UNEMPLOYMENT BENEFITS AND "RETURNS TO WORK"

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

APRIL 10, 2003

Serial No. 108–11

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

89–404 WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON WAYS AND MEANS

BILL THOMAS, California, *Chairman*

PHILIP M. CRANE, Illinois
E. CLAY SHAW, JR., Florida
NANCY L. JOHNSON, Connecticut
AMO HOUGHTON, New York
WALLY HERGER, California
JIM MCCRERY, Louisiana
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
PHIL ENGLISH, Pennsylvania
J.D. HAYWORTH, Arizona
JERRY WELLER, Illinois
KENNY C. HULSHOF, Missouri
SCOTT MCINNIS, Colorado
RON LEWIS, Kentucky
MARK FOLEY, Florida
KEVIN BRADY, Texas
PAUL RYAN, Wisconsin
ERIC CANTOR, Virginia

CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ROBERT T. MATSUI, California
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM MCDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
RICHARD E. NEAL, Massachusetts
MICHAEL R. MCNULTY, New York
WILLIAM J. JEFFERSON, Louisiana
JOHN S. TANNER, Tennessee
XAVIER BECERRA, California
LLOYD DOGGETT, Texas
EARL POMEROY, North Dakota
MAX SANDLIN, Texas
STEPHANIE TUBBS JONES, Ohio

ALLISON H. GILES, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

SUBCOMMITTEE ON HUMAN RESOURCES

WALLY HERGER, California, *Chairman*

NANCY L. JOHNSON, Connecticut
SCOTT MCINNIS, Colorado
JIM MCCRERY, Louisiana
DAVE CAMP, Michigan
PHIL ENGLISH, Pennsylvania
RON LEWIS, Kentucky
ERIC CANTOR, Virginia

BENJAMIN L. CARDIN, Maryland
FORTNEY PETE STARK, California
SANDER M. LEVIN, Michigan
JIM MCDERMOTT, Washington
CHARLES B. RANGEL, New York

Pursuant to clause 2(e)(4) of Rule XI of the Rules of the House, public hearing records of the Committee on Ways and Means are also published in electronic form. **The printed hearing record remains the official version.** Because electronic submissions are used to prepare both printed and electronic versions of the hearing record, the process of converting between various electronic formats may introduce unintentional errors or omissions. Such occurrences are inherent in the current publication process and should diminish as the process is further refined.

CONTENTS

	Page
Advisory of April 3, 2003, announcing the hearing	2

WITNESSES

IMPAQ International, LLC, Jacob M. Benus	23
Mathematica Policy Research, Inc., Paul T. Decker	8
New York Unemployment Project, Joe Bergmann	12
W.E. Upjohn Institute for Employment Research, Christopher J. O'Leary	16

SUBMISSIONS FOR THE RECORD

Romine, Jennifer, New York, NY, letter	46
United Claims Management, Seattle, WA, Dale Tuvey, statement	46

UNEMPLOYMENT BENEFITS AND "RETURNS TO WORK"

THURSDAY, APRIL 10, 2003

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:10 a.m., in room B–318, Rayburn House Office Building, Hon. Wally Herger (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON HUMAN RESOURCES

FOR IMMEDIATE RELEASE
April 03, 2003

CONTACT: (202) 225–1025

Herger Announces Hearing on Unemployment Benefits and "Returns to Work"

Congressman Wally Herger (R–CA), Chairman of the Subcommittee on Human Resources of the Committee on Ways and Means, announced that the Subcommittee will hold a hearing on the Nation's Unemployment Compensation program and the effect of benefits on recipients' returns to work. **The hearing will take place on Thursday, April 10, 2003, in room B–318 Rayburn House Office Building, beginning at 10:00 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses will include researchers and other experts in unemployment issues. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The Unemployment Compensation program (UC, sometimes also referred to as Unemployment Insurance or UI) is a State-Federal partnership under which benefits are paid to laid-off workers who have a history of attachment to the workforce. Unemployment benefits are meant to provide partial, temporary wage replacement while the laid-off worker looks for a new job or awaits recall to his or her former position. In 2002, $52 billion in State and Federal unemployment benefits were provided to 10 million laid off workers.

A number of studies have noted UC benefits can increase the probability of unemployment and extend the time a person is out of work, among other outcomes. In part to offset such effects, UC and related programs include features designed to assist UC recipients in quickly returning to the labor force. These include a requirement that States target services to certain unemployed workers most likely to exhaust benefits (sometimes called "profiling"), resulting from legislation approved by the full Committee in 1993 (P.L. 103–152). In addition, longstanding program rules require certain recipients to search for work as a condition of collecting benefits.

