would have made the quantitative size of the decline larger. Still, given that the decline in the extended benefits programs has been examined extensively elsewhere, focusing on the decline in claims under the regular programs may have been a useful way to limit the scope of the inquiry. Participants seemed to agree that the paper provided a good starting point for examining the issues associated with the decline in UI claims, since it offered a nearly complete catalogue of the possible reasons for the decline. However, considerable discussion took place about the quantitative significance and relevance of these various influences.

EFFECTS OF LABOR-MARKET CHANGES

Many seminar participants discussed the changing nature of unemployment during the 1980s and the relationship of those changes to UI coverage. Two specific issues were most salient. First, several individuals, recognizing that the increase in part-time and two-job employment has changed the demographic characteristics of the workforce, questioned whether the UI system as designed in the 1930s provides adequate coverage of the types of unemployment generated in this new labor-market environment. Although the Seminar paper noted that not all labor-market trends during the 1980s moved toward a decline in UI coverage of the unemployed, many seminar participants stressed that the data on which the paper was based were not fully adequate to

explore these labor-market issues in detail. Groups who are nominally eligible but might not collect UI were mentioned specifically by participants: (1) unemployed individuals in two-earner families; (2) unemployed individuals with short employment durations (particularly younger individuals); (3) older workers; and (4) undocumented workers. There was agreement that only by examining the UI receipt question at the microeconomic level will it be possible to obtain a complete picture of how UI receipt relates to such patterns of unemployment.

The relationship between the decline in unemployment from manufacturing industries and the reduction in UI coverage provided a second focus of discussion on labor-market issues. The paper concluded that the decline in manufacturing unemployment explained a significant portion of the decline in the proportion of the unemployed who have collected UI during the 1980s, and much of the discussion focused on the possible reasons for this conclusion. Several participants were unconvinced by the paper's suggestions about the relationship between UI receipt and manufacturing unemployment, and in particular disputed the hypothesis that higher receipt is associated with the fact that initial UI claims for some manufacturing workers are taken at the plant. In their view, the on-site claims-taking process is instituted only occasionally in the largest plants and is designed primarily to prevent overcrowding at local UI offices. More support seemed to be expressed for the paper's view that the relationship between UI and manufacturing may reflect high rates of unionization in that industry, since unions often provide UI-related information to workers who are on layoff. Workers may find it more difficult to gather such information on their own, especially if, as some participants perceived, UI outreach activities have declined in recent years.

One of the public participants in the seminar pointed out that, to some extent, the paper's focus on manufacturing decline may have been misplaced. After all, a decline in the proportion of unemployment from manufacturing implies that the proportion of unemployment from other industries has increased--notably from services. Perhaps a better question is: Why are service workers less likely to file for UI benefits than are workers from more "traditional" types of jobs?

Although the data may not be available to provide a specific answer to that question, some speculation about it may have been appropriate in the paper.

THE EFFECTS OF FEDERAL POLICIES

Much of the discussion in the seminar focused on the reported estimates of the effects of various federal policy changes on the observed UI coverage rate. Among the specific estimates reported, participants seemed satisfied with those associated with pension and OASDI offset legislation (which was estimated to have led to a 1 to 2 percent decline in UI claims), but the estimates derived for the taxation of UI benefits seemed to be more problematic to many participants. In fact, several participants questioned the precise mechanism by which such taxation might affect UI claims. Surely, they argued, few persons would refrain from claiming benefits that were necessary and to which they were entitled simply because they would be partially taxed at the end of the year. Microeconomic evidence to support the purported effects of taxation was deemed meager, and many participants stated that they needed much more evidence to be convinced. Still, some participants admitted that, because taxation is widely believed to affect many economic actions, they would not be surprised if taxation affected UI collections. One public member pointed out that some members of Congress would not be dubious of the estimated effects of taxation, since one reason for supporting such taxation (in addition to the primary goal of enhancing revenue) was to reduce the incentives to remain on UI.

Some participants in the discussion pointed out that the structure of the paper tended to understate the federal role in causing the decline in UI claims during the 1980s. They were concerned about the paper's focusing primarily on the regular state UI programs, when in fact declines in claims under extended benefits programs (implemented primarily through legislation at the federal level) were even larger in proportional terms. Moreover, some participants felt strongly that, even in discussing the regular state programs, the paper should have tried to make a more explicit connection between the fiscal pressure exerted by the federal government on the state programs (through more stringent trust-fund loan provisions and the solvency provisions of the

Social Security Amendments) and the concomitant changes made in those programs. These participants believed that most of the tightening that occurred at the state level seemed to stem directly from federal pressure, and from what some saw as the "chronic underfunding" of the unemployment insurance system due to a failure to raise the wage base for UI taxation. However, participants were uncertain about how the paper's quantitative conclusions could be presented whereby they reflected these fiscal pressures while also stressing that the changes being reported were in fact implemented by the states through legislation and administrative procedures.

THE EFFECTS OF STATE POLICIES

Discussion of UI policy changes made explicitly at the state level was very limited at the seminar. The consensus was that the paper had detailed these changes fairly completely, and that discussion of the experience of specific states would be outside the general scope of the seminar. Three types of changes in states' UI provisions were mentioned as associated with fiscal pressure from the federal government: (1) reductions in the maximum duration of benefits; (2) increased denial rates for various nonmonetary reasons; and (3) reductions in benefit levels in both nominal and real terms in some states. Some participants argued that such changes could only have been caused by fiscal pressure at the federal level, since no state would have made them voluntarily. However, distinctions between state-initiated and federal-initiated changes seemed difficult to make in quantitative terms.

MEASUREMENT OF UNEMPLOYMENT

Although the specific issues raised in the paper in terms of measuring unemployment were not explicitly discussed in the seminar, there was much discussion about how information can be obtained on unemployment and its relationship to the UI system, a topic which is not fully addressed by the Current Population Survey. Participants agreed that it would be useful to obtain data that (1) identify persons eligible for UI but who are not covered, (2) provide information about non-filing, and how non-filing is associated with previous employment patterns and with the

employee's family situation, and (3) that fully reflect recent patterns of labor-market activity. Participants generally agreed that additions should be made to the CPS if it is to address these issues adequately, and recommended a supplement to the current questionnaire as the appropriate vehicle for addressing the UI coverage issue. Participants did note that a questionnaire supplement would involve additional funding, and would require design procedures (such as interviewing only members of an outgoing rotation group) that maintain the methodological integrity of the government's efforts to collect data on the unemployed.¹

SUGGESTIONS FOR FURTHER RESEARCH

Although seminar participants tended to agree that the paper represented a sound foundation for examining the apparent decline in UI coverage in recent years, many expressed the belief that further information was necessary in order to provide a solid basis for formulating UI policy in the future. Such suggestions particularly stressed the necessity of obtaining better data on the unemployed and their relationship to the UI system. Most participants found it difficult to understand why individuals do not seem to be filing for UI benefits when in fact they appear to be eligible, and felt that only person-level data would address that issue adequately. However, participants did not discuss the methodological problems that might arise in collecting and analyzing such data.

Some of the seminar participants suggested that a more extensive examination of other UI programs would add to our information about the coverage question and its policy implications. One participant pointed to the federal UI program for railroad workers as a possible source of information that would not be confounded with the intricacies of the programs of individual states. An examination of experiences under private Supplemental Unemployment Benefits programs was also viewed as a useful source of data, although some participants countered that the prevalence of such programs had declined significantly in recent years. Finally, one public representative in the

¹The Department of Labor has since funded this project and data will be collected beginning in May 1989.

seminar suggested that it might be helpful to examine the experience of the UI programs of other countries in recent years. While many differences exist between programs in Europe and Japan and the United States, the labor markets of these other countries have also undergone similar structural transformations. Perhaps cross-country comparisons might shed light on the UI coverage question and its policy implications for this country.

SEMINAR PARTICIPANTS

Labor

Mr. James Ellenberger, AFL-CIO
Dr. Mark Levinson, United Auto Workers
Ms. Vicky O'Reilly, Service Employees International Union
Mr. Oliver Montgomery, United Steel Workers

Business

Mr. Donald Whiteley, U.S. Chamber of Commerce
Dr. John Matzner, UBA, Inc.
Mr. Peter Carlson, National Alliance of Business
Mr. James Davis, Business Roundtable

Public

Dr. John Dunlop, Harvard University
Dr. M. Kenneth Bowler, Ways and Means Committee
Mr. Richard Freeman, Interstate Conference of Employment
Security Agencies

Federal

Dr. Janet Norwood, Bureau of Labor Statistics
Ms. Mary Ann Wyrsh, Unemployment Insurance Service

Presenters

Mr. Walter Corson, Mathematica Policy Research, Inc.
Dr. Walter Nicholson, Amherst College

Other Attendees

Mr. Thomas Plewes, Bureau of Labor Statistics
Ms. Carolyn Golding, Employment and Training Administration
Dr. Raymond Uhalde, Employment and Training Administration
Dr. Stephen Wandner, Employment and Training Administration
Mr. Michael Miller, Employment and Training Administration
Mr. Larry Matlack, Office of Management and Budget
Ms. Maureen Walsh, Office of Management and Budget
Ms. Linda Wray, Mathematica Policy Research, Inc.

PART 3

**UNEMPLOYMENT INSURANCE
INCOME MAINTENANCE AND REEMPLOYMENT TRADEOFFS
IN A COMPETITIVE WORLD ECONOMY**

A. INTRODUCTION

Unemployed workers need income support while they are unemployed, as well as assistance and encouragement in finding new jobs. Unemployment insurance (UI) programs seek to meet these support goals by making appropriate decisions about such program features as eligibility provisions, weekly benefit amounts, the duration of benefits for which recipients are eligible, and the offer of reemployment assistance services. In some ways, achieving the twin goal of income maintenance and reemployment poses difficult tradeoffs for policymakers, since the adoption of policies that are successful at meeting one of the goals may hinder success at achieving the other.

This paper explores such tradeoffs as they pertain to potential UI duration policies. Put simply, the tradeoffs seem clear: longer potential durations of UI benefit receipt offer the promise of covering the entire unemployment spells of a greater number of recipients, but they may also encourage recipients to remain unemployed for a longer period of time, thereby delaying reemployment. Upon closer examination, however, this seemingly dichotomous issue becomes quite complex, since longer UI durations may also offer recipients the opportunity to upgrade their skills or to adopt other methods that help them find better jobs. The tradeoff is thus ambiguous, and appropriate policy decisions will depend on the nature of the labor market in which individuals must seek work and on the types of behavioral responses they make to those policies.

Since its beginning in 1935, the evolution of the unemployment insurance system in the United States has reflected these tradeoffs. Potential durations under the individual state UI programs have varied from an average of 13 to 16 weeks in the 1930s to the 26-week maximum that is found in all but one state today. At times, a few states have instituted maximum durations of 30 weeks or more. Beginning with the 1958 recession, federal legislation has extended the duration of benefits beyond the regular state programs during most economic downturns. These extensions have been provided through both temporary programs and, beginning in 1971, the permanent Extended Benefits (EB) program, which becomes available automatically when unemployment rates exceed specified levels. When combined with the regular state programs, these

extended benefits programs have provided from 32 to 65 weeks of potential benefits during recessionary periods. Other program components, such as individual eligibility conditions and mechanisms to target benefits in areas that exhibit the greatest labor-market weakness, have also varied considerably over the years.

Our examination of issues pertaining to the duration of unemployment insurance consists of four major sections. In the first, we describe some of the conceptual issues that arise in designing UI policies, especially those associated with the duration of benefits. We examine topics that focus not only on the consequences of duration policies for individuals, firms, and the economy at large, but also on how such policies might be integrated with other program initiatives and whether they should vary according to the business cycle. This discussion is then followed by a brief review of experiences with such policies in the United States during the 1970s and 1980s. These experiences are then contrasted with those in several other countries as a way to illustrate alternative approaches to reaching policy decisions about the duration of UI benefits. Finally, we summarize our findings in the form of several suggested "lessons" about what these experiences imply about the tradeoffs inherent in the duration question.

B. CONCEPTUAL ISSUES

A number of issues and tradeoffs must be considered when UI policies are designed. In this section, we discuss these issues as they pertain specifically to the potential duration of UI benefits. In the first section, we examine three main tradeoffs that underlie the choice of duration policy--incentive effects, insurance versus income maintenance goals, and reemployment assistance. In the second section, we then discuss whether duration policy should change over the business cycle and, if so, to what extent. The final section discusses more global issues that pertain to the relationship between UI duration policy and the operation of aggregate labor markets.

1. Benefit Duration Issues and Tradeoffs

In this section, we discuss (1) the incentive effects of benefit duration, (2) the institution of UI as limited-duration insurance versus longer-term income maintenance, and (3) UI and the offer of reemployment assistance.

a. Incentive Effects of Unemployment Insurance

The purpose of unemployment insurance is to provide partial, temporary wage replacement to workers who have lost their jobs through no fault of their own. Because this assistance reduces the cost of being unemployed, it may encourage individuals either to be more selective about the jobs that they are willing to accept or to reduce the intensity of their job search, thereby prolonging their unemployment. This potential "work disincentive effect" of UI benefits provides one rationale for limiting both the duration of benefits and the weekly benefit relative to pre-unemployment weekly wages.

Although it seems clear that the provision of UI creates work disincentive effects, it is important that the policy formulation process estimate the magnitude of these effects and assess whether the effects vary over the business cycle. If the effects are small, it would be possible to provide more complete coverage of unemployment spells for a given cost. Since there are fewer job offers in recessionary as opposed to nonrecessionary periods, a plausible hypothesis is that the disincentives associated with extending the duration of benefits would be smaller during recessions, since individuals would not be as likely to reject job offers when they are made infrequently.

Countering any work disincentive effects are the potential positive behavioral effects of the UI system. For example, longer unemployment durations may lead to improved job matches. That is, if UI permits workers to hold out for better job offers, better matches may be obtained, thus improving the allocation of labor. Such effects may improve the efficiency with which the labor market operates and increase the stability of employment.

Over the past fifteen years, a considerable body of research has addressed these incentive effects of UI. Such research has focused primarily on estimating the impact of increases in the weekly benefit amount and increases in potential duration on the duration of UI receipt. Although the impact of increases in these UI parameters on post-unemployment wages has also been examined, this subject has been studied less extensively. The findings of this research can be summarized as follows:

- o Studies of the impact of increasing weekly benefit amounts on unemployment duration have tended to find that a 10 percent increase in the net wage replacement rate (the UI weekly benefit amount divided by the net pre-UI wage) leads to approximately a half-week increase in UI duration (see summaries in Hamermesh, 1977; Gustman, 1980; and Kiefer, 1988).
- o Estimates of the impact of increases in potential duration vary more widely, but the two most quoted studies (Moffitt, 1985; and Moffitt and Nicholson, 1982) estimate that a 1-week increase in potential duration (at the 26-week point) leads to an increase in the duration of unemployment of between .1 and .15 weeks. Moffitt also finds that the disincentive effect of raising potential duration is smaller when the unemployment rate is higher.
- o Research on the effect of increases in both weekly benefit amounts and potential duration on post-unemployment wages has been inconclusive. Some researchers have found positive impacts on wages (Ehrenberg and Oaxaca; 1976, and Holen, 1977), while others have found no effects (Classen, 1977; Corson et al., 1977; and Brewster et al., 1978).