In announcing the hearing, Chairman Herger stated, "The Committee has played a key role in helping unemployed workers as our economy recovers. In the past year, we passed legislation providing extended benefits to 6 million workers and transferring to States $8 billion in Federal unemployment funds. We also must ensure that the way we provide unemployment benefits maximizes the chances that recipients return to work quickly. Numerous studies suggest unemployment benefits extend unemployment and delay returns to work, which is troubling. This hearing will review these issues, and allow us to consider what more we can do to help laid off workers go back to work quickly."

FOCUS OF THE HEARING:

The hearing will review the effect of UC benefits on recipients' prompt returns to work; it also will review current features of UC and related programs, including

profiling and work search requirements, designed to assist workers in quickly returning to work.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Due to the change in House mail policy, any person or organization wishing to submit a written statement for the printed record of the hearing should send it electronically to hearingclerks.waysandmeans@mail.house.gov, along with a fax copy to (202) 225–2610, by the close of business, Thursday, April 24, 2003. Those filing written statements who wish to have their statements distributed to the press and interested public at the hearing should deliver their 200 copies to the Subcommittee on Human Resources in room B–317 Rayburn House Office Building, in an open and searchable package 48 hours before the hearing. The U.S. Capitol Police will refuse sealed-packaged deliveries to all House Office Buildings.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. Due to the change in House mail policy, all statements and any accompanying exhibits for printing must be submitted electronically to hearingclerks.waysandmeans@mail.house.gov, along with a fax copy to (202) 225–2610, in Word Perfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Any statements must include a list of all clients, persons, or organizations on whose behalf the witness appears. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at http://waysandmeans.house.gov.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman HERGER. Good morning and welcome to today's hearing.

I am glad to see that we have such an interested audience today. Please remember that you are our guests, and interruptions will not be tolerated. Those who might disrupt the hearing will be asked to leave.

I hope this won't be a problem, but I wanted to make sure everyone understands the rules before we get under way.

This Committee has a long history of assisting unemployed workers, including in recent months. The temporary extended benefits program we created in March 2002, will assist 6 million workers with up to 26 weeks of Federal extended benefits. We also provided an unprecedented $8 billion to States to help workers and strengthen the economy. Thirty States had lower taxes as a result. This week another State, Kansas, extended benefits using these funds.

At our March 20 hearing, I stated that future hearings would review the Nation's unemployment program and consider how we could make benefits more responsive to worker needs. Today's hearing marks the start of that process.

Today we will ask some simple questions about unemployment benefits and returns to work: Do benefits extend periods of unemployment? How do we help unemployed workers return to work quickly? How can we help more unemployed workers go back to work sooner?

The principles that guide us are simple and familiar: government programs should promote work because paychecks are better than benefit checks.

Today we will hear from three noted experts who have studied the unemployment benefits program and how it works, and sometimes doesn't work, to help unemployed individuals find new jobs. Some of what we will learn is that unemployment benefits can actually discourage work. That is troubling and worth our attention. Here is how one of our witnesses puts it: "Unemployed workers who have access to unemployment compensation (UC) will tend to reduce the intensity of their job search or to be more selective in accepting a job offer than they would be in the absence of UC. Both of these tendencies generate longer unemployment spells."

We also will review ways we try to overcome disincentives to work. There are two. First, States expect many UC recipients to search for work. Second, States screen workers to assess which ones are likely to be unemployed for extended periods and target reemployment services accordingly. We will explore how these efforts are working, along with possible improvements.

We also are joined by Mr. Joe Bergmann of New York, who will tell us about his personal experience trying to find work. If anything, his testimony reflects a key point of this hearing—that we need to focus on services workers need to get back on the job.

Some might say that a strong economy with a job for everyone is the ultimate answer. They are part right. This Committee will continue to invest a great deal of time and effort to stimulating the economy and expanding the number of jobs. Even in the best of times millions of workers lose jobs and collect unemployment benefits. Make no mistake, this Nation will continue to provide benefits to millions of such workers.

Now especially, when jobs may be harder to come by, we should make sure benefits and services help workers go back to work quickly, instead of delaying returns to work. By doing so, we will better serve workers, their employers, and the economy at the same time.

Without objection, each Member will have the opportunity to submit a written statement and have it included in the record at this point.

Mr. Cardin, would you like to make an opening statement?

[The opening statement of Chairman Herger follows:]

Opening Statement of The Honorable Wally Herger, Chairman, and a Representative in Congress from the State of California

Welcome to today's hearing. This Committee has a long history of assisting unemployed workers, including in recent months. The temporary extended benefits program we created in March 2002 will assist 6 million workers with up to 26 weeks

of Federal extended benefits. We also provided an unprecedented $8 billion to States to help workers and strengthen the economy. Thirty States had lower taxes as a result. This week another State, Kansas, extended benefits using these funds.

At our March 20 hearing, I stated that future hearings would review the Nation's unemployment program and consider how we could make benefits more responsive to worker needs. Today's hearing marks the start of that process.

Today we will ask some simple questions about unemployment benefits and returns to work:

- Do benefits extend periods of unemployment?
- How do we help unemployed workers return to work quickly? And
- How can we help more unemployed workers go back to work sooner?

The principles that guide us are simple and familiar: government programs should promote work, because paychecks are better than benefit checks.

Today we will hear from three noted experts who have studied the unemployment benefits program and how it works and sometimes doesn't work to help unemployed individuals find new jobs. Some of what we will learn is that unemployment benefits can actually discourage work. That is troubling, and worth our attention. Here's how one of our witnesses puts it: "Unemployed workers who have access to UC will tend to reduce the intensity of their job search or to be more selective in accepting a job offer than they would be in the absence of UC. Both of these tendencies generate longer unemployment spells."

We also will review ways we try to overcome disincentives to work. There are two. First, States expect many UC recipients to search for work. Second, States screen workers to assess which ones are likely to be unemployed for extended periods and target reemployment services accordingly. We will explore how these efforts are working, along with possible improvements.

We also are joined by Mr. Joe Bergmann of New York, who will tell us about his personal experience trying to find work. If anything, his testimony reflects a key point of this hearing—that we need to focus on services workers need to get back on the job.

Some might say that a strong economy with a job for everyone is the ultimate answer. They are part right. This Committee will continue to invest a great deal of time and effort to stimulating the economy and expanding the number of jobs. But even in the best of times millions of workers lose jobs and collect unemployment benefits. Make no mistake—this nation will continue to provide benefits to millions of such workers.

But now especially, when jobs may be harder to come by, we should make sure benefits and services help workers go back to work quickly, instead of delaying returns to work. That will better serve workers, their employers, and the economy at the same time.

Mr. CARDIN. Thank you, Mr. Chairman. I do.

Normally at the beginning of a hearing, particularly one on unemployment insurance (UI), I would be complimenting the Chair for calling this hearing. I must tell you I find the timing of this hearing both troubling and disheartening, and I hope I am wrong on that.

The current extended unemployment benefit program will expire at the end of next month. This hearing seems to be designed to find a reason not to extend the program. I hope I am wrong on that.

The UI is a social insurance system. It is a system based upon paying into a fund that currently has over $20 billion in reserves to cover people who are unemployed when we go through tough times. That is exactly what we are going through now, tough times. It is not a welfare program.

Yet as I listened to my Chairman in his opening comments, it reminded me of welfare reform. This is not welfare, Mr. Chairman. These are people who are unemployed through no fault of their own who are trying to find a job in an economy that doesn't produce enough jobs for them to be employed. At a time when our

economy has lost more than 2 million jobs, I do not understand how anyone can blame the UI system for the unemployed.

I also strongly disagree with the suggestion that dislocated workers are not looking hard enough to find new jobs. Such a view is unfair to the unemployed Americans and contradicted by facts.

Before we blame workers for rising joblessness, we should remember a few realities.

First, job losses have accelerated over the last 2 months, leaving even fewer employment opportunities for the unemployed. In fact, there are now 3.4 unemployed workers for every job opening.

Second, the number of long-term unemployed who have been without work for more than 6 months has more than doubled over the last 2 years, going from about 700,000 to almost 1.8 million Americans.

Third, the percentage of workers who are exhausting their regular UC has risen to record levels, higher than in the recessions during the 1970s, 1980s and 1990s. These trends were not caused by workers or by the UI program. They are a direct result of a weak economy that is hemorrhaging jobs. In this context, I would hope there would be a bipartisan consensus to extend unemployment benefits to all jobless workers.

Can we improve this system? Absolutely, Mr. Chairman. You know that I have made certain suggestions on trying to improve the unemployment system. As you know, the stakeholders have made recommendations to improve the UI system. We can improve it, but let's not deny necessary benefits to those who cannot find jobs.