Of greatest relevance to the issue of UI duration are the findings on the effects of increases in the potential duration of benefits. The findings indicate that increases in potential duration will increase weeks of unemployment among claimants, but provide little evidence about any beneficial effects on post-unemployment wages. With respect to the effects on the duration of unemployment, the estimates suggest that a 13-week increase in potential duration from 26 to 39 weeks will lead to an increase in the duration of unemployment of between 1.3 and 1.9 weeks. Due to this effect, some portion of any additional benefits compensate for weeks of unemployment that would not have occurred in the absence of a benefit extension. Based on the estimates in Moffitt (1985), this "cost" of benefit extensions is likely to be lower as the unemployment rate is higher.

b. Unemployment Insurance and Income Maintenance

From its inception, the purpose of the UI program in the United States has been to provide only partial, temporary wage replacement to unemployed workers. As stated in a House of Representatives report in 1935:

Unemployment Insurance cannot give complete and unlimited compensation to all who are unemployed. Any attempt to make it do so confuses Unemployment Insurance with relief, which it is designed to replace in large part. It can give compensation only for a limited period and for a percentage of the wage loss.¹

This initial concern--that UI should provide limited-duration insurance as opposed to longer-term income maintenance or welfare--has been raised throughout the history of the program, particularly within the context of benefit extensions. Some observers have suggested that after a worker has exhausted a certain number of weeks of benefits he or she should no longer be the responsibility of the unemployment insurance system but should instead become the responsibility of the welfare system.² Former Secretary of Labor Dunlop, in a statement in which he advocated increasing benefit durations during the 1974-75 recession, raised this issue as he also spoke of the necessity of limiting the extensions:

I cannot tell you where my ideal limit is. I, myself, am concerned . . . about our system degenerating into what I call a public assistance program. . . . I do favor this extension at this time because we have not in this country placed into effect a comprehensive type of welfare program; [another] solution to these two problems would say after a certain point a person who was unemployed--I do not care for the moment whether you say 52 weeks, 65 weeks, 78 weeks or some other number--ought to be treated financially not as part of the unemployment insurance system, financed in the way an unemployment insurance system is, but ought to be treated as a part of some welfare program.³

¹House Report No. 615, 74th Congress, first session, 1935.

²As we note below, this approach has been adopted by some European countries.

³Senate Hearings (Finance Committee), 94th Congress, first session, June 1975.

One reason for this suggested shift from UI to welfare is that, as unemployment spells lengthen, the link between the insurable risk of unemployment and the present cause of unemployment becomes unclear. Lengthy unemployment spells may be due to some structural factor in the community and/or industry that makes the loss of jobs permanent. In such circumstances, direct income support may be more appropriate than continuing unemployment insurance benefits.

c. Unemployment Insurance and Reemployment Assistance

If, as discussed above, longer potential UI durations lead to longer spells of unemployment, it is natural to ask what can be done to counter this effect. That is, how should the UI system and, more generally, the employment and training system promote the rapid reemployment of UI claimants?

One possibility is to impose requirements on claimants that attempt to increase the level of their job-search activity and hence the speed with which they become reemployed. Of course, many claimants are job- or industry-attached, and such requirements may be unnecessary. For those who are not job-attached, however, the provision of reemployment assistance may be a useful way to speed their return to employment. Such assistance could take the form of job placement services, counseling, job-search workshops that teach individuals how to look for and obtain a job, or training.

An important question about such services is, at what point during the unemployment spell should assistance be provided? It seems sensible to offer reemployment assistance to workers early in their unemployment spells, since the earlier they adjust to the realities of the job market the more rapidly they will become reemployed. However, early in the unemployment spell, many claimants, including those who are not job-attached, have a high probability of finding a job quickly. It would be inefficient to provide these workers with assistance. Instead, the types of administrative requirements (e.g., those that govern the intensity of job search) imposed by most state programs on non-job-attached workers are perhaps sufficient.

As unemployment spells lengthen, however, there is increasing evidence of reemployment difficulty. Long-term claimants may not know how to look for and find jobs, nor how intensively to engage in job search; their wage or benefits expectations may be too high; or their job skills may not match the available jobs. More assistance may be necessary. Such additional assistance could entail an increase in job-search requirements, as has been the case under some extended benefits programs (see further below), or it could entail a requirement that claimants participate in some services. The latter has been the case under the Trade Adjustment Assistance program, in which benefit extensions have been tied to participation in training. Of course, determining the appropriate point at which such requirements should in fact be instituted is difficult, because the needs of claimants for services will vary over the business cycle, as well as by individual characteristics.

Since reemployment assistance is generally not provided by the UI system itself, it is important that well-developed linkages between the UI system and employment and training providers be established. The UI system can identify claimants who may benefit from reemployment assistance and make the necessary referrals for services. The UI program can also monitor the acceptance by claimants of and their participation in reemployment services, if participation is required or expected.

2. Unemployment Insurance and the Business Cycle

The considerations raised in the previous subsections suggest that UI policy governing the duration of benefits should be adjusted to account for the influences of the business cycle. During cyclical downturns, the average unemployment spell lengthens, and the job-search environment becomes more difficult for unemployed workers. If UI is to continue to provide the same level of insurance protection to these workers that it provides during more normal periods, some adjustments in the program may be necessary.¹ Increasing the potential duration of benefits for

¹For a discussion of the theory of unemployment insurance as insurance, see Bailey (1978). An application of these concepts to extending durations during cyclical downturns is provided in Nicholson and Corson (1980).

which claimants are eligible offers one such a response--one that is generally consistent with the nature of the increased risks of longer unemployment spells to which unemployed workers are exposed. By mitigating the increasingly large number of UI benefit exhaustions that tend to occur during cyclical downturns,¹ such extensions also offer advantages in addition to this expanded insurance protection. These advantages include income maintenance for claimants (some, but not all, of whom would have very low family incomes without UI benefits) and the stabilization of purchasing power in the economy as a whole.

Although the principles behind extending UI benefits during cyclical downturns seem clear, a number of specific issues arise as such policies are implemented: (1) how the policy should be implemented and phased-out; (2) the labor-market measures, if any, that should be used to initiate the program; (3) the duration of counter-cyclical extensions (i.e., whether they should depend on the depth of the recession); (4) whether all individuals who exhaust their entitlements under regular UI programs should be eligible for extensions during recessions, or whether some additional eligibility requirements should be imposed; and (5) how such programs should be financed.

With respect to policy implementation, two broad approaches, automatic or discretionary, might be distinguished. Under "automatic" implementation, extended benefits programs would be triggered on in response to some pre-defined set of labor-market indicators. Benefits would be triggered off according to a similar set of indicators. The advantage of such an approach is that it mitigates the necessity of formulating explicit policies in every recessionary circumstance, thereby promising a more expedient response. Alternatively, adopting a more discretionary approach to implementation would enable lawmakers to tailor extended benefits policy to the specific needs of a given recession, in recognition that automatic trigger indicators may not work well in all situations. Approaches to policy implementation that lie between the automatic and discretionary extremes might also be considered. For example, some tiers of benefits might be triggered on automatically, whereas other tiers would be subject to legislative discretion.

¹Typically, exhaustion rates for regular UI benefits average 25 to 30 percent during periods of normal labor-market activity and may rise to over 40 percent during cyclical downturns. For an examination of the cyclical behavior of these rates, see Nicholson (1981).

The choice of an indicator of labor-market strength is especially important under an automatic policy strategy, but questions about the appropriate indicator are also part of the debate over discretionary implementation. Ideally, the indicator should reflect the labor-market environment in which UI claimants must look for work. But data on the unemployment duration of UI claimants are typically not available, and other types of information (such as unemployment rates or the rates of exhaustion of regular UI benefits) must be used instead. Because survey data are often available only with a considerable lag and are subject to sampling variability, administrative data generated by the UI system itself may be preferable for implementing extended benefits policy. But these data also have their shortcomings, especially since they do not reflect the experience of individuals who are not collecting UI either because they are ineligible (e.g., new entrants and re-entrants in the United States) or because they have exhausted their benefit entitlement. Declining rates of insured unemployment during the 1980s in the United States, for example, raised questions about the reliability of using such rates as indicators of labor-market strength and altered how the extended benefits policy that was tied to those rates operated (Corson and Nicholson, 1988).

The choice of a geographic basis for an extended benefits indicator also raises important conceptual questions. Although the rationale for extending benefits derives primarily from conditions in the local labor market, it may often be administratively infeasible to focus policies so narrowly.¹ Thus, it may be necessary to consider regional (e.g., statewide) or even national implementation. Such broader implementation does offer some advantages in terms of the macroeconomic stabilization of purchasing power. But, because such policies may provide windfall gains to individuals who are looking for work in relatively strong local labor markets,² they may be more expensive than those that are targeted more carefully toward specific areas of labor-market weakness.

¹For a description of some of these difficulties in context of the United States, see U.S. Department of Labor (1984).

²This was the case, for example, for some of the extensions available under the FSC program in the 1980s (see Corson, Grossman, and Nicholson, 1986).

The fact that the severity of recessions may vary both temporally and geographically also suggests that duration policy should be formulated to reflect such differences. For example, potential duration might be tied explicitly to the strength of the labor market, with changes being implemented whenever those conditions change. Of course, devising an appropriate formula that ties potential duration to labor-market conditions is not a precise process, since there is no universal agreement about the goals that should be achieved by such a policy.

Corson and Nicholson (1982) argue that an appropriate policy goal for an insurance-based conception of unemployment compensation would be to keep the total exhaustion rate for all UI benefits (including extensions) constant over the business cycle.¹ Using this goal, as well as a more comprehensive one that holds unemployment spell replacement rates constant over the business cycle,² they estimated that potential UI durations would need to be increased by about 3.5 to 5.1 weeks for every one percentage point rise in the insured unemployment rate. An alternative estimate made by Moffitt (1985) found that a 4-week extension of duration for every one point rise in the unemployment rate would hold the exhaustion rate constant.

The suggestion that different, more stringent eligibility standards might apply to extended benefits programs than those that apply to regular UI programs appears to stem from the desire to target such additional benefits toward those workers who are clearly victims of the recession and for whom the need for continued insurance protection seems clearest. This might be accomplished in two ways. First, stricter search requirements or job acceptability standards might target benefits more clearly toward workers who continue to remain in the labor force. Second, requiring more substantial employment in the base period than is required for the regular UI program might target benefits toward those workers who have accumulated a substantial amount of on-the-job skills and hence are those who had the most to lose through layoffs. However, stricter search and

¹This policy would keep an individual's risk of exhaustion constant over the business cycle.

²The unemployment spell replacement rate is defined as the total amount of UI benefits paid over a spell of unemployment divided by the net pre-UI weekly earnings times the number of weeks in the spell. Such a replacement rate takes into account both weeks in which UI is received and weeks in which it is not received either because of the waiting week or because benefits have been exhausted.

availability requirements may prompt workers to take jobs that fail to utilize their skills fully. Similarly, focusing on base-period employment may obscure the fact that current difficulty in finding a job is the factor that generates the need for extended benefits programs. The extent to which workers are encountering severe reemployment difficulties during recessions may not be closely related to their previous employment experience. For example, workers with relatively little job experience may face especially limited job-finding prospects during recessions. Perhaps, the means-testing of extended benefits (as is the case in some European countries) would offer a better way to focus those benefits on recessionary victims, but this procedure would also pose important conceptual and administrative problems, especially if eligibility were to be based on a relative measure of income loss.

Finally, any extension of benefits raises issues about financing. Within the traditional social insurance framework that underlies the UI system, financial responsibility for the system rests with tax-paying employers and, in some states, employees as well. However, it is not clear whether benefit extensions during recessions should be financed under such a framework, since the lengthy unemployment spells experienced during a recession may be due more to general macroeconomic factors than to the decision processes of firms. Since responsibility for macroeconomic policy rests with the federal government, general revenue financing for long-term extensions may be appropriate.

3. Duration Policy and Its Effect on the Aggregate Labor Market

As with any major policy initiative, decisions about the parameters of UI duration policy may have an important effect on the aggregate labor market, and on the operations of product markets as well. Because duration policy may affect the behavior of workers and firms, it may thus alter such important economic magnitudes as the overall levels of unemployment, inflation, or productivity growth. Although relatively little research has been undertaken to address such potential effects of duration policy, we describe here some of the issues that seem relevant. Quantitative evidence on the significance of the effects described is largely lacking, however.

In general, unemployment compensation policy might affect the aggregate labor market in two ways. First, it might alter the equilibrium for the system as a whole. That is, the policies might affect the level of unemployment that is consistent with a stable (non-accelerating) rate of inflation. Second, and probably more important, various aspects of the UI system may affect how the aggregate labor market responds to supply and demand shocks--how the market returns to equilibrium following some type of outside shock, such as a fall-off in demand for exports or a steep rise in the price of a major import such as crude oil.

The direct labor-supply effects of longer UI duration policy discussed previously may have some effect on the equilibrium level of aggregate unemployment because the typical UI claimant may be unemployed longer than would be the case without the longer duration. But, as Burtless (1987) and others have shown, the aggregate size of this effect on the labor market as a whole is probably rather small in proportional terms. In addition, the effect may not have particularly serious consequences other than its impact on how the reported unemployment rate should be interpreted. Indeed, if job seekers use longer UI durations to find better jobs than they would without such benefits, the operation of the labor market, at least during relatively strong periods of labor demand, may actually improve.

Further, the UI program can affect firms' demand for labor, primarily through the manner in which benefits are financed. If, as is the case in many countries, UI is financed through a payroll tax, the program will increase labor costs. Thus, the specific taxation formula chosen may affect the types of workers whom firms hire and the willingness of firms to experience short-term labor turnover (Brechling, 1977). Perhaps more significant is whether UI taxes are "experience rated" according to the unemployment histories of firms. Several authors (Feldstein, 1976; and Topel, 1984) have found that incomplete experience rating in the United States, coupled with restrictions on the availability of UI benefits for hours reductions, imparts a bias that favors short-term layoffs in the labor-force adjustment strategies of firms. Hence, overall measures of unemployment may be more sensitive to economic fluctuations than would otherwise be the case.

Although there appears to be no explicit research on how potential UI durations might affect the labor demand of firms, the more general research on financing suggests what those effects might be. Specifically, longer potential durations should encourage workers and firms to adopt layoffs as a labor-force adjustment strategy, and those effects should be strongest when firms do not directly incur the costs of such decisions. For example, the absence of experience rating for longer-term benefits or the financing of such benefits through general revenues would be likely to provide such incentives. Balanced against this effect, however, is the possibility that extending UI duration may not be as much of an encouragement to layoffs as would increasing the dollar amount of regular UI benefits, since the former policy would increase the subsidy only for relatively long layoffs. However, little is known about the relative size of such effects.

More important consequences may be due to how UI duration policies affect the dynamic properties of the aggregate labor market. On the supply side, more generous durations may slow the speed with which markets adjust to negative demand shocks. Some authors (for example, Nickell and Andrews, 1983) have also suggested that such generous benefit packages may encourage unions to take a more aggressive bargaining stance, since the losses to their members from unemployment may be small. Similar effects may arise among non-unionized workers if UI generosity affects the general terms of their employment relationship.

Concern about how UI policy choices might affect how the labor market adjusts to supply and demand shocks is also reflected in concern about such aggregate macroeconomic measures as the rates of inflation or productivity growth. To the extent that UI policies (such as extending potential duration) slow the rate at which labor-market adjustments occur, they can also worsen the observed unemployment-inflation tradeoff. The effects of UI policy on labor bargaining can have a similar effect. Some authors (Minford, 1985) have attributed statistical significance to these effects, but these results are not particularly robust, and further research on the "wage pressure" caused by UI benefits seems called for (Nickell, 1987).

The effects of the generosity of UI on productivity growth are also potentially important though difficult to verify empirically. If UI encourages short-term layoffs at the expense of other

types of labor-force adjustment strategies, the loss of on-the-job skills may be substantial. That possibility provides, for example, one of the principal rationales for expanding short-time compensation schemes as an alternative to layoffs (see Kerachsky et al., 1985). Generous UI programs, especially those that allow a long potential duration, may also retard the movement of workers into growing areas of labor demand. They may also inhibit the willingness of workers to undertake new training initiatives unless they are provided with some additional incentives for doing so. Overall, however, it seems unlikely that these productivity effects could be very large at the aggregate level, since UI-related incentives affect only a small minority of the workforce.

C. RECENT EXPERIENCE IN THE UNITED STATES

Since its inception in 1935, the unemployment insurance program in the United States has evolved into a two-tiered system whereby individual state UI programs provide an initial tier of coverage for eligible unemployed individuals, and a permanent Extended Benefits (EB) program provides a second tier of benefits during economic downturns. Temporary or emergency programs have also been enacted in several instances to provide additional coverage during recessionary periods.

In this section, we discuss how this two-tiered and supplementary system addresses the conceptual issues raised in Section B. We examine (1) the duration of benefits and how duration has changed during recent recessionary periods, (2) the function of the system as an income maintenance mechanism, and (3) the function of the system as a reemployment assistance mechanism.

1. The Duration of Benefits

Our discussion of duration focuses on (1) the regular state programs, (2) the permanent Extended Benefits program, and (3) temporary programs in the 1970s and 1980s.

a. Regular State Programs

At the outset of the program, UI benefit durations of 13 to 16 weeks were provided by most states under their regular state programs. By today's standards, these durations were short,

and they appear to have been chosen both because of the general view that UI was intended only for temporary periods of unemployment and because of actuarial estimates of the maximum number of weeks that could be financed. As experience with the system grew and it became clear that longer benefit durations were financially feasible, states began to liberalize their benefit duration provisions. By 1952, maximum benefit durations averaged 21 weeks, and by the late 1950s most states had adopted a maximum duration of 26 weeks. This maximum duration of regular benefits prevails today in all states but one,¹ although several states have at times instituted longer maximum durations.

This evolution of the maximum duration of regular UI benefits appears to have occurred in the "absence of any clear norms governing the process" (Becker, 1965). Nevertheless, the 26-week norm can be thought of as representing society's tradeoff in nonrecessionary periods between the provision of partial wage replacement to unemployed workers and the work disincentives inherent in providing that support.

b. The Extended Benefits Program

In the late 1950s and early 1960s, temporary extended benefits programs were enacted by the federal government during recessionary periods, and in 1970, with the passage of the Employment Security Amendments of 1970, a permanent program of extended benefits (EB) was enacted.² Throughout its life, this program has provided a maximum of 13 weeks of benefits payable to exhaustees of regular UI.³ However, a number of changes have been made in the mechanism by which EB becomes available to claimants.

¹It should also be noted that most states have implemented variable duration provisions whereby claimants may be entitled to, say, less than 26 weeks if their base-period earnings are less than a given amount.

²Benefits under this program are financed half and half from the federal and state UI trust funds.

³The maximum duration of regular UI plus EB is 39 weeks even in states in which the maximum duration of regular state benefits exceeds 26 weeks.

Initially, EB was automatically "triggered" whenever the insured unemployment rate (IUR) averaged 4.5 percent nationally during a 13-week period, or whenever the 13-week average IUR in a state equalled at least 4 percent and at least 120 percent of the average IUR in the corresponding period in the two previous years. During the 1970s, these trigger provisions were liberalized when (1) the national trigger was changed to 4 percent, (2) the 120 percent requirement was temporarily suspended a number of times, and (3) states were permitted to waive the 120 percent requirement if their IUR reached 5 percent. This trend toward liberalization was reversed in the 1980s with the elimination of the national trigger (in 1981) and an increase in the state trigger rate to 5 percent (or 6 percent if the 120 percent rule is waived).¹

A simulation of the impact of these changes in the EB program (Corson and Nicholson, 1985) showed that, during periods of relatively strong labor-market activity, EB caseloads might be reduced by as much as 70 percent relative to their number in the absence of the changes. Because most of the reduction would come from changes in the trigger mechanism, the estimated effects during periods of weak labor markets would be smaller (25 percent), but still sizable. Thus, these changes had the effect of concentrating benefits on severe recessionary periods more heavily than was the case under previous program rules. However, the reductions in EB caseloads that have actually been experienced since these changes went into effect appear to exceed these estimates (see Burtless, 1983; and Corson and Nicholson, 1988), primarily because the decline in regular UI claims in the 1980s has had the effect of reducing the IUR and hence the probability that a state would become eligible for EB.

c. Temporary Extended Benefits Programs

Two major federal temporary extended benefits programs were enacted in the 1970s and

¹This set of changes was accompanied by several other changes that also restricted access to the program: (1) EB claimants were eliminated from the IUR calculation, (2) minimum individual base-period qualifying requirements were instituted, and (3) more stringent job-search and job-suitability requirements were instituted than those that prevail under state laws.

1980s.¹ The first, the Federal Supplemental Benefits (FSB) program, was enacted in December 1974 and originally provided 13 additional weeks of benefits for individuals who had exhausted their EB entitlement. An additional 13 weeks were added in March 1975, yielding a total of 65 weeks of potential benefits (26 weeks of regular UI, 13 weeks of EB, and 26 weeks of FSB). With the exception of benefits provided under programs for special groups (e.g., trade-impacted workers), this potential duration of benefits was the longest in the history of unemployment insurance programs in the United States.

Two further amendments to FSB had the effect of scaling back duration. Beginning in January 1976, the maximum duration available under FSB became a function of the 13-week IUR in each state; an IUR average above 6 percent was required in order to be eligible for the full 26 weeks. Finally, in April 1977, the second tier of FSB benefits was eliminated, thereby setting the maximum FSB entitlement to 13 weeks.² The program was phased out in early 1978.

Analyses of FSB (see Katz and Ochs, 1980; and Corson and Nicholson, 1982) suggest that the long potential durations provided by the program (in conjunction with regular UI and EB) substantially reduced the overall benefit exhaustion rate relative to the rate typically experienced in nonrecessionary periods. Therefore, somewhat greater protection was provided to unemployed workers during the 1975 to 1977 period than is typically provided by the regular UI program during nonrecessionary periods. By reducing the risk of exhaustion in recessions to below the level of nonrecessionary periods, the benefit extensions during the mid-1970s may have gone too far in

¹A third national temporary program (the Emergency Unemployment Compensation Act of 1971) was enacted during this period, and several states also instituted their own supplemental programs. These programs are not discussed here.

²In addition to changing the duration, the 1977 changes in FSB tightened the program's work-search requirements and disqualification provisions (see further below) and altered financing arrangements. Prior to 1977, temporary extended benefits programs were financed from contributions from the federal UI trust fund, but beginning in 1977 general revenues were used. Implicit in this decision to use general revenues, which was continued with the FSC program, was the recognition that such long-term benefits should not be considered an appropriate financial responsibility of UI tax-paying employers within the traditional social insurance framework. Rather, the payment of temporary or emergency extended benefits should be regarded as part of the more general responsibility of the federal government for macroeconomic activity.

providing increased coverage of the long unemployment spells experienced during recessionary periods.

The other major temporary program in the last two decades, Federal Supplemental Compensation (FSC), provided extended benefits beginning in September 1982. The FSC program initially provided a maximum of 6 to 10 weeks of extended benefits according to the EB trigger rate and the EB status of each state. These maximum durations were changed to 8 to 16 weeks and then to 8 to 14 weeks as the program itself was extended.¹ Ultimately, benefits were paid through March 1985. A major feature of the program was an attempt to make the potential duration of benefits highly sensitive to state-level labor-market conditions. Not only did potential duration vary by state, but initially the potential duration in a state could have changed as frequently as every four weeks.

Because of the complex nature of FSC and its interaction with the EB program, it is difficult to measure its impact on the overall exhaustion rate, but an analysis by Corson, Grossman, and Nicholson (1986) which attempted to do so suggested that the combination of EB and FSC benefits provided during the 1981-83 recession reduced overall exhaustion rates to nonrecessionary levels. These program results suggest that the choice of extended benefit durations under the two programs may have been about right during this time period. However, the evaluation also found that the extreme sensitivity of the FSC maximum potential durations to differences in IURs among states and across time within states was not enough to target benefits effectively toward areas that exhibited high unemployment levels, primarily because a minimum level of benefits was provided in all states regardless of the IUR.²

¹The individual entitlement was initially set at 50 percent of the regular UI entitlement up to the state maximum. This percentage was then changed to 65 and then 55 percent as the state maximums were changed. Initially, the entitlement for individuals already on the program also changed as the state maximums changed.

²The extreme sensitivity of each individual's entitlement to changes in a state's IUR created major administrative problems, as well as confusion and concern among claimants, particularly when the benefit entitlement was reduced.

2. UI and Income Maintenance

UI programs provide income support to UI claimants and, as discussed earlier, our view of this income support function may change as the duration of unemployment increases. That is, distributional as opposed to insurance considerations become more important as duration increases. This shifting focus has led some countries (see our discussion in Section D) to establish an income maintenance system in which a UI program whose eligibility and benefits are based on previous employment provides the initial support for unemployed individuals, while a subsequent needs-based program provides longer-term support, in some cases of indefinite duration. In the United States, this programmatic distinction does not exist, and the unemployment insurance system is not tied directly to the long-term income maintenance system.

Instead, the needs-based income maintenance system (the principal programs of which are Food Stamps, AFDC, Medicaid, and SSI) co-exists side-by-side with the UI system, and UI recipients and exhaustees can apply for benefits under these programs. Any UI income is taken into account in the benefit calculations for these programs, and, in fact, potential recipients are generally required to apply for UI if they might be eligible. However, the needs-based income maintenance programs and UI overlap only slightly. Tabulations from the Survey of Income and Program Participation (SIPP) for March 1984 show that 8 percent of households with UI income received Foods Stamps and 9 percent received Medicaid, while rates of receipt for other needs-based income maintenance programs were lower. Data collected in the mid-1970s for FSB recipients showed similarly low rates of receipt from these programs (Corson et al., 1977).

A major reason for this low rate of receipt of means-tested transfer payments is that eligibility for many of the programs is categorical, in that only certain types of households are eligible (e.g., in most states, AFDC is available only to single-parent households with children). Most UI households or recipients do not fall into these categories. While the Food Stamp Program is the major exception to this rule (it is available to all low-income households), many UI households are not income eligible for this program, and others appear not to apply. For example, estimates made for the FSB population (Corson et al., 1977) showed about 31 percent were eligible

for Food Stamps when they first began collecting FSB, and about one-third of this group actually collected benefits. More would have been eligible for Food Stamps in the absence of the FSB program (just over 50 percent), but substantially fewer would have been eligible for any other means-tested programs.

Given this situation, one argument for extending the duration of UI benefits has been the necessity of maintaining incomes for UI exhaustees that are above the poverty level, since the current means-tested system is not adequate for this purpose.¹ Estimates of the anti-poverty effects of UI extensions, again for the FSB population, show that the extensions did have a substantial anti-poverty effect, reducing the percentage of FSB households whose incomes were below the poverty threshold during 1975 from an estimated 33 to 23 percent. However, the income levels of almost 40 percent of FSB households would have been above two times the poverty level in 1975 without FSB, while the income levels of 10 percent would have been above four times that level. Thus, extending benefits as an anti-poverty device is quite target-inefficient, because a substantial amount of benefits go to the non-poor.

3. UI and Reemployment Assistance

The UI system in the United States relies on two primary mechanisms to promote the reemployment of claimants: (1) job-search and suitable-job requirements, and (2) referrals to the Employment Service. The purpose of the first mechanism is to ensure that claimants are truly available for work and, in most states, are actually looking for work if they are not job-attached and do not expect to be recalled. It also provides an administrative set of work incentives that, to some extent, may counter the disincentives inherent in the system. These work-search requirements are spelled out in state rules and regulations that generally require claimants to be "able and available" for work; they also describe the characteristics of jobs considered suitable for

¹If one is to argue that benefit extensions are necessary during recessions for income maintenance reasons, one must also argue that the incidence of low incomes among exhaustees is higher in recessionary than in nonrecessionary periods. Otherwise, the argument for extensions applies equally well during nonrecessionary periods. Little evidence is available on this issue, although the longer unemployment durations experienced during recessions suggest that the incidence of poverty may well be greater during recessions.

individual claimants and determine when refusal of a job offer makes a claimant ineligible for UI; further, in most states, they describe the intensity of the job search expected of claimants. Claimants' adherence to these rules is monitored by the UI system, and failure to comply with the requirements may lead to the denial of benefits.

Extended benefits programs also include such rules, and, beginning with the later phases of the FSB program, job-search requirements for extended benefits have been increased over those generally required in the regular UI programs. This change recognizes the fact that individuals who cannot find a new job quickly may need to search more diligently or may need to lower their wage expectations or other job demands. Special federal disqualifications for refusal of suitable work and failure to seek work actively, as well as a strict definition of suitable work,¹ were added to the FSB program in April 1977. Similar provisions were adopted in the EB program in 1981, as was a requirement that claimants show "tangible evidence" of work-search activity to continue to be eligible for UI. The FSC program also contained similar requirements. Analyses of the impact of these requirements (see Felder and Pozdena, 1978, for FSB, and Corson and Nicholson, 1985, for EB) have found that benefit disqualifications increased with a corresponding reduction in the receipt of extended benefits. Little information is available at the state program level to determine whether states have instituted such duration-dependent requirements in their regular state programs. But the federal requirement that states conduct eligibility review interviews with claimants has provided an opportunity for UI administrators to strengthen individual requirements, if appropriate.

In addition to these administrative job-search requirements, the UI system in the United States relies on a second mechanism to promote reemployment--namely, referrals of claimants to the Employment Service (ES). In most states, claimants who are not job-attached and who do not obtain jobs through a union hiring hall are referred. The degree to which claimants are referred and actually go to the ES, as well as the level of services received by claimants who go, varies

¹Jobs that pay more than the UI weekly benefit amount or the minimum wage (whichever was higher) were considered suitable unless the individual could furnish evidence that the prospects of returning to work in his or her customary occupation were good.

substantially by state.¹ Moreover, while some states attempt to direct additional services to claimants,² the overall likelihood that a claimant receives substantive services (i.e., more than registration) is low. A recent study of long-term claimants (Richardson, 1988) found that, in the 10 states studied, the proportion of this group that received substantive ES services was low. Very few such claimants were referred to other agencies or programs, such as those under Job Training Partnership Act (JTPA) sponsorship, and few had received any on-the-job or occupational training. Overall, this study of long-term claimants concluded that the linkages among employment and training programs (UI, ES, and JTPA) must be strengthened in many instances if effective service delivery is to be achieved.

The recent passage of the Omnibus Trade and Competitiveness Act establishes a new worker readjustment program to replace the services provided to dislocated workers under the JTPA program. A noteworthy element of this legislation is its explicit emphasis on coordination between the state unit that administers the program and the UI and ES systems. The legislation also stresses rapid response to layoffs, as well as early intervention. A demonstration of early intervention for UI claimants who are identified as displaced workers is currently being conducted in New Jersey under the sponsorship of USDOL. The demonstration is using the UI system to identify such workers, and, through a coordinated effort, the ES and JTPA systems are providing reemployment services. The early results from the demonstration evaluation suggest that the duration of UI receipt can be reduced through such efforts (Corson and Kerachsky, 1987).

¹For example, a recent study of 10 states (Corson, Kerachsky, and Kisker, 1988) found that registration rates varied from 43 to 96 percent. Among ES registrants, 12 to 51 percent attended a group session to learn how to find jobs, while 20 to 47 percent received a job referral. Relatively few, however, received job offers.