The UI benefits generally replace less than one-half of the unemployed worker's prior wages, creating a major incentive to find new work quickly. Any potential impact UI has on delaying return to employment is largely negated when the number of jobs are declining as they are now. Just a few months ago, Federal Reserve Chairman Greenspan reminded Congress that arguments about UI creating work disincentives are, and I quote, no longer valid during a period where jobs are falling.

Finally, focusing solely on this one issue ignores the enormous benefit of UI, such as reducing poverty among jobless, promoting long-term attachment to the workforce and stimulating consumer demands during economic downturns.

Mr. Chairman, the extended unemployment benefit program is scheduled to prohibit any new enrollees after the end of May. We should extend and expand the program before it is too late for millions of unemployed workers. I only wish I could be more confident that this hearing was moving us in this direction.

Mr. Chairman, I might point out that I am impressed, though, by the witnesses that are on our panel. I particularly want to acknowledge Dr. Jacob Benus, who is my constituent, who has been extremely active in the community in Baltimore. We thank him for that activity. He is here today as one of the experts in this area. It is a pleasure to welcome him to the panel.

Thank you, Mr. Chairman.

[The opening statement of Mr. Cardin follows:]

Opening Statement of The Honorable Benjamin L. Cardin, a Representative in Congress from the State of Maryland

Mr. Chairman, I am willing to consider all kinds of research as it relates to programs in this committee's jurisdiction. However, I find the timing of this hearing both troubling and disheartening. The current extended unemployment benefits program will expire at the end of next month, and this hearing seems designed to find a reason not to extend the program.

Furthermore, at a time when our economy has lost more than two million jobs, I do not understand how anyone can blame the unemployment insurance system for unemployment. I also strongly disagree with the suggestion that dislocated workers are not looking hard enough to find new jobs. Such a view is unfair to unemployed Americans, and it is contradicted by fact.

Before we blame workers for rising joblessness, we should remember a few realities. First, job losses have accelerated over the last two months, leaving even fewer employment opportunities for the unemployed. In fact, there are now 3.4 unemployed Americans for every job opening. Second, the number of long-term unemployed (who have been without work for more than six months) has more than doubled over the last two years—going from about 700,000 to almost 1.8 million Americans. And third, the percentage of workers who are exhausting their regular unemployment compensation has risen to record levels—higher than in recessions during the 1970s, 1980s and 1990s.

These trends were not caused by workers or by the unemployment insurance program. They are the direct result of a weak economy that is hemorrhaging jobs. In this context, I would hope there would be a bipartisan consensus to provide extended unemployment benefits for all jobless workers.

It is true that unemployment compensation may allow dislocated workers some flexibility in searching for jobs that fit their skills. However, UI benefits generally replace less than half of an unemployed worker's prior wages—creating a major incentive to find new work quickly. Furthermore, any potential impact UI has on delaying return to employment is largely negated when the number of jobs are declining, as they are now. Just a few months ago, Federal Reserve Chairman Greenspan reminded Congress that arguments about UI creating work disincentives are "no longer valid" during "a period where jobs are falling." Finally, focusing narrowly on just this one issue ignores the enormous benefits of the unemployment compensation system, such as reducing poverty among the jobless, promoting long-term attachment to the workforce, and stimulating consumer demand during economic downturns.

Mr. Chairman, the extended unemployment benefits program is scheduled to prohibit any new enrollees after the end of May. We should extend and expand that program before it is too late for millions of unemployed workers. I only wish I could be more confident that this hearing was moving us in that direction. Thank you.

Chairman HERGER. Thank you, Mr. Cardin.

Just in case it is not clear—I certainly want it to be clear—the purpose of this hearing is not to deny anyone any benefits. The purpose of this hearing is an attempt to make the system work better, to assist those who are experiencing unemployment, and to assist them in finding employment as soon as possible.

Mr. CARDIN. Mr. Chairman, if you would yield to me on that point, because I think you are referring to my comment.

Chairman HERGER. Very quickly, yes.

Mr. CARDIN. I understand you don't want to deny people unemployment, but if we do not extend the program, the number of people who are going to be exhausting their UI benefits is going to increase dramatically, which is contrary to the way we have acted in the last three recessions.

Chairman HERGER. Once again, I would like to remind our witnesses today to limit their oral statements to 5 minutes. However, without objection, all of the written testimony will be made a part of the permanent record.

On the panel today, we have Dr. Paul Decker, Vice President and Director of Human Services Research at Mathematica Policy Research, Incorporated; Joe Bergmann, with the New York Unemployment Project; Dr. Christopher J. O'Leary, Senior Economist at the W.E. Upjohn Institute for Employment Research; and Dr. Jacob Benus, Executive Director and Vice President of Research at IMPAQ International.