²For example, California has established a special fund financed through a surcharge on UI taxes to pay for the retraining of UI recipients, exhaustees, or those threatened with layoff. Similar special training programs have also been established in such other states as Delaware and North Carolina.

D. EXPERIENCES WITH UI DURATION POLICIES IN OTHER DEVELOPED COUNTRIES

Other developed countries have adopted policies governing the potential duration of UI benefits that differ in some important respects from those adopted in the United States. The salient features of these policies are summarized in Table 1. Although we will not discuss the UI program of each country in detail, we will highlight a few general similarities, especially for those areas in which the programs seem to differ most significantly from those described in the previous section for the United States. As mentioned earlier, the most important of these differences seems to be that the other countries have tended to: (1) adopt relatively longer durations for their regular UI programs than those that prevail in the United States; (2) structure programs for exhaustees of the regular program in ways that more closely resemble income maintenance programs than do the extended benefits programs in the United States; (3) institute somewhat larger programs of reemployment assistance within their UI programs; and (4) devise rather different ways to cope with cyclical downturns than those pursued in the United States. In this section, we review each of these differences and show how they help illuminate some of the choices that arise in making policy decisions about UI duration policies. We also briefly review some of the relatively limited research that has focused on the labor-market effects of the duration policies of these countries.

Although the maximum potential duration of regular UI benefits under state programs in the United States is generally 26 weeks, it is at least twice as long in most of the countries surveyed in Table 1. The potential duration of regular benefits in the United Kingdom, Japan, and West Germany is one year, for example, and up to a year and a half or more in France, Sweden, and Belgium. Those countries that do have regular durations of as short as six months (Canada, Italy, and the Netherlands) also tend to offer additional weeks of eligibility under special programs. In several countries, potential duration depends, at least partly, on previous work experience, occupation, or industry, and, in many cases, older workers are eligible for longer potential durations than those that apply to other workers.

TABLE 1
UI DURATION PROVISIONS IN SELECTED COUNTRIES

Country	Maximum Potential Duration of Regular UI	Type of Benefits for Exhaustee	Are Extended Benefits Means-Tested?	Additional Groups Eligible for Extended Benefits	Method of Financing
Australia	As Long as Qualified: Means-Tested	NA	NA	NA	General Revenue
Belgium	18 Months	Reduced, Flat Rate	No	Specified Occupations	Employer and Employee Taxes
Canada	25 Weeks	Up to 25 Weeks, Depending on Regional Unemployment	No	Fishers, Those in Training	Employer Taxes, Employee Taxes, and General Revenue
France	3-45 Months, Depending on Experience	Up to 30 Months at Reduced Benefits	No	New Entrants, Special Coverage for Mass Layoffs	Employer Taxes, Employee Taxes, and Some General Revenue
Federal Republic of Germany	12 Months; 24 Months for Older Workers	Unlimited Benefits at Reduced Rate	Yes	Those in Training	Employer Taxes, Employee Taxes, and Extended Benefits from General Revenue
Italy	180 Days	180 Days--Special Benefits	Yes	No	Employer Taxes and General Revenue
Japan	90-300 Days, Depending on Age and Experience	No General Program; Special Programs for Declining Industries and for Those in Training	NA	NA	Employer Taxes and General Revenue
Netherlands	6 Months	Up to 4.5 Years, Depending on Age and Experience	No	No	Employer Taxes and Employee Taxes
Sweden	60-90 Weeks, Depending on Age and Union Fund	Unlimited, Lower Benefits	No	Labor Market Support Program for Training, Relocation, etc.	Employer Taxes, Employee Taxes, and Some General Revenue
United Kingdom	52 Weeks	52 Weeks	Yes	Entrants and Other Needy Individuals	Employer Taxes, Employee Taxes, and General Revenue

SOURCE: U.S. Department of Health and Human Services, Social Security Administration, Office of Policy, Office of Research, Statistics, and International Policy. Social Security Programs Throughout the World - 1987 (forthcoming).

NA = Not applicable

In part, the longer potential durations found in the countries represented in the table reflect the greater lengths of unemployment spells in those countries than in the United States. For example, whereas only about 10 to 15 percent of all unemployment spells in the United States last longer than six months, more than 40 to 50 percent last that long in France, Germany, and the United Kingdom.¹ Thus, as in the United States, this choice of duration policy may, at least implicitly, reflect the goal of covering the unemployment spells of most workers. Due to inadequacies in the existing data, however, it is not possible to say whether exhaustion rates under regular UI programs in these countries approximate those in the United States.

Most of the countries surveyed in Table 1 provide some type of UI benefits beyond regular UI. Often, these programs pay somewhat lower benefits than are available under the regular programs, and in several cases the amount of these benefits is subject to a means test. Other targeting mechanisms used for longer-term benefits include regional differentiation (Canada), a focus on declining or trade-impacted industries (Japan), and eligibility limited to certain occupations (Belgium). In many cases, eligibility for these special programs is not limited to exhaustees of the regular UI program, but also extends to unemployed individuals not covered by the regular program. In France, Germany, and the United Kingdom, for example, many new entrants into the labor force are covered under the special benefits programs, although they lack sufficient employment experience for regular UI. In general, then, programs that provide benefits to workers who have exhausted their regular UI entitlements in these countries tend to have a somewhat broader scope and place greater emphasis on income maintenance than do extended benefits programs in the United States. However, the costs of many of these programs (as well as those for the regular UI programs) have risen rather dramatically in recent years in response to sharply increasing unemployment rates.² Given these fiscal pressures, several countries have recently implemented

¹These data are for the mid-1980s, although similar relationships have held throughout the late 1970s and 1980s (see Burtless, 1987).

²Although precise cost figures are unavailable for many of the countries, Burtless (1987) reports a more than doubling of real expenditures from 1976-1985 in Sweden and (probably) a like increase in France. In Germany, the 1976-1985 rise in real expenditures was also substantial (70 percent). Only in the United Kingdom was the increase relatively modest (16 percent).

important reductions in the scope of some of these special benefit programs. Such cutbacks seem to have been especially important in the United Kingdom, France, and, to a lesser extent, Canada.¹

As is the case in the United States, most other countries require some form of employment service registration for UI recipients. However, because existing job vacancies are often more likely to be reported to employment offices in these countries, such registration may be more effective at promoting employment in these countries than in the United States. Many of the countries listed in Table 1 also offer training allowances and relocation assistance as aids to improving reemployment prospects. Such special assistance programs are especially well-developed in Germany, Japan, and Sweden. The rapid increase of unemployment in many European countries in recent years, coupled with the observed low levels of labor-market mobility in these countries (Flanagan, 1987), casts some doubt on the overall effectiveness of these policies. However, few formal, controlled evaluations of the programs have been undertaken (see Haveman and Saks, 1985).

Finally, differences in the development of counter-cyclical policy between the United States and many of the countries listed in Table 1 should be mentioned. As outlined in the previous section, many major UI policy initiatives have been undertaken in the United States in response to cyclical downturns, primarily the adoption of extended benefits programs. Although some other countries have also followed this procedure during recessions (additional UI benefits in Canada, for example, are triggered by changes in regional unemployment rates), for the most part countries have not made major changes in their duration policies. Perhaps because they have longer potential durations for their regular UI programs and because they have permanent special benefits programs in place, they have not followed the route taken in the United States. Instead, most policy responses have been to relax some eligibility provisions, to adopt early retirement schemes (see Casey and Bruche, 1983), and (in some countries) to encourage work-sharing arrangements.²

¹For a discussion of the British case, see Atkinson and Micklewright (1985). Recent changes in France are discussed in Grais (1983). Kesselman (1983) and Commission of Inquiry (1986) describe the Canadian experience.

²In Germany, for example, workers may collect work-sharing benefits for up to 24 months during periods of national recession (Meisel, 1984). Other examples are discussed in Casey (1983).

Since the duration of unemployment seems to be somewhat less sensitive cyclically in Western Europe and Japan than it is in the United States, such responses may be more appropriate for these countries than would programs that extend the potential duration of UI benefits.

Research on the effects of these various elements of UI duration policy in other countries is far less extensive than is the research reviewed previously for the United States. One early collection of papers (Grubel and Walker, 1978) does report evidence that the UI systems of many countries have important effects on the measured unemployment rates of those countries.¹ In many cases, however, these effects were estimated with very simple techniques and yielded results that were implausibly large. In addition, because few of the papers focused explicitly on the duration question, their findings do not directly address the issues raised here. Of somewhat greater relevance is the extended debate on the causes of high unemployment in the United Kingdom between the two World Wars (Benjamin and Kochin, 1979; and "Comments", 1982). Some of the evidence cited in this debate tends to support the notion that the liberalized eligibility and duration provisions for unemployment insurance that were introduced in the United Kingdom in the early 1930s had the effect of raising measured unemployment rates substantially in later years. But no explicit estimates of the duration effect itself can be derived from the available data. Perhaps the most significant findings on duration effects outside of the United States come from analyses of changing duration and other UI policies in Canada. For example, in a study of changes undertaken in the late 1970s, Ham and Rea (1987) obtained estimates of the effect of increasing potential duration that are generally in line with those described previously for the United States. Because most other countries provide fairly uniform durations both across claimants and over time, however, it appears that obtaining such estimates in other settings may be difficult.

E. CONCLUSIONS

Our discussion of the conceptual and practical issues involved in developing UI duration policy suggests that a number of lessons are relevant to structuring such policies in the future:

¹Such effects are reported for Canada, New Zealand, Sweden, Belgium, Ireland, France, Germany, and Italy, as well as for the United States.

- o The choice of potential durations of UI benefits involves important tradeoffs in terms of achieving both adequate levels of income support and adequate incentives and opportunities to return to work. Such choices themselves probably have little effect on the operations of the aggregate labor market, although the existence of the UI system may have important effects. However, little evidence of these potential effects is available.
- o Unemployment insurance systems in different countries exhibit a wide variety of programmatic options that have been adapted to specific labor-market environments. The choice of the potential duration of benefits is one important aspect of such an adaptation, but other aspects of UI policy, such as eligibility rules, the weekly benefit amount, and the amount of supportive employment services, also involve important policy choices.
- o Because labor-market conditions change over the business cycle, UI policy might also be altered to meet these changing circumstances. In the United States, such changes have primarily entailed increasing the potential duration of UI benefits for which claimants are eligible during cyclical downturns. Most other nations have been less likely to adjust potential durations during cyclical downturns and have instead opted to tailor other UI parameters to changes in labor-market conditions.
- o Our review of U.S. extended duration policy during the 1970s and 1980s in response to recessionary circumstances shows that the approach underlying this policy contains both automatic and discretionary elements. The primary problems in structuring automatic policy responses (under the EB program) have centered on the choice of appropriate "trigger" indicators and on the adjustment of such indicators to provide consistent measures of labor-market strength. Problems in the discretionary implementation of extended duration policy (primarily through the FSB and FSC programs) have focused primarily on the appropriate timing of the programs and on difficulties in targeting the programs toward areas that exhibit the greatest labor-market weakness.
- o With the exception of the occasional use of more stringent eligibility provisions than those that apply to regular UI, extended benefits policies in the United States have not tended to incorporate programmatic options that stress reemployment goals. Although relatively common in other countries, such features as training or relocation assistance have not played a prominent role in U.S. policy. However, the effectiveness of such program components in other countries has not been subjected to rigorous evaluation.

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SUMMARY OF DISCUSSION:
THE SECOND SECRETARY'S SEMINAR

The seminar explored various aspects of UI duration policy. Four major topics were covered: (1) the incentive effects of UI and their bearing on duration policy, (2) insurance versus income maintenance goals of duration policy, (3) readjustment assistance, and (4) business-cycle issues.

INCENTIVE EFFECTS OF UI

The Seminar paper presented the argument that, while longer potential UI durations cover the complete unemployment spells of a greater number of recipients, longer durations may also encourage recipients to remain unemployed longer, thereby delaying reemployment. The paper summarized the available empirical evidence on the size of this work disincentive effect and concluded that this effect provided one rationale for limiting the duration of benefits.

Much of the discussion in the seminar focused on this issue. Several participants argued that the empirical evidence of work disincentive effects was weak and inconclusive. Others argued that the evidence was in fact relatively strong, both because numerous studies of these effects had been conducted and because these studies reached similar conclusions. Despite this disagreement, most participants concurred that, in discussions of duration policy, the positive behavioral effects of the UI system (e.g., on post-unemployment wages, employment stability, and the efficiency with which the labor market operates) should be balanced against any work disincentive effects. Although the empirical evidence on behavioral effects is less strong than the evidence on work disincentives (generally because less research has been undertaken in the area), these potential positive effects should not be discounted.

Several participants also expressed the view that discussion of disincentives draws attention away from the positive contributions of the UI system in providing income support to the unemployed, and that these positive contributions outweigh any disincentives. One participant

argued specifically that the disincentives are small enough that they can be ignored in the policy formulation process.

INSURANCE VERSUS INCOME MAINTENANCE GOALS OF UI

The Seminar paper argued that the primary purpose of UI has been to provide limited-duration insurance against the possibility of involuntary unemployment, as opposed to longer-term income maintenance for the unemployed. Historical evidence from the beginning of the program was presented to support this contention. The paper further argued that beyond some point (i.e., in duration) UI should end, and income maintenance or welfare-type programs should be used to provide income support to the unemployed. However, it was also argued that such programs do not currently provide much coverage for the UI population, and that UI extensions might be used as a substitute for a more comprehensive welfare program.

Relatively little discussion on this issue took place during the seminar, since most participants appeared to believe that adjustment issues were more important. However, some discussion of income maintenance objectives versus insurance objectives ensued. Most participants seemed to agree that UI should be viewed as an insurance program. One participant argued that the program should be thought of as a protection system by asking how much insurance (i.e., duration) the average person would be willing to buy. Another participant, however, suggested that income maintenance objectives, such as keeping families above the poverty line, were also important and should not be ignored.

UNEMPLOYMENT INSURANCE AND READJUSTMENT ASSISTANCE

The Seminar paper raised a number of issues about the role of the employment and training system in promoting the rapid reemployment of claimants and how that role might change as the unemployment duration of claimants lengthens. During the seminar, a number of participants argued that readjustment support for UI claimants should be strengthened. During this discussion, Sweden was cited as an example of a country in which expenditures devoted to retraining and other

readjustment activities relative to expenditures devoted to UI benefit payments are much larger than is the case in the United States. It was also pointed out, however, that this statistic may be misleading, in that income support payments provided during training are included in the training budget in Sweden. Several participants stressed the necessity of such support payments for individuals in training in this country.

Much discussion about the financing of reemployment assistance for claimants took place. Participants generally agreed that the UI trust fund should not be used to finance any major new activities, nor should new or increased payroll taxes. Rather, most participants favored using general revenues. The argument for this approach was based on support for the current statutory limitation on the use of the UI trust fund and on concern that current trust-fund balances were insufficient to finance any new endeavors. The argument against using payroll taxes was based on the fact that they are regressive in nature. However, one participant suggested that while payroll taxes are considered regressive the benefits from a training program would go primarily to less well-off members of the labor force, and the combination of taxes and benefits might in fact be progressive.

A final issue on adjustment assistance discussed briefly at the seminar was the degree to which participation in such activities should be compulsory. The sentiment expressed by several seminar members was that compulsory elements are acceptable only if job assistance effectively helps claimants become reemployed. The experience of Sweden was again cited, in that its job-search assistance component contains some compulsory elements. It was also noted that the universal consensus in Sweden is that the receipt of UI and job assistance will lead to a new job.

BUSINESS CYCLE DURATION POLICY

The Seminar paper argued that a policy of extending benefits during business-cycle downturns would help provide the same degree of insurance protection to workers who are laid-off during recessionary periods that it would to workers laid-off during nonrecessionary periods, and that, for this reason, such extensions seem appropriate. The participants in the seminar also

agreed with this argument, and felt that a policy of extensions during business downturns was reasonable. As in the Seminar paper, much discussion focused on how such extensions should be implemented.

The first implementation issue discussed was whether benefit extensions should be automatic or discretionary. Views were expressed in support of both sides of this issue. Some participants argued that an automatic program was necessary to provide extensions quickly during economic downturns and to eliminate extensions once economic conditions had improved. Such participants argued that Congress could always override or supplement such a program, as it has in the past, if economic conditions warranted doing so. Others argued, however, that Congressional action could adequately provide extensions when called for, and that an automatic program would be unnecessary.

Related to this issue is the question of an appropriate triggering mechanism to initiate extensions. Several participants argued that the current triggering mechanism for the permanent extended benefits program was inadequate, because some states (Louisiana was cited as a current example) have high total unemployment rates and no extended benefits. Some participants suggested that the current trigger thresholds should be lowered. It was also pointed out, however, that this step would not necessarily provide extended benefits where a perceived need existed, since some states have very low insured unemployment rates relative to their total unemployment rate. Other triggering mechanisms, such as the use of exhaustion rates, were also suggested. It was again pointed out that this mechanism might not achieve program objectives, since exhaustion rates themselves vary widely among states independent of their total unemployment rates. This led some participants to suggest that both a national and a state-level triggering mechanism is necessary. Another participant suggested that labor-force attachment requirements, rather than a triggering mechanism, be used to define who should receive extended benefits.

A final triggering issue that was discussed pertained to whether substate triggers should be used to make extended benefits available in high unemployment areas within a state. More than

one participant argued that the states should handle the substate issue themselves, since providing benefits at a substate level was not a federal responsibility. Another participant argued that it should in fact be a federal responsibility, since some states would not provide such benefits when necessary. Others suggested that the question is moot, since reliable data are not currently available to devise a substate system.

The issue of work-search and job-availability requirements for extended-benefits recipients was also discussed. There seemed to be general agreement that the expectations of workers must change continually over time and that individuals who receive extended benefits should not expect to obtain jobs at the same wage rates that they received in their pre-UI jobs. However, the view was also expressed that the suitable-job rule used in the permanent extended benefits program (i.e., the rule that defines a suitable job as one that pays more than the minimum wage or the weekly benefit amount, whichever is larger) did not make sense for many claimants, since their pre-UI wage rates far exceeded the minimum wage.

A final point that was raised in the discussion of extended benefits policy was that such policy must reflect the fact that the U.S. economy is not as isolated as it once was from international economic trends. Consequently, the needs of long-term UI recipients may differ from what they were in the past, because long-term unemployment may be due more to structural than to cyclical factors.

SEMINAR PARTICIPANTS

Labor

Mr. James Ellenberger, AFL-CIO
Dr. Mark Levinson, United Auto Workers
Mr. Oliver Montgomery, United Steel Workers

Business

Dr. John Matzner, UBA, Inc.
Mr. James Davis, Business Roundtable

Public

Dr. Gary Burtless, The Brookings Institution
Dr. Marvin Kusters, American Enterprise Institute
Mr. Joseph Weisenburger, Interstate Conference of Employment Security Agencies

Federal

Mr. Thomas Plewes, Bureau of Labor Statistics
Ms. Mary Ann Wyrsh, Unemployment Insurance Service
Dr. Joseph Hight, Office of the Assistant Secretary for Policy

Presenter

Mr. Walter Corson, Mathematica Policy Research, Inc.

Other Attendees

Mr. Roberts T. Jones, Employment and Training Administration
Ms. Carolyn Golding, Employment and Training Administration
Mr. John Heinberg, Employment and Training Administration
Mr. James Manning, Employment and Training Administration
Dr. Stephen Wandner, Employment and Training Administration
Mr. Michael Miller, Employment and Training Administration
Mr. Robert Rideout, Office of Management and Budget
Ms. Linda Wray, Mathematica Policy Research, Inc.

PART 4

**ALTERNATIVE USES OF UNEMPLOYMENT INSURANCE:
THE UNEMPLOYMENT INSURANCE DEMONSTRATIONS**

A. INTRODUCTION

Since its inception, the Unemployment Insurance (UI) system has generally served well in protecting workers against extreme financial hardship when they lose their jobs. In creating the UI system, the federal government envisioned that this income support system would provide relatively short-term, partial aid to alleviate wage loss until the efforts of the workers--or, alternatively, of their former or prospective employers--could restore workers to employment. Of course, this "natural" process whereby workers are matched to jobs has always depended on the health of the economy, and this was and remains a major concern of the federal government. Particularly when structural dislocation occurs, the matching process may also need facilitating, and this has been the role of Employment Service (ES) and, since the early 1960s, complementary employment and training programs. However, this matching process has been and remains problematic: fifty years after the implementation of the UI and ES systems and 25 years after the initiation of national employment and training programs, questions remain about how well the system promotes the reemployment of unemployed workers.

In this paper, we explore recent efforts at enhancing the reemployment prospects of UI claimants. These efforts have been initiated through a set of UI demonstrations that have been sponsored largely by the federal government. The UI demonstrations are testing a wide range of policies--from those that enhance and build on existing reemployment services to those that represent major changes in the reemployment incentives provided by the UI system.

Our discussion of the demonstrations is presented in six sections. The first section provides background discussion that explores the reasons underlying this recent investigation of alternative UI reemployment policies. The second section then describes potential new reemployment options for the UI system. The third section discusses the information that policymakers consider necessary to develop long-term initiatives, and the role of demonstrations in providing that information. The fourth and fifth sections describe, respectively, the UI demonstrations that are

currently being conducted and the issues that are being examined in them. The final section provides a brief conclusion.

B. BACKGROUND TO THE INVESTIGATION OF ALTERNATIVE USES OF UI

This section explores how the UI system has historically promoted the reemployment of claimants and explains the recent interest in alternative uses of UI that are directed toward enhancing the reemployment prospects of claimants.

1. The Development and Evolution of Unemployment Policy

Born of the Great Depression, the federal-state unemployment insurance system was conceived to provide partial income replacement to workers who had lost their jobs through no fault of their own and who remained attached to the labor force. In this regard, the United States was following the lead of many other countries which had instituted similar income-support programs, sometimes decades earlier. While providing income support is the primary function of the UI system, its design incorporated two other features that are often viewed as both promoting reemployment and protecting the integrity of the system. The first is the "work test," which was to be defined at the state level to ensure that claimants remained available for work and that they in fact accepted suitable work when offered. All states adopted some form of a work test, and most of them operationalized the work test further by prescribing some form of work-search activity that would expose claimants to available job opportunities. The second feature of the system that promotes reemployment and protects the integrity of the system is a set of financial incentives that were established to prompt employers to avoid layoffs and thereby retain workers. This set of incentives was instituted through the requirement that states implement an "experience-rating" method for taxing employers to fund the Unemployment Trust Fund.¹

¹For a review of the evolution of the UI system, see Rosbrow (1986), National Commission on Unemployment Compensation (1980), Haber and Murray (1966), and Altman (1950).

While the UI system was established to provide income support in an environment that encourages reemployment, the role of actively helping workers become reemployed was established through a sibling system, the Employment Service (ES). The ES system has initiated a variety of placement-related services, including such activities as providing labor-market information, matching workers to job vacancies, and screening and testing potential job candidates. More recently, the ES has begun to assist workers in self-directed job search through such efforts as workshops on job-search techniques.¹

Both systems have continued to evolve since their inception, although both have remained dedicated to their respective missions. State and local UI agency staff appear to view their role almost exclusively in terms of providing income support to eligible claimants, and collecting the taxes that finance this income support. Moreover, a series of recent studies (Corson, Hershey, and Kerachsky, 1985 and 1986; Corson, Kerachsky, and Kisker, 1988; and Richardson et al., 1988) have shown that UI agency staff do not typically view their role in terms of actively helping unemployed workers become reemployed. This appears to be the case despite the development of some program features that appear to be designed to promote just that role.² These features have not typically been implemented as envisioned, and, where they have, they seem to have rapidly fallen victim to workload pressures as agencies have strived to maintain their performance standards for income support.

Instead, UI agencies rely primarily on ES to provide reemployment assistance. While ES does not face the same conflict of mission, other institutional problems have often limited the usefulness of ES for broad segments of the UI population. One common problem is the type of

¹For a review of the evolution of the ES system, see National Commission on Unemployment Compensation (1980) and Haber and Murray (1966).

²One such program feature is the federally mandated Eligibility Review Program, which was designed as a mechanism whereby specially trained UI staff interview claimants periodically to address their specific employment problems. Other features are embodied in the trend among states to permit agency staff to "customize" work-search requirements to the employment environment (e.g., skills, occupations, and labor-market health) facing each claimant.

linkage between UI and ES. While many state UI agencies require that claimants register with ES, this sort of mandatory registration does not by itself lead to placement services. UI and ES information-sharing is generally limited, so that ES staff are often unable to tell which claimants need services the most (even to the extent that they are unaware of who is still drawing UI benefits at various points in the claim spells), and UI staff do not typically know which claimants receive ES services. A second problem is that, with limited resources and a mandate to serve certain priority groups, ES operations are often not oriented toward the needs of large segments of UI claimants, including dislocated and other experienced workers. Finally, the coordination between ES and other employment and training programs (currently provided primarily through the Jobs Training Partnership Act (JTPA)) seems especially limited, so that many claimants who might benefit from the broader array of services (e.g., job training) are not referred to them. The employment and training services themselves pose other institutional problems, since, in one form or another over the years, targeting efforts have been problematic, as have the organization and the level of services.¹

2. The Current Policy Environment

As the previous section suggests, many of the concerns about how the UI system and, more generally, the employment and training system promote the reemployment of claimants have existed for most of the history of the system. However, there appears to be a new policy environment that encourages expanded efforts to promote the reemployment of UI claimants. More generally, substantial concern has been expressed about the efficiency with which our society returns unemployed workers to work. In broad terms, the policy environment seems to stem from concern about reemployment efforts as they pertain to (1) dislocated workers, (2) the long-term unemployed in general, and (3) the financial state of the UI system.

¹For further discussion of some of these institutional problems, see Richardson et al. (1988); Corson, Kerachsky, and Kisker (1988); and Congressional Budget Office (1982).

The dislocated worker problem is not a new one; historically, it had been a problem that largely disappeared from view during major upswings in the economy. However, beginning with the trade problems in the 1970s and continuing with the structural changes that have occurred in prominent industries in this decade, the problem appears to be pervasive and persistent.¹ Certainly, it has not been remedied by the forces of economic expansion that have brought the unemployment rate to its current relatively low level. While UI provides short-term support for workers who face dislocation (and, with trade adjustment assistance, somewhat longer-term support for dislocations caused by foreign trade), these benefits are likely to be an inadequate response to the types of reemployment problems facing these workers.

In terms of the long-term unemployed, an increase in the proportion of those with 27 or more weeks of unemployment and a concomitant increase in UI benefit exhaustion rates in the early 1980s have emphasized the difficulty of addressing the reemployment needs of UI claimants. This problem is particularly acute for UI exhaustees, since such workers lose not only the financial support provided by UI but also their primary link to the reemployment assistance network, the very network which could facilitate their return to employment. Clearly, substantial overlap exists between the dislocated worker problem and long-term unemployment, since many dislocated workers are likely to become long-term unemployed and exhaust their UI benefits.

Finally, the high rates of unemployment in the early part of this decade, combined with the lengthening spells of unemployment, also imposed an unusually severe drain on state UI trust funds.² Many states reacted to this situation and to increased federal pressure for the repayment

¹Because there is no standard definition of a dislocated worker, it is difficult to measure the number of such workers very precisely. However, a widely quoted statistic of the Bureau of Labor Statistics estimates that 5.1 million workers with at least three years of tenure had become permanently separated from their employer during the 1981-85 period.

²State financing problems began during the 1975-77 recessionary period, prompting loans from the federal UI trust fund to the states. These loans initially peaked at \$5.4 billion in 1978. Indebtedness was still substantial at the end of the decade, with 11 states owing \$3.8 billion. The back-to-back recessions of the early 1980s led to additional borrowing at a greatly increased scale. By the end of the first quarter of 1983, 28 states owed \$13.7 billion to the federal government.

of loans by tightening their eligibility requirements, reducing the duration of benefits, and taking other steps to reduce UI expenditures.¹

Because of these concerns, some policy officials began to consider whether new or expanded reemployment programs, some involving alternative uses of the UI system and/or UI funds, might mitigate the employment problems of at least some categories of unemployed workers, while actually helping to preserve the solvency of the UI system. Related to these new approaches was the recognition that unemployed workers' contact with the UI system provides the most comprehensive way to identify dislocated workers and others who are likely to face serious reemployment problems, and possibly the best source of referrals to reemployment services. In other words, application for UI benefits is potentially a major point of entry into the broader employment and training service system.

Complementing the policy reorientation that is occurring from the UI perspective is the redirection of some reemployment services toward dislocated and potentially long-term unemployed workers. The change in our nation's major employment and training initiative in 1982 from the Comprehensive Employment and Training Act (CETA) to the Job Training Partnership Act (JTPA) added specific programmatic options for the needs of dislocated workers. The recently enacted Economic Dislocation and Worker Adjustment Assistance Act (EDWAAA) will further promote programs for this group. The ES has also been making gradual progress toward addressing the needs of experienced workers in general, after a period of focusing on the poor and disadvantaged (National Commission on Unemployment Compensation, 1980; and Congressional Budget Office, 1982).

Thus, the strong evidence of employment problems for dislocated and other experienced workers that has persisted well into a strong economic expansion suggests that there are real opportunities to improve the efficiency with which our society returns unemployed workers to work. However, the current array of remedial programs or the manner in which these programs are

¹See Corson and Nicholson (1988) for an examination of these program changes. See Vroman (1986) for a discussion of state funding problems.

organized and targeted seem to address the problems only partially at best. It is not surprising, then, that policy officials and others are reexamining what options are being offered to these unemployed workers and how the options are being provided, and are developing interesting new ideas for meeting the employment needs of these workers.

C. NEW PROGRAM OPTIONS FOR UI

The initiation of new ideas or program options tends to have followed one of two patterns. Some are extensions of the recent development of employment security and employment and training programs, and represent a "next logical step." Others represent new directions, at least for the United States. This section describes these potential new program options in general terms. It is complemented by the discussion in the following section, which describes what we would want to learn about these programs before they could be implemented on a broader, more permanent basis, as well as the demonstration methodology that represents the best method for acquiring that information.

1. Extensions of Recent Program Developments

Extensions of recent program developments include the enrichment of existing programs and services, targeting and early intervention, and enhanced linkages among programs and services for UI claimants. An additional extension, but one that is quite different from these three, is an increase in the degree of experience rating in the state UI systems. Labelling these as "new options" initiatives is not meant to suggest that states have not attempted to implement each of them. In fact, there are notable examples of exemplary efforts. However, these examples are all too rare, and most workers are not covered by them.¹

¹This point is illustrated by Richardson et al. (1988).

a. Program Enrichment

The most commonly cited area for program enrichment is job-search assistance. It is believed that when workers become unemployed after years of continuous employment, some of their greatest needs may involve job-search assistance: they may be desirable employees, but they might not know how to pursue finding a suitable job, or they may be discouraged by their job loss and need support and encouragement to search for a new job. In addition, some workers may need to be educated about what the "good" jobs are now that their old jobs are gone, what the options are for retraining, and what employment prospects exist elsewhere. Models of enriched job-search assistance programs have been implemented by both ES and JTPA agencies at the state and local levels. The various elements of these initiatives have encompassed in-depth workshops on job-search skills, individualized counseling and assessment, and job clubs.¹ However, despite evidence that supports the benefits of these program elements, there have been no sustained efforts to provide these services on a large scale to UI claimants or more narrowly to the dislocated worker/potentially long-term unemployed population.