Dr. Decker.

STATEMENT OF PAUL T. DECKER, PH.D., VICE PRESIDENT AND DIRECTOR, HUMAN SERVICES RESEARCH, MATHEMATICA POLICY RESEARCH, INC., PRINCETON, NEW JERSEY

Dr. DECKER. Good morning. Thank you for giving me the opportunity to testify on the UC system and on the effect of UC benefits on the reemployment of recipients.

As you know, the UC system is designed to alleviate the hardship caused by involuntary unemployment. By paying benefits to recipients during the time they are unemployed, the system also creates a reemployment disincentive for at least some of these recipients. Therefore, in setting the generosity of the system, policymakers must balance two conflicting goals, the goal of providing adequate benefits to meet the needs of the unemployed and the goal of minimizing the reemployment disincentives in the system.

Today, I will focus on two findings based on research regarding disincentives. First, the UC system creates a reemployment disincentive, and expanding the generosity of UC lengthens unemployment spells among recipients. Second, State UC policies can be used to at least partially offset the reemployment disincentives and reduce UC payments.

With respect to the first conclusion, the UC system creates a disincentive to reemployment because it lowers the cost of being unemployed. Some unemployed workers who have access to UC will tend to reduce the intensity of their job search or be more selective in accepting a job offer than they would be in the absence of UC. Both of these tendencies generate longer unemployment spells.

The UC benefits have two dimensions—the amount paid per week and the maximum duration of benefits. Increasing the generosity of UC benefits, either through increased benefit amounts or additional weeks, adds to the reemployment disincentive and further lengthens unemployment spells.

Studies have consistently demonstrated, for example, that higher weekly benefits lead to a modest increase in the length of unemployment. Estimates from these studies suggest that an increase in the ratio of weekly benefits to weekly wages of 10 percentage points lengthens unemployment spells by between 0.5 and 1.5 weeks. So, if benefits are increased, the result will be somewhat longer unemployment spells.

Studies show that extending the maximum duration of benefits also lengthens unemployment spells. However, the range of estimates is fairly wide. The estimated impact of offering an additional 10 weeks of benefits could lengthen average unemployment spells by as little as 1 week or by as much as 5 weeks, depending on the estimate. Regardless, it is clear that extending benefits, similar to

increasing the benefit amount, encourages longer unemployment spells.

State policies can be used to at least partially offset the reemployment disincentive associated with UC. For example, other panel members will discuss how work search requirements and targeted mandatory job search assistance can encourage more rapid reemployment.

Another policy option that has potential to encourage more rapid reemployment is the use of reemployment bonuses. A series of experiments were conducted in the late 1980s to test the potential effectiveness of reemployment bonuses in encouraging more rapid reemployment and reducing UC payments. The bonus offers ranged between $300 and $1,000 and were paid to recipients who started a new job within 6 or 12 weeks of their initial UC claim, depending on the particular experiment. The experiments found that bonus offers encouraged more rapid reemployment and reduced average UC receipt, with the estimated UC reduction reaching nearly 1 week per recipient for the most generous offers.

However, these reductions were not large enough to make the reemployment bonus offers cost-effective from the standpoint of the UC system. The cost of administering and paying the bonuses exceeded the estimated savings in UC payments generated by the offers.

Recent research suggests that a more targeted bonus offer would be more cost-effective, but this finding requires further investigation before it can be used to inform policy.

In conclusion, research has clearly demonstrated that the UC system introduces a reemployment disincentive, but researchers tend to disagree about the importance of this effect. The dispute arises partly because the size of the effect is somewhat uncertain, as I have pointed out, but also because different researchers describe similar estimates in different ways. Where one researcher characterizes an effect as substantial, another labels it as modest. Regardless, reemployment disincentives are inevitable in the UC system because it pays recipients while they are unemployed; and the challenge for policymakers is to balance that disincentive against the need to provide adequate assistance to the unemployed.

Thank you.

[The prepared statement of Dr. Decker follows:]

Statement of Paul T. Decker, Ph.D., Vice President and Director, Human Services Research, Mathematica Policy Research, Inc., Princeton, New Jersey

Thank you for giving me the opportunity to submit testimony on the Unemployment Compensation (UC) system and the effect of UC benefits on the reemployment of recipients.

The UC system is designed to alleviate the hardship caused by involuntary unemployment. But by paying benefits to recipients during their unemployment spells, the system also creates a reemployment disincentive for at least some recipients. Policy makers therefore must set a benefit amount that balances two conflicting goals: (1) providing adequate benefits to meet the needs of the unemployed, and (2) minimizing the reemployment disincentive. To achieve this balance, the "rule-of-thumb" that has guided UC policy since the inception of the system is that weekly UC benefits should replace roughly 50 percent of workers' weekly wages (O'Leary and Rubin 1997).