Other areas for program enrichment are training and relocation allowances. The former is appropriate for unemployed workers whose skills are no longer in demand, while the latter is appropriate for unemployed workers whose skills are no longer in demand locally, but are in demand elsewhere. One approach to providing training and relocation allowances was tested as part of the New Jersey demonstration, as will be described in a later section.

b. Targeting and Early Intervention

A related area of concern has been the appropriate targeting of services to clients who need them the most and the provision of these services as early as possible in each individual's spell of unemployment. As was discussed earlier, the UI system provides the most comprehensive

¹Enhanced placement activities, such as job development and extensive screening for referrals, have also increasingly been emphasized. However, such activities have not been examined extensively to date in either program or demonstration settings.

vehicle for identifying the types of unemployed workers who could benefit from additional services. However, the methods used by UI to refer workers to ES are often haphazard, and referrals are generally not made to any other agencies. Some states follow the practice of requiring that all claimants who do not expect a speedy recall register with ES. While this process would seem to be efficient, it tends to overtax the abilities of ES offices to work with registrants. In most such states, no additional mechanism is available to ES to determine which registrants remain unemployed for a long time, and who could thus benefit from special reemployment services. Other states follow the practice of referring to ES only those claimants who remain unemployed for a certain interval. This may be a more efficient targeting mechanism, but it is still crude. Both referral processes provide more unemployed workers than the service system can absorb or than are appropriate for services. Thus, further screening and monitoring are necessary, which, however, are generally undertaken only on an ad hoc basis and as resources permit. Consequently, workers who need special reemployment services may not receive them, or they may receive only limited services that are provided to all workers (e.g., brief job-search workshops) or only general information about other programs (e.g., training under JTPA, Title III).

While it is important in general to improve the targeting of services, it is particularly important to accomplish this targeting as early as possible in the spell of unemployment. Early intervention can be expected to minimize the economic costs to unemployed workers, the UI system, and to society in general. In addition, if an individual requires extensive services (e.g., training), early intervention will mean that individual will have more weeks of UI benefits remaining for support during the service period. However, early intervention may prove cost-effective only with appropriate targeting, since it would be expensive and unproductive to provide services to unemployed workers who will become reemployed reasonably quickly without special assistance.

It is important to add at this point that no research has been able to show a way to screen large groups of UI claimants effectively in order to predict who will be unemployed for a long period of time and who may thus need additional services. Thus, without further research,

targeting and early intervention are still undertaken on a case-by-case basis. This is among the issues that we will return to later.

c. Program Linkages

As the next logical step, targeting can be effective only if programs and services are linked. The discussion to this point has focused on the programmatic distance between UI and ES, yet these agencies are usually combined in the organizational structures of states, have complementary missions, and are often physically co-located. The gulf is typically much wider between either of these two agencies and JTPA, state and local apprenticeship and training agencies, other social support programs, and economic development programs. The recent study by Richardson et al. (1988) documents the various reasons for the limited coordination. But, on a more positive note, it also describes some fledgling state efforts, most notably those in Pennsylvania, Indiana, and Washington, that coordinate services through a "one-stop-shopping" concept. This process can involve the cross-training, commingling, and even co-location of staff.

d. Experience Rating

An entirely different direction in the extension of recent program developments pertains to the financing of the UI system. As was described earlier, the experience-rating system of taxing employers to fund UI benefit payments was designed in part to discourage layoffs, at least those that are cyclical or seasonal in nature. In reality, the range of taxes in most states is fairly narrow, and many employers face maximum tax rates, and thus have little incentive to avoid marginal layoffs.¹ Conceptually, one way to reduce unemployment is to increase the degree of experience rating in the state systems, which can be accomplished most easily by raising the maximum tax rates.

¹A recent study by the Congressional Budget Office (1985) estimated that an average of 26 percent of total unemployment compensation in 1981 was charged to firms that were at state maximum UI tax rates.

2. Potential New Policy Directions

Several policy options which have been proposed as alternative uses of the UI system would strike out in new directions, particularly if UI funds were to be used to finance them. Two options provide incentives to employers--short-time compensation and wage vouchers. Four additional ones provide incentives or assistance to workers--lump-sum payments, reemployment bonuses, wage supplements, and self-employment assistance.

a. Short-Time Compensation

Short-time compensation (STC) represents an interesting introduction to the new policy directions because it is a new use in this country for UI funds, and is the only one discussed here that has actually been implemented by states. STC presents an alternative to laying off selected workers, whereby a larger group of workers simply work shorter work weeks and are compensated for their lost work time with a proportional share of their UI benefits. STC may thus neutralize some of the pro-layoff bias inherent in the regular UI system (see Feldstein, 1976) by allowing UI compensation to be paid under a much broader set of conditions than those that apply to total layoffs.¹ The hope was that employers would use STC to avoid layoffs during cyclical or seasonal downturns rather than to create additional "unemployment." However, its actual use has fallen far short of its promise. Because it has been implemented without the benefit of rigorous testing, policy officials are left to consider (1) whether the concept itself or its implementation is problematic, (2) whether employers (who must initiate the use of the program) are simply choosing not to implement an untested approach, or (3) whether the program has actually reached its potential, but one that is less than was anticipated.

STC has been used widely in many European countries for decades. While great claims from the experiences abroad have been made about its job-saving ability, these claims have been based

¹All states currently do have some form of partial benefit schedule, but these typically apply to workers who work only a small amount of time each week. Thus, meaningful partial employment during business downturns is not encouraged under the regular UI system.

on little rigorous research, and employ questionable assumptions to simulate job savings. The Department of Labor planned a demonstration of STC in the late 1970s, but the implementation of STC by states proceeded ahead of these plans, and the demonstration was not implemented. Currently, 13 states have incorporated STC into their UI systems, but the actual use of STC is very limited and is confined largely to fewer than half of those states (Johnson, 1987). Furthermore, an analysis of three of these state programs (Kerachsky et al., 1986) has reinforced the concern that STC may significantly increase hours of "unemployment" even while it reduces the number of workers who lose their jobs entirely, and that it may be expensive to employers. However, because this analysis was undertaken without the benefit of a demonstration and the experimental design that would be permitted in a demonstration, the results must be considered tentative.

b. Wage Vouchers

Another new policy option that would theoretically provide incentives to employers is a wage voucher program, financed either through a portion of claimants' UI benefit entitlement or through general revenues. Such a program should reduce unemployment by reducing the transition costs to employers when they hire new workers. The domestic experience with this concept has been acquired primarily through the Targeted Jobs Tax Credit (TJTC) program; however, the program has been confined to special target groups. Furthermore, this program has not been as popular as had originally been anticipated for those target groups.¹

A more relevant test of the concept was conducted recently in Illinois as the Employer Bonus Experiment (Woodbury and Spiegelman, 1987). The program offered employers \$500 for hiring a UI claimant within the first eleven weeks after filing a UI claim and for retaining that worker for at least four months. This demonstration was based on an experimental design, whereby

¹The wage voucher concept was also incorporated in one site of the aborted Employment Opportunities Pilot Projects (EOPP) demonstration, which focused only on a disadvantaged population. The results of the EOPP test suggest that the vouchers actually hurt the employment chances of a disadvantaged person, perhaps due to a labelling phenomenon. For a discussion of this test, see Burtless (1985).

claimants were assigned randomly to the voucher-eligible group or to a no-special-treatment group. The results of the study show that only 65 percent of eligible claimants agreed to accept the vouchers for securing a job, and bonuses were actually paid to employers for less than 3 percent of the originally selected claimants. As might be expected, the vouchers did not generate an overall reduction in the weeks of insured unemployment or in UI benefits paid, except for one subgroup (white females).

Since the demonstration of this concept was conducted only in one state during one time period, more research on this policy option is required before a conclusion can be reached that it is not a promising reemployment option. The research would have to address the following key issues: the level of wage voucher use and its effects on employment (and unemployment) and job quality, windfall gains, employer abuse, displacement (of other workers), and the mechanism used to administer the voucher program (particularly since the level of use in the Illinois demonstration seems implausibly low).

c. Lump-Sum Payments

A concern with the current UI system is that it tends to discourage unemployed workers from seeking reemployment as quickly and as diligently as they might otherwise.¹ Thus, spells of unemployment and costs to taxpayers and society may be greater than are necessary to return these workers to suitable jobs. One new policy direction that has been suggested to remedy this situation is to convert UI benefits to a single lump-sum payment.² Thus, unemployed workers would have their cash benefits, and would have no further financial incentive to remain unemployed any longer than is necessary to find a suitable job. A variant of this option would introduce a reduced level of weekly UI benefits if a worker does not find a job in a specified time period. This option has not gained a great deal of support to date. Concerns with this option include how

¹ See Hamermesh (1977) and Gustman (1980) for summaries of the research findings on the magnitude of the work disincentive effects of the UI system.

²For a discussion of this policy option, see Congressional Budget Office (1981).

a fair lump-sum grant would be determined and how the well-being of the unemployed workers and their families would be provided for if they exhausted their single payments prematurely.

d. Reemployment Bonus

Another potential policy option is a reemployment bonus--that is, a cash bonus paid directly to workers who obtain a new job under some specified conditions. A program that would provide a bonus to workers for becoming reemployed more quickly than would be the case under the current system would restructure the monetary incentives facing workers in favor of quicker reemployment. Such a bonus could be financed through a portion of the claimant's UI entitlement as a payment option, which would focus directly on altering the incentives of workers within the UI program, or it could be financed from general revenues, which could be regarded as a transfer of taxpayer and societal gains to the reemployed workers. As with the voucher option, this scheme does raise questions about the windfall gains to workers who would become reemployed quickly even in the absence of the bonuses, as well as about program abuse and displacement. Therefore, research on the program must consider each of these issues in conjunction with the basic issue of how such a program affects employment.

As we discuss later in Section E, some demonstration evidence has already been generated on reemployment bonuses in Illinois in conjunction with the wage voucher demonstration described earlier. Since this demonstration examined only the most basic unemployment receipt and earnings outcomes associated with a single bonus level, more extensive demonstrations have been initiated by the U.S. Department of Labor. These demonstrations, one of which has been completed in New Jersey and two of which are underway in Pennsylvania and Washington, are testing a wider array of bonus schemes and are examining a broader set of outcomes. Descriptions of these demonstrations are also presented in Section E.

e. Wage Supplements

While the reemployment bonus policy option attempts to provide one method for speeding a worker's return to work where the problem is thought to pertain primarily to disincentives in the current UI system, another option--wage supplements--has been proposed to deal with the fact that some unemployed experienced workers are reluctant to take new jobs because the available new jobs do not pay as well as the old jobs. This problem is thought to be particularly acute for the structural changes that have been taking place in key manufacturing sectors in recent years, where many well-paying jobs were eliminated. Under specified conditions, this option would pay workers a portion of the difference between the weekly wage of their former jobs and the (lower) weekly wage of the new jobs for some adjustment period. Like the previous two options, the wage supplements could be paid out of either UI entitlements or general revenues. In a sense, this is a form of a reemployment bonus, but one that focuses directly on the speed with which workers adjust to the realities of their job options. As long as the wage supplements are made only over a reasonably modest duration, such a program would provide negligible incentives for workers to accept unsuitable jobs, while encouraging them to adjust to the realities of a changing labor market. Perhaps because this option focuses on a negative aspect of job changes, it is not mentioned very prominently in policy debates, and it seems to have had little operational history to date.

f. Self-Employment Allowances and Services

The final new policy option discussed herein recognizes that some UI claimants may find their best opportunity for long-term economic self-sufficiency through an alternative to wage employment--specifically, through self-employment. The current policy toward unemployed workers is oriented toward traditional wage earners who are seeking a return to the type of employment situation from which they were released. However, a small number of unemployed workers appear to use the break from their old employment relationships as an opportunity to start their own

businesses.¹ The provision of self-employment allowances and services may thus be a useful reemployment tool, even though it is likely to be suitable only for a small portion of claimants.

The UI system has not been responsive to the needs of workers who wish to start their own businesses. For example, UI legislation does not contain provisions for waiving the work-test-related requirements if a worker is not interested in pursuing a wage job and is making a good-faith effort to pursue an alternative type of employment (unless that effort involves an approved training course). Further, the regulations provide no mechanism for changing the method or timing of paying UI benefits to serve as self-employment allowances, in order to help support a self-employment venture. Thus, the UI system can act as an impediment to a claimant's pursuit of self-employment, and it certainly does not serve to facilitate that pursuit.

Generally, neither UI nor ES have linkages with the types of service organizations that could provide technical assistance to inexperienced individuals who wish to start new businesses. Such assistance could represent the difference between success and failure, and may be required in diverse areas, possibly including the development of business plans (including marketing, operational, and financial plans), technical skills, managerial skills, business counseling, and ongoing technical assistance.

Although experience elsewhere with self-employment assistance to unemployed workers has been limited, as many as a dozen foreign countries have begun such programs within the last few years. The programs are quite varied: some are tied to the nations' UI systems, while others are not; some pay in periodic installments (usually for 6 to 12 months), but a few make lump-sum

¹The number of workers who do so is not known, but tabulations of unemployed workers from the Bureau of Labor Statistics (Flaim and Sehgal, 1985; and Horvath, 1987) indicate that about 7.7 percent of displaced workers who become reemployed are categorized as "self-employed or other," as opposed to wage and salary workers. Since not all workers in these studies became reemployed, the rate of self-employment for the population of displaced workers is lower, about 4.5 percent. The self-employment rate for UI claimants is likely to be lower than this rate for displaced workers, since many UI claimants are job-attached, and are recalled by their pre-UI employers. This hypothesis is supported by a recent survey of UI claimants in ten states, which found that fewer than 1 percent of claimants became self-employed. (For a description of the survey, see Corson, Kerachsky, and Kisker, 1988.)

payments; some require that claimants submit a business plan or proof of capital resources as evidence about the seriousness of the effort, while others do not; and some provide technical assistance, while others do not.

Although none of these programs has been subjected to careful evaluation, some impressions have been recorded,¹ particularly about the programs in France and the United Kingdom, which have operated the longest.² First, the use of the programs is noteworthy: in 1986, nearly 2 percent of the unemployed in the UK participated in the program, while just over 3 percent of the unemployed in France participated. However, research suggests some caution in interpreting these figures. First, it is estimated that about half of the businesses would have started nearly as quickly in the absence of the program (a level of start-up by unemployed workers which is consistent with the experience in the United States). Second, many of the businesses, like many small ventures, failed. In fact, nearly 25 percent of the businesses covered by CC and 50 percent covered by EAS failed within three years. Third, the businesses have tended to be small, creating little extra employment. Fourth, displacement with respect to other businesses may be high, although there are no reliable estimates of the extent of displacement. Finally, at least a small proportion of the businesses (but perhaps 5 to 10 percent of those covered by EAS) did not seem to be serious business ventures. These problems suggest that a self-employment assistance program must pay careful attention to initial qualifications, support services, and monitoring.

¹These impressions are derived from Henderson, Williams, and Derrett (1987), and Bendick and Egan (1986).

²The Chomeurs Createurs (CC) program has operated in France since 1979, and the Enterprise Allowance Scheme (EAS) has operated in the United Kingdom since 1982. The CC program offers a lump-sum payment (currently equivalent to about 10 months of UI payments) to applicants with an approved business plan, along with six months of relief from payment of various social insurance taxes. A short training course in business practices is also offered. EAS provides a weekly stipend equivalent to \$65 for up to one year for any unemployed person who has the equivalent of \$1,650 to invest in his or her own venture. EAS is available only to unemployed workers who receive UI benefits. The CC program is not tied to UI, so that it is available to a broader population. Benefits in neither program are paid for through UI funds.

D. INFORMATION NEEDS ABOUT NEW PROGRAM OPTIONS

The previous section lays out a smorgasbord of program options, but it also suggests that actual programmatic experience is limited. Furthermore, when there has been some experience, it has usually taken a form that does not provide policymakers with the type of information necessary to justify and sustain a new program initiative. This section suggests the type of information that is necessary for this purpose, and it describes the value of demonstrations in providing this information.

A social problem or a perceived need generates a logical series of operational questions that help guide policy development: "What should be done?" "For whom should it be done?" And "how should it be done?" The answer to the first question may be unambiguous, but this is often not the case, particularly if the problem is persistent and long-lasting. Furthermore, the answer often requires not a single, component response, but instead a set of programmatic or policy changes that, together, may provide the necessary answer. For the UI-related problems described earlier, the answer may focus on the level of benefits, the level of services, the duration of each, the timing of the intervention, the linkages between programs, participation requirements, and any other features of the program/policy environment.

It seems that answers to the "for whom" question should be evident at the time that the problem or need is identified. For example, there must be at least some idea about whether a problem pertains to all unemployed workers, to all who are covered by UI, to the long-term unemployed, to dislocated workers, or to other special subgroups. However, the question often requires a more refined answer than can initially be forthcoming. The terms used to categorize groups of unemployed workers (e.g., long-term unemployed, dislocated workers, and even UI-covered workers) are less precise than is required for operational use. In addition, specific options may be inappropriate for certain segments of an otherwise well-defined target group.

"How should it be done?" is really an operational question, answers to which determine the program procedures and rules. One part of the question focuses on the entity that should conduct

the new program option, and whether it can be implemented through existing institutions or whether it requires a new organizational structure. Other parts of the question focus on the timing of the services or intervention, the linkages among services and agencies, the procedures to be instituted to identify and process participants, and the process whereby the activities of participants and agencies are monitored. A final part of the question focuses on the entities responsible for funding the option and its specific components.

Once a new policy option is implemented, other questions emerge: "Does the new option do what it was intended to do?" And, if so, "is it cost-effective?" Obtaining reliable answers to these questions can be very difficult, particularly if the new program or policy is simply implemented without considering how these questions should and can be answered. Such implementation often leads to research methods that attempt to compare the experiences of program participants with the experiences of a sample that is thought to be similar, but is observed at a different time or different place, so that members of this "comparison" sample do not have access to the new program. However, the quality of comparisons of the behavior of the two groups can be compromised to an unknown degree by differences in the local economies, the service environments, the people, and anything else that can affect the outcomes of interest and that cannot be observed and measured fully. This problem is particularly acute for UI and related programs, since so much in the economy that affects unemployment varies from time-to-time and place-to-place, and since programs, particularly UI programs, can be implemented so differently from one locality to another, and certainly from one state to another. Thus, this methodology can produce false positive or negative results due to individual and area differences.

A much more powerful method for determining the effectiveness of a program or policy is a demonstration that incorporates an experimental design. Such a demonstration allows the new option to be implemented as intended: those benefits and services for potential participants that are to remain unaltered can be preserved, and only those features that are new can be changed or added. There are often alternative versions of the new program to be examined (e.g., different

benefit levels of a financial-incentive plan), and a demonstration generally allows these alternatives to be implemented side-by-side in the same environment. Random assignment can then be used to assign eligible workers to the "treatment" group, whereby they are eligible to participate in the new program option, or, alternatively, to the "control" group, whereby they receive only those program features, but all of those program features, that characterize the status quo. (If alternative versions of the new program are implemented, eligible workers could also be assigned randomly to each version, generating multiple treatment groups, as well as to the control group.) This assignment procedure implies that the characteristics of the two groups are identical, except for their participation in the new program. Thus, any differences in the outcomes between the two groups can be attributed solely to the new program with a known degree of statistical precision. This same logic extends to assigning eligible workers randomly to alternative versions of the new program, in which case comparisons could be made between program variants, as well as between each variant and the control group.

Thus, a demonstration that incorporates random assignment is a very powerful tool for social policy research. Because of the costs and uncertainties of introducing new programs and policies, this method is currently being applied widely to evaluate social policies.

Given the important advantages of demonstrations with experimental designs, it is logical and appropriate that the Department of Labor is using this methodology to evaluate the effectiveness of new UI-related policy options. The next section describes these demonstrations and what can be learned from them.

E. DESCRIPTIONS OF THE UI DEMONSTRATIONS

In recent years, a number of demonstrations have been implemented under both federal and state sponsorship to examine alternative ways to facilitate unemployed workers' return to work. These demonstrations have been testing a wide range of policies, from relatively minor changes in the manner in which reemployment services are provided to claimants to more major changes in the incentive structure of the UI program.

A great deal of the initiative for examining alternative uses of UI began with individual states, which bear the burden of high unemployment most directly. For example, Nevada has examined the efficacy of job-search workshops for UI claimants as a means to hasten reemployment. Washington State has been operating a pilot project to provide intensive job-search-related employment services to UI claimants. Delaware operated a pilot project which used the UI system to identify claimants who could benefit from job-search assistance and, if necessary, retraining. New Jersey operated a demonstration of enhanced work-search requirements for UI claimants in demand occupations. Pennsylvania, Indiana, and Washington have implemented "one-stop-shopping" pilot programs for UI, ES, and JTPA services. California introduced a short-time compensation program to this country initially as a demonstration. However, while these and the many more state-operated demonstrations have often represented an important new way to address a problem, most have been conducted on a small scale and with inadequate attention to the research, so that they have not generated information reliable enough to support major policy changes.

More recently, in response to the concerns discussed earlier, the Department of Labor has taken the initiative for examining new policy options through demonstrations. With a national focus and the ability to call upon more technical skills and resources than are usually available to state research efforts, the federal demonstrations will provide more extensive and technically reliable information on the issues to be addressed.

In the remainder of this section we describe these demonstrations. The discussion is presented in three parts to describe the major types of demonstrations that are being conducted: (1) a multi-focus demonstration in New Jersey, (2) three reemployment bonus demonstrations, and (3) a set of demonstrations that promote self-employment.

1. The Multi-Focus Demonstration

In September 1985, the U.S. Department of Labor initiated a demonstration in New Jersey to examine whether the UI system can be used to identify displaced workers early in their

unemployment spells and to test alternative early intervention strategies to accelerate their return to work.¹ Three packages of services or treatments were tested: (1) job-search assistance, (2) job-search assistance with training or relocation assistance, and (3) job-search assistance combined with a reemployment bonus. UI claimants who met the screening criteria were assigned randomly to one of these three treatments or to a control group, which had access to all customary services but not to demonstration services. Applying the terminology developed earlier, this demonstration combined targeting and early intervention, program enrichment, program linkages, and a reemployment bonus. It was designed to examine some of these options separately, and some in combination.

The job-search assistance component of each treatment was administered by ES, and consisted of an initial set of intensive services (including orientation, testing, a job-search workshop, and assessment and counseling) and on-going monitoring of search activity and assistance throughout the UI claim period. The participation of claimants in these job-search activities was mandatory in the sense that they could be denied UI benefits if they failed to report for services. Training and the reemployment bonus were offered to UI claimants in the second and third treatment groups, respectively, after they completed the initial job-search assistance activities. Training was offered through local JTPA operators, in conjunction with the Title III efforts. The state made more active efforts to encourage claimants to use training services than had been the case previously in the state, and a greater effort was made to meet the training needs of interested claimants. As an alternative to training, cash assistance for relocation was offered to those assigned to the second treatment group. The reemployment bonus program was operated by UI, although, at least for the demonstration, the funds that were applied were not UI funds.

A key component of the demonstration was that eligible claimants were identified and services were provided through program linkages among the UI, ES, and JTPA systems. This coordination was fostered at the central office level through a working group of staff from each

¹For a description of the demonstration design, see Corson et al. (1986).

agency who administered the program. At the local office level, UI and ES linkages were promoted through a computerized tracking system that helped staff control and monitor the flow of claimants from UI to ES. ES and JTPA linkages were fostered through the co-location of the service delivery staff.

The New Jersey demonstration operated from July 1986 to September 1987 in ten local offices throughout the state. A total of 8,675 claimants were offered services, and another 2,385 were monitored as part of the control group. Preliminary evaluation results indicate that the project was successful at reducing the duration of UI receipt and at accelerating reemployment among claimants. The reductions in UI receipt were approximately \$100 per claimant offered services over all three treatments, with the largest reduction experienced for the reemployment bonus treatment. The final evaluation results will be available in early 1989.

2. Reemployment Bonus Demonstrations

In addition to the New Jersey demonstration, three demonstrations have tested or are currently testing the efficacy of reemployment bonuses to accelerate claimants' return to full-time employment. The first of these demonstrations was conducted in Illinois under the sponsorship of the state and the W.E. Upjohn Institute for Employment Research. However, it is discussed in conjunction with the federal initiatives because of the scale of the demonstration and its relevance to the interest of the federal government in this policy option. This demonstration, conducted from 1984 to 1985, assigned a group of UI claimants randomly to a program that offered them a \$500 bonus if they became reemployed within 11 weeks after filing an initial UI claim and remained employed for four months (Woodbury and Spiegelman, 1987). The bonus was offered to 4,186 claimants, of whom 14 percent received the bonus. When the UI experiences of these claimants were compared with those of claimants in the randomly selected control group, it was found that the bonus offer led to a reduction in UI collections from the regular state program of \$158 per claimant over the benefit year. A comparison of these program benefits with its costs showed that the program was cost-effective in reducing unemployment. However, the research for this

demonstration left many interesting questions unanswered, including why many additional claimants who appeared to be eligible for bonuses did not claim them and how responsive claimants would be to changes in the bonus parameters.

The Department of Labor is currently sponsoring two more comprehensive reemployment bonus demonstrations--one in Washington state and one in Pennsylvania.¹ Both of these demonstrations are testing a number of different reemployment bonus schemes in an attempt to determine the combination of bonus components (the size of the bonus and/or the length of the bonus offer) that is the most effective in speeding claimants' return to work. A special feature being implemented under the Pennsylvania demonstration is the offer of enriched job-search assistance services (i.e., a comprehensive job-search workshop and individualized assessment) to supplement the bonus offer for claimants in some treatment groups. This feature is being tested in response to the concern that, while a reemployment bonus offer may provide an incentive for quicker and more intensive work search, some claimants may not have the skills necessary to search for jobs effectively. These workers should benefit from the enriched job-search assistance, and it may prove particularly attractive when offered in conjunction with a bonus. The Pennsylvania demonstration will also attempt to measure the degree of "displacement" to determine whether program participants obtain jobs at the expense of other unemployed workers.

The Washington demonstration began operations in March 1988, and is being tested in 21 local offices. It is expected to offer reemployment bonuses to 12,000 UI claimants by the time that intake ends early next year. The Pennsylvania demonstration began operations in October 1988 in 12 local offices. It is expected to offer bonuses to about 10,000 claimants by the time that intake ends in September 1989.

¹For a description of the Washington State demonstration design, see Spiegelman and O'Leary (1987). For a description of the Pennsylvania demonstration design, see Dunstan and Kerachsky (1988).

3. Self-Employment Demonstrations

Two recent demonstrations have been initiated by the Department of Labor to test the ability of the employment security and economic development (ED) systems to work together in helping UI recipients start their own new businesses. Although it is expected that this self-employment assistance will be appropriate only for a small minority of recipients, such assistance may still be a useful addition to the set of reemployment services provided to UI claimants. Self-employment assistance could involve the provision of financial assistance (in various forms) and entrepreneurial training or other business-support services.

The first demonstration of this concept, the Washington Self-Employment Demonstration Project, is currently being designed. It is expected that this demonstration will provide selected claimants with both self-employment allowances and business-support services. The form of the self-employment allowances is expected to be lump-sum payments that average \$4,000 to \$5,000 per claimant. The business-support services are expected to be similar to those currently provided in the state through JTPA and ED organizations, such as the Washington State Business Assistance Center and Small Business Development Centers.

The second demonstration, the Three-State Self-Employment Demonstration Project, was authorized by the Omnibus Budget and Reconciliation Act of 1987. This Act authorizes the Secretary of Labor to enter into agreements with three states to enroll participants in a self-employment demonstration over a period of up to three years and to provide reports to Congress on the benefits and costs of the demonstration. The states of Oregon, Minnesota, and Massachusetts have been selected to participate in this demonstration.

The self-employment assistance provided to claimants under this demonstration will differ from the assistance to be provided in the Washington State demonstration, since the law authorizing this demonstration prohibits lump-sum payments. Instead, any financial assistance must be in the form of weekly or biweekly payments from the UI trust fund. Thus, the primary financial assistance that will be available in the Three-State Self-Employment Demonstration will be

due to the elimination of rules that prohibit the payment of UI benefits to claimants who are no longer actively seeking work (in this case, to start new businesses).

F. KNOWLEDGE FROM THE DEMONSTRATIONS

The UI demonstrations described in the preceding section are designed to provide policymakers with information to address three primary questions:

1. What reemployment policies or strategies promote more rapid reemployment and reduce the period of UI collection among claimants?
2. What reemployment policies are most appropriate for different types of claimants, and how can those claimants be effectively targeted?
3. How should alternative reemployment policies be implemented to enhance their success?

This section discusses these questions in more detail, as well as the information that will be provided by the demonstrations. It begins by describing the issues and outcomes that are being examined in the demonstrations. It then discusses how the success or failure of alternative reemployment policies should be judged. This discussion focuses on the major demonstrations being funded by the Department of Labor, although some of the state initiatives discussed earlier will also shed light on these issues.

1. The Issues and Outcomes That Are Providing the Focus of the Investigations

The issues and outcomes being examined in the demonstrations can be grouped under the three primary research questions listed earlier--the appropriate choice of reemployment strategies, the appropriate targeting policy, and the implementation strategy.

a. The Choice of Reemployment Strategies

The UI demonstrations are testing a wide range of potential reemployment strategies--from those that enhance existing services to those that represent entirely new policy initiatives. For each potential policy, a large number of issues and outcomes are also being examined, since the

issues that are considered to be important depend on the perspective used to evaluate the policy. These perspectives include those of the UI agency (or, more broadly, the government), the participants or unemployed workers, employers, and society as a whole.

From the standpoint of the UI agency, the most important outcomes concern the degree to which alternative reemployment strategies reduce the amount of UI benefits collected and how this reduction compares with the cost of the reemployment strategy. To the extent that any reduction in UI benefit collections occurs, it is important that other potential impacts of the strategy be examined to help explain how or why a reduction in benefit collections took place. For example, the strategy may potentially have an impact on the number of weeks of benefits collected, the extent to which new claims are filed in subsequent benefit years, and the number of benefit denials that occur. From the broader government perspective, it is important that the potential impacts of the strategy on other programs be examined, such as claimants' receipt of existing ES or JTPA services and claimants' receipt of means-tested transfers such as food stamps.