I will base my remarks on three conclusions related to the reemployment disincentives of the UC system:

- Expanding the generosity of UC lengthens unemployment spells.
- States UC policies can shorten UC spells.
- Reemployment bonuses can generate modest reductions in UC spells but are generally not cost-effective.

Expanding the Generosity of UC Lengthens Unemployment Spells

The UC system creates a disincentive to reemployment because it lowers the cost of unemployment. Unemployed workers who have access to UC will tend to reduce the intensity of their job search or to be more selective in accepting a job offer than they would be in the absence of UC. Both of these tendencies generate longer unemployment spells. Increasing the generosity of the system, either through increased benefit amounts or additional weeks, adds to this effect.

Effect of the weekly benefit amount. Studies consistently show that higher weekly UC benefits lead to a modest increase in the length of unemployment. Most studies have focused on the effect of changes in the wage replacement rate—the ratio of the weekly benefit amount to the pre-UC weekly wage—which, as I have pointed out, is intended to average about 50 percent in the current system. Studies conducted since the early 1980s suggest that an increase in the replacement rate of 10 percentage points lengthens average unemployment spells by between 0.5 and 1.5 weeks (Moffitt and Nicholson 1982; Moffitt 1985a; Solon 1985; and Meyer 1990). Hence, if weekly benefits are increased because of concerns about adequacy, the result will be somewhat longer unemployment spells.

Effect of the maximum duration of benefits. Increases in the maximum duration of benefits also lengthen average unemployment spells. Studies since the early 1980s suggest that a one-week increase in maximum duration of benefits extends average unemployment spells by between 0.1 and 0.5 weeks (Moffitt and Nicholson 1982; Moffitt 1985a and 1985b; Solon 1985; Katz and Meyer 1990; Corson et al. 1999; and Jurajda and Tannery 2003). This range of estimates is fairly wide, implying, for example, that an extension of maximum benefit duration from 26 weeks to 36 weeks could lengthen average unemployment spells by as little as 1 week or by as much as 5 weeks.

State UC Policies Can Shorten UC Spells

Work-search requirements. To counter the disincentive effects of UC, states can use work-search requirements to promote more rapid reemployment. In most states, recipients must provide the UC agency with a list of a minimum number of potential employers contacted for each week during which benefits are claimed. However, UC agencies usually do not aggressively validate the information that UC recipients provide, which leads one to question the effectiveness of the work-search requirements in offsetting the reemployment disincentive of UC. Regardless, evidence suggests that the work-search requirements have a substantial impact. A Washington State UC experiment conducted during the 1990s showed that, relative to a system with no required employer contacts, standard work-search requirements in that state reduced average UC benefit spells by more than 3 weeks per recipient (Johnson and Klepinger 1994). Evidence from another experiment conducted in Maryland during the 1990s demonstrated that additional strengthening of the standard work-search requirements, either through increases in the number of required contacts or through verification of the contacts, further reduced benefit receipt (Klepinger et al. 1998).

Targeted job-search assistance. The state Worker Profiling and Reemployment Services (WPRS) programs that were established a decade ago can also offset the reemployment disincentive effects of UC. These programs require UC recipients identified as most likely to exhaust their benefits to participate in mandatory job-search assistance services. A recent evaluation of WPRS programs in six states found that the programs generated reductions in UC receipt in five of the six states, with the reductions in a given state ranging from 0.2 weeks per recipient to nearly 1 week per recipient (Dickinson et al. 1999). Reductions were largest in states that had extensive service requirements, and that strictly enforced those requirements.

Reemployment Bonuses Can Generate Modest Reductions in UC Spells but Are Generally Not Cost-Effective

Evidence from the bonus experiments. A series of experiments were conducted during the late 1980s to test the potential effectiveness of reemployment bonuses in encouraging more rapid reemployment and reducing UC payments. The bonus offers tested ranged from about $300 to $1,000 and were paid to recipients who found a new job within about 6 or 12 weeks of their initial UC claim, depending on the particular experiment.