From the viewpoint of unemployed workers, the most important outcomes that are being examined pertain to employment and earnings. In particular, a primary question associated with any reemployment strategy is whether it leads to more rapid reemployment and/or higher earnings than would have been the case in the absence of the program. Other important potential impacts pertain to the quality of the jobs that workers obtain with the assistance of the new program. For example, it is important to examine impacts on the stability of employment, hours worked, hourly wages, and other measures of job quality. A complete understanding of the impacts of the strategy on workers also requires that program participation be examined, both in the demonstration initiatives and in other programs.

Another important viewpoint pertains to employers. From their perspective, the outcomes of interest relate to the availability of workers and their skill levels. Through a variety of methods and incentives, many of the new options are designed to enhance the efficiency with which the job market operates, so that unemployed workers are searching for work more aggressively, and are

thus more available to new employers. Other new options are designed to enhance the skills of workers, making them more valuable to employers. However, to the extent that some employers use the financial cushion of the UI system to manage their work force during a temporary downturn and expect to recall laid-off workers, new program options that encourage active search for and employment in new jobs could prove counterproductive to employers, and perhaps even to workers and to society as a whole. Thus, an important focus of the research is to investigate how the various programs protect legitimate employer-employee relationships by identifying job-attached workers and excusing them from certain programs or features, while at the same time targeting workers who show no clear attachment.

b. Targeting Issues

An important issue that is being addressed in the UI demonstrations pertains to the services or strategies that are appropriate for different types of claimants. To examine this issue, it is useful to consider three types of claimants: (1) those who are job-attached, (2) those who are not job-attached but who have few if any employment barriers, and (3) those who are not job-attached and who face some employment barriers, such as a lack of marketable skills or a lack of knowledge about the labor market and how to find a job. The first group of claimants probably does not need reemployment services, and, as was discussed earlier, it may be counterproductive to provide such services to this group. The second group may also not need services; rather, a change in the incentives to search for and accept a job (e.g., a change created by a reemployment bonus) may be useful in speeding their return to work. Finally, the third group may well need reemployment services to overcome whatever reemployment barrier(s) they face. The type and extent of services that they require depend on their particular needs.

In addressing this issue of targeting, the demonstrations are examining not only the types of claimants who benefit from particular services, but, just as importantly, whether claimants who exhibit different needs can be identified at the point at which the services are to be provided. To be successful, an early intervention strategy that is appropriate for claimants who are not job-

attached and who face certain barriers to reemployment must be directed at just such claimants, but identifying these individuals early in the claim spell may be difficult. Similar issues of identification arise for other groups of claimants. While the demonstrations are restricting entrance to special programs on the basis of obvious measures of appropriateness, they are also attempting to target services more broadly in order to permit research into more refined targeting strategies in future efforts.

c. Implementation Issues

For any reemployment strategy, an important set of issues pertains to how the strategy should be implemented. These issues focus on defining each component of the strategy and function that must be performed, specifying the organization(s) that should be responsible for each, and determining the types of linkages and coordination that are required. These process-related questions are a necessary and important part of the demonstration evaluations, and answers to them are crucial if future program planners are to replicate successful program features or avoid unsuccessful ones.

2. How Success Should Be Judged

How different groups judge the success of a reemployment option is likely to be dominated by their respective perspectives. Again, these groups include government, workers, employers, and, as the aggregate of all of these groups, society as a whole. It is natural that judgments about the UI-sponsored demonstrations be dominated by the perspectives of both the UI program, which is one part of the broader government perspective, and its participants, who are one part of the broader worker perspective. The UI program may be interested primarily in the impacts of a program option on the reemployment of UI claimants and on UI benefit payments and administration, and how those impacts compare with program costs. Of course, program participants will be concerned primarily about its impacts on their employment, income, and earnings and about

other aspects of any new jobs. They will weigh these gains against any costs associated with their foregone earnings (e.g., while they participated in training) or their foregone transfer payments.

While these two important perspectives could easily dominate judgments about a reemployment option, it is important that others be considered. For some program options, it is likely that the net benefits to the UI program derive in part from the efforts and additional expenses of other agencies. These costs (and any benefits) to other agencies must be taken into consideration in order to attain a full accounting from the government perspective. Similarly, the jobs obtained by participants, or their access to training or other services, may be at the expense of others who are not eligible for the new program. These factors must be taken into account to attain a full accounting from the worker (or taxpayer) perspective. The employer perspective is the most difficult to evaluate through these demonstrations, but it cannot be overlooked. The demonstrations are not currently designed to collect information from employers about their gains and losses (except for the self-employment demonstrations). Moreover, part of the gain or loss would depend on how a future program were financed. (The method of financing the new program options is not an explicit part of most of the UI demonstrations, although the Three-State Self-Employment Demonstration Project will encompass this programmatic component.) Therefore, judgments from the employer perspective can only be inferred from the demonstrations.

This discussion suggests that a complete evaluation of the various UI demonstrations must take each of these perspectives into account and, ideally, provide separate analyses of the benefits and costs of the demonstration for each one. This is the goal of the research planned for the UI demonstrations, although, as described earlier, some components will be covered more thoroughly than will others. The analysis will focus primarily on the UI system, other participating agencies, and participants. Other perspectives will be evaluated on the basis of secondary information and inferences drawn about the effects that are observed directly. To the fullest extent possible, the benefits and costs from the individual perspectives will be aggregated into the benefits and costs for society as a whole.

G. CONCLUDING OBSERVATIONS

After 50 years of service, the UI system continues to perform well in its primary role of protecting workers against extreme financial hardship when they lose their jobs. What has emerged in recent years, however, is the realization that, although the UI system can basically continue in its primary role unimpeded, it must also expand its mission to encourage and facilitate reemployment more actively.

This expanded mission might move policy in one of several directions. Some policy options involve changes in the financial incentives facing unemployed workers or potential employers--for example, restructuring the use of UI funds for at least some workers or using external funds. Other policy options focus more heavily on providing reemployment services to a greater extent and effecting stronger linkages between the UI system and agencies that provide these services. Such options recognize the UI system's unique advantage as the common point of entry into the social service network for most unemployed workers.

Despite the appeal of some of the new program options, either alone or in combination, many questions remain about their efficacy. Of perhaps even greater concern is how various new options would affect the primary income-support mission of the UI system. These issues must be considered carefully before new programs are implemented broadly, and the UI demonstrations are an important tool for doing so. The demonstrations to date have been carefully planned, well focused, and successfully implemented in actual state operations. The information they provide should prove extremely valuable, so that, in conjunction with the great body of existing information and the judgment of policy officials, they can be used to weed out unpromising options, and to show the way to successful future policies and programs.

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SUMMARY OF DISCUSSION:

THE THIRD SECRETARY'S SEMINAR

Seminar participants generally seemed to concur that new efforts would be beneficial in restoring some unemployed workers to work more quickly than is the case currently. General consensus was also expressed about the likely merit of specific new program options and about the value of demonstrations in establishing the utility of these options. Less agreement was reached about the entities (UI or, alternatively, ES or JTPA) that should provide the various new options or how they should be funded.

WHETHER REEMPLOYMENT SERVICES FOR DISLOCATED AND OTHER POTENTIALLY LONG-TERM UNEMPLOYED WORKERS SHOULD BE IMPROVED

Seminar participants who responded directly to this issue agreed that now was an appropriate time to address whether reemployment services for dislocated and other potentially long-term unemployed workers should be improved. However, several issues were raised about the role of UI in effecting improved reemployment services. First, several participants took issue with the statement in the Seminar paper that the UI system generally works well in its role of providing income support to workers who lose their jobs, citing problems particularly with the coverage and adequacy of benefits. While there was some agreement with this point, there was less agreement about its implications. Some expressed the view that UI should focus solely on income support and should concentrate on improving this area, and that reemployment services should be provided by other agencies. Other participants believed that UI should offer program options designed to return workers to work more quickly, but not at the expense of its primary mission of income support.

The discussion then focused on how reemployment services would be financed. Many participants expressed the view that new reemployment initiatives should not be financed through

experience-rated taxes. The most prevalent view was that any such initiatives should be financed through general revenues or, possibly, through non-experience-rated payroll taxes.

One participant took strong exception to adopting this financing arrangement as a general rule, arguing that the UI system already contains elements that promote reemployment. Thus, possible new initiatives that simply entail restructuring how UI benefits are paid to promote reemployment further would be a legitimate use of experience-rated taxes. The participant further suggested that other types of services be financed in the same way that ES and JTPA programs are financed. Another participant suggested a different possible rule-of-thumb: that the effects of new services on reemployment should be evaluated to determine whether they actually generate trust-fund outlay reductions that outweigh the costs of the new services, and, if so, that this may indicate a good use of trust-fund dollars.

A final financing-related concern discussed was that insufficient attention has been paid to the employer perspective. Specifically, regardless of whether new services are financed by experience-rated taxes, various new services are likely to affect the tax burden on individual employers. Furthermore, since the services may affect various groups of unemployed workers differently, they may affect the distribution of the tax burden across types of employers.

USING UI TO IDENTIFY INDIVIDUALS WHO NEED SERVICES

The Seminar paper argued that the UI system has a unique advantage in helping to identify unemployed workers who could benefit from reemployment services, since most such workers apply for UI benefits. Participants did not take exception with this as a legitimate role of UI, but pointed out the practical difficulties involved in identifying individuals who need reemployment services the most. Participants cited problems in earlier studies with identifying those who were likely to need services and convincing individuals that they could benefit from services. Previous studies have found, for instance, that recently dislocated workers are slow to accept the fact that their jobs are permanently lost, even in the face of a plant closing. There has been more success in working with workers who have been unemployed for a long time (e.g., UI exhaustees). A few

participants suggested that it may be helpful to question former employers about the permanence of their layoffs; other participants doubted that doing so would yield substantive information.

USING AN EXPERIMENTAL METHODOLOGY TO EVALUATE NEW POLICY OPTIONS

Several of the public participants commented that the application of experimental design was essential in establishing the credibility of results. However, it was also pointed out that experimental evidence sometimes requires careful interpretation, so that the presentation of the results should be reviewed carefully. Furthermore, since results can change over time, long-term as well as short-term results must be considered. Finally, concern was expressed about two aspects of implementing an experimental methodology. One is that the advantages of an experimental design might be offset if those selected for either the treatment or control groups act differently than do other claimants simply because they know that they are being observed (the "Hawthorne" effect). The other is that the effects of the treatment can be exaggerated if members of the treatment group gain at the expense of members of the control group (the "displacement" effect).

Two additional comments were made specifically about the UI demonstrations. First, the demonstrations cannot be viewed as having a single purpose because they are actually following two approaches: (1) providing assistance (e.g., training and job-search services) to workers who must change jobs, and (2) countering UI disincentives and encouraging reemployment (e.g., through reemployment bonuses). Second, policy changes are likely to be made only in response to large program effects.

REACTIONS TO NEW OPTIONS THAT ARE EXTENSIONS OF CURRENT POLICY DEVELOPMENTS

The Seminar paper divided new policy options into two groups: those that are generally extensions of recent policy developments, and those that represent new directions. Discussion of the extensions of recent policy focused particularly on issues associated with targeting and experience-rating. Several participants commented on the importance of targeting services toward those groups that need them the most, but concluded that we do not know how to target very

effectively. Participants suggested that this topic be explored further in additional studies. The new advance-notice law for plant closings might provide an opportunity to identify some permanently separated workers, and steps could be taken to tailor services to those workers. Some discussion ensued about the implications of targeting--in particular, concerns about the legal and ethical issues of extreme forms of targeting. However, participants seemed to agree that targeting did not necessarily imply withholding services from some unemployed workers, but, instead, encouraging those who are thought to exhibit the greatest need to avail themselves of services.

While most participants did not favor using experience-rated taxes to pay for new services, many did agree that, independent of new services, the experience-rating method of financing the trust fund does promote employment by discouraging some types of layoffs. Furthermore, increasing the degree of experience-rating would probably be a further disincentive to resort to layoffs.

Program enrichment and improved linkages were not discussed explicitly to a great degree. The discussion that did take place suggested that enriched services, and possibly additional services, were a good idea, and that improved linkages might be beneficial so that some entity other than UI can provide the services. Relocation assistance was mentioned specifically at various points in the discussion, and was characterized alternatively as an expensive and unimportant policy option, as a potentially promising option if it is coordinated by a specific employer or in conjunction with actual jobs, and as a politically popular option for a least some unemployed workers.

REACTIONS TO NEW OPTIONS THAT REPRESENT NEW DIRECTIONS

The reaction to the different policy options characterized in the seminar paper as "new directions" was not uniform: participants expressed little opinion about short-time compensation, tended to hold mixed views about the effectiveness of payments to workers to encourage earlier reemployment, and generally believed that payments to employers to encourage employment would be ineffective. The discussion on short-time compensation turned to a discussion of the limitations of state partial payment rules, with no real conclusion. With respect to payments to workers, one seminar participant asserted that all available evidence indicates that such payments do make a

difference. However, some participants indicated that they were somewhat skeptical about the evidence, and no consensus emerged about pursuing such options. With respect to payments to employers, one participant observed that all available evidence suggests that such payments do not promote employment, and that they may generate substantial windfalls to employers who are hiring. A consensus seemed to emerge among the participants that employer-payment options are not worth pursuing.

A somewhat longer discussion ensued about the self-employment option. Several participants asked for clarification of how the currently planned demonstrations would operate, and specifically how the allowances would be financed. After some discussion, participants generally agreed that, while some states feel that self-employment is a useful program option, it is unlikely to be an important policy option in the sense that it is likely to affect only a small proportion of the unemployed. The view was expressed that a disproportionate share of demonstration resources are being devoted to this option vis-a-vis its likely value as a remedy to the problem of unemployment.

OTHER APPROACHES FOR MITIGATING THE UNEMPLOYMENT PROBLEM

The seminar concluded with a discussion of other approaches for mitigating the unemployment problem that participants wished to see on the research agenda. Two options were suggested for possible future research. The first is job creation through economic development. One participant stated that this approach should not constitute public service employment, and that it differs from the type of development that is likely to occur through self-employment assistance. Instead, the approach would entail a major effort by employment and training and economic development agencies to create private-sector wage-earning opportunities.

The second option that was discussed is a work-test demonstration to determine which types of work tests best promote reemployment. States currently differ considerably in how they define the work test, and local application often differs from regulations. Participants generally supported research in this area, although several of such participants expressed the view that the work test, at least as it is currently implemented in many states, is too inflexible.

SEMINAR PARTICIPANTS

Labor

Mr. James Ellenberger, AFL-CIO
Dr. Mark Levinson, United Auto Workers

Business

Ms. Esther Schaeffer, National Alliance of Business
Mr. Eldred Hill, UBA, Inc.
Mr. James Davis, Business Roundtable
Mr. Robert Martin, U.S. Chamber of Commerce

Public

Mr. Joseph Humphreys, Senate Finance Committee
Dr. Richard Hobbie, Ways and Means Committee
Mr. Richard Praeger, Interstate Conference of Employment
Security Agencies
Mr. Gary Burtless, Brookings Institution

Federal

Dr. Janet Norwood, Bureau of Labor Statistics
Ms. Mary Ann Wyrsh, Unemployment Insurance Service
Dr. Joseph Hight, Office of the Assistant Secretary for Policy

Presenter

Dr. Stuart Kerachsky, Mathematica Policy Research, Inc.

Other Attendees

Mr. Roberts T. Jones, Employment and Training Administration
Ms. Carolyn Golding, Employment and Training Administration
Mr. James Manning, Employment and Training Administration
Dr. Stephen Wandner, Employment and Training Administration
Mr. Michael Miller, Employment and Training Administration
Mr. Thomas Plewes, Bureau of Labor Statistics
Mr. Robert Rideout, Office of Management and Budget
Mr. Walter Corson, Mathematica Policy Research, Inc.

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