The reemployment bonus offers reduced average UC receipt, with the estimated reductions ranging nearly as high as 1 week per recipient for the most generous offers. However, these reductions were not large enough to make the reemployment bonuses cost-effective from the standpoint of the UC system—the costs of administering and paying the bonuses exceeded the estimated savings in UC payments generated by the offers (Decker and O'Leary 1995). Furthermore, unemployed workers who previously had not applied for UC might be induced to do so if the reemployment bonus were made permanent. This effect, often referred to as an *entry effect,* would add to the net costs of offering a permanent reemployment bonus beyond what was measured in the bonus experiments.

Reemployment bonuses may be more cost-effective if they are targeted to certain UC recipients, as is done with WPRS services. O'Leary et al. (2003) have shown that targeting of reemployment bonus offers to UC recipients who are expected to exhaust their benefits can generate larger reductions in UC payments for a given bonus offer. This research also suggests that these reductions in UC payments may be large enough to pay for the costs of administering and paying the bonuses.

Personal Reemployment Accounts. Personal Reemployment Accounts, or PRAs, have been proposed as part of the President's stimulus package to provide reemployment assistance to UC recipients who are most likely to exhaust their benefits. Recipients would use the PRAs, which could contain as much as $3,000 each, to pay for services and training to help them return to work sooner. The accounts would also include a reemployment bonus provision. PRA recipients who become reemployed within first 13 weeks of their first UC payment would be eligible for a reemployment bonus equal to the remaining balance in the PRA. If the PRA amount were set to the maximum value of $3,000, the maximum reemployment bonus amount would be considerably more generous than the bonus offers tested in the experiments.

Using the estimates from the bonus experiment, I predict that the reemployment bonus feature of a PRA set at $3,000 would generate a reduction in average UC spells among PRA recipients of more than 1.5 weeks. The predicted impacts under PRAs are larger than the estimated impacts in the bonus experiments because (1) the more generous PRA amount should speed reemployment and therefore reduce benefits received; and (2) the targeting of the PRA bonus focuses on individuals who expect to have long UC spells, so it should magnify the reduction in UC.

Conclusion

Although research has clearly demonstrated that the UC system introduces a reemployment disincentive, researchers disagree on the importance of this effect. The dispute arises partly because estimates of the effect of UC generosity on unemployment spells vary, and partly because different researchers describe similar estimates in different ways. Where one researcher characterizes an effect as "substantial," another views it as "modest." Regardless, reemployment disincentives are inevitable in UC insofar as it pays recipients for staying unemployed. The task of policy makers, therefore, is to balance that disincentive against the need to provide adequate assistance to the unemployed.

References

Corson, Walter, Karen Needels, and Walter Nicholson. 1999. "Emergency Unemployment Compensation: The 1990s Experience." Unemployment Insurance Occasional Paper 99–4, U.S. Department of Labor, Employment and Training Administration.

Decker, Paul T., and Christopher J. O'Leary. 1995. "Evaluating Pooled Evidence from the Reemployment Bonus Experiments." *Journal of Human Resources* 30, 3: 534–550.

Dickinson, Katherine P., Suzanne D. Kreutzer, Richard W. West, and Paul T. Decker. 1999. "Evaluation of Worker Profiling and Reemployment Services: Final Report." Research and Evaluation Report Series 99–D, U.S. Department of Labor, Employment and Training Administration.

Johnson, Terry R., and Daniel H. Klepinger. 1991. "Evaluation of the Impacts of the Washington Alternative Work Search Experiment." Unemployment Insurance Occasional Paper 91–4, U.S. Department of Labor, Employment and Training Administration.

Jurajda, Stepan, and Fredrick J. Tannery. 2003. "Unemployment Durations and Extended Unemployment Benefits in Local Labor Markets." *Industrial and Labor Relations Review* 56, 2: 324–348.

Katz, Lawrence F., and Bruce D. Meyer. 1990. "The Impact of Potential Duration of Unemployment Benefits on the Duration of Unemployment." *Journal of Public Economics* 41, 1: 45–72.

Klepinger, Daniel H., Terry R. Johnson, Jutta M. Joesch, and Jacob Benus. 1998. "Evaluation of the Maryland Unemployment Insurance Work Search Demonstration." Unemployment Insurance Occasional Paper 98–2, U.S. Department of Labor, Employment and Training Administration.

Meyer, Bruce. 1990. "Unemployment Insurance and Unemployment Spells." *Econometrica* 58, 4: 757–782.

Moffitt, Robert. 1985a. "Unemployment Insurance and the Distribution of Unemployment Spells." *Journal of Econometrics* 28, 1: 85–101.

Moffitt, Robert. 1985b. "The Effect of Duration of Unemployment Benefits on Work Incentives: An Analysis of Four Data Sets." Unemployment Insurance Occasional Paper 85–4, U.S. Department of Labor, Employment and Training Administration.

Moffitt, Robert, and Walter Nicholson. 1982. "The Effect of Unemployment Insurance on Unemployment: The Case of Federal Supplemental Benefits." *Review of Economics and Statistics* 64, 1: 1–11.

O'Leary, Christopher J., Paul T. Decker, and Stephen A. Wandner. 2003. "Cost-Effectiveness of Targeted Reemployment Bonuses." Unpublished manuscript.

O'Leary, Christopher J., and Murray Rubin. 1997. "Adequacy of the Weekly Benefit Amount." In *Unemployment Insurance in the United States: Analysis of Policy Issues,* Christopher J. O'Leary and Stephen A. Wander, editors. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

Solon, Gary. 1985. "Work Incentive Effects of Taxing Unemployment Insurance Benefits." *Econometrica* 53, 2: 295–306

Chairman HERGER. Thank you very much, Dr. Decker. Now Mr. Joe Bergmann of New York Unemployment Project. If the audience could hold their applause and if we could just listen to our witnesses, please. Thank you.

Mr. BERGMANN. I haven't done anything yet. Can my time start?

Chairman HERGER. Let's start the time.

STATEMENT OF JOE BERGMANN, MEMBER, NEW YORK UNEMPLOYMENT PROJECT, NEW YORK, NEW YORK

Mr. BERGMANN. Thank you for giving me the opportunity to talk to you. My name is Joe Bergmann—it says so right here—and I am here today as a Member of the New York Unemployment Project, as someone who has been job hunting for 18 months.

I live in New York City. I am 54 years old. I have a wife and two daughters, one who is 8 years old and another 16, who is going to be in the 12th grade next year and hoping to go to college. How am I going to do that with no income?

I have been working since I was 14. In 40 years, I have never been out of work for more than a month, until now.

For the past 15 years, I have worked in interactive marketing and advertising. I was a creative director at a company that was a subsidiary of TMP Worldwide, who owns Monster.com. After 9/11, everything just fell apart. Our office was just north of the World Trade Center. On October 2, 2001, 75 percent of our people were laid off.

I started to look for work on October 2, 2001, the minute I got home. Up till now, I have sent out 2,000 resumes and have had only 10 responses. Three responses led to interviews. All three of

the companies were about to offer me a job, but at the final stage they pulled the position entirely. This was due to having a "bad quarter." The job disappeared.

I continue to look for work. I have 32 different Internet job sites that I visit on a weekly basis, and there are less and less jobs each time I visit. I network with people I have worked with. They send me job referrals. I cold call.

My wife is also unemployed. She had found a job last November, and then 1 month later her company went out of business.

Both of us have taken extra training courses through the U.S. Department of Labor to help us get work. We have also written a novel which we are trying to sell.

I have done everything I can do to look for a job, everything that has been asked of me, everything I know how to do, and I am still out of work. Even the people in the 9/11 assistance programs as well as Department of Labor programs took one look at what I was doing and said there was nothing else I could do to find work. Still I try new things to get in the door.

The last thing that I am is lazy. I am not looking for handouts. I want a job.

I started out burning boxes at a discount store when I was 14. I have been a tennis pro, I have been a TV news reporter, an actor, a playwright, a copywriter, a novelist and one of the first people to do interactive marketing. You can say I have got quite a few skills, but that doesn't seem to mean much in this economy.

Unemployment helped me as long as it lasted, but when my claim ran out, it was like a knife through my heart. How was I going to pay my bills? How was I going to take care of my family? I had to go bankrupt.

Extended benefits for unemployment would have helped prevent that. That is why I, who have tried to do the right thing all my life, have come here to beg you to do the right thing—increase the benefits rather than destroy them.

I am here today with 50 other unemployed people from New York and Pennsylvania. We are Members of the New York Unemployment Project and the Philadelphia Unemployment Project. All of our stories are different, but one thing we have in common is that we all want to work.

By the way, we are the folks who pay your salary. We may not be the ones who pay your way in, but we are the ones who can lay you off.

I haven't read Dr. Decker's or Dr. O'Leary's studies, but I know a couple of things and would challenge them or any of you to contradict me:

This economy has lost 2.6 million private sector jobs since the recession began in 2001.

Like me, 21.4 percent of the unemployed have been jobless for more than 6 months.

We are hurting. Literally hundreds of thousands of workers are out of benefits or are collecting benefits at a small fraction of what they were getting.

How can you say that this small amount of money that you are giving us makes us not want to get a job quicker? It makes no sense.

Let's be clear. No one prefers to collect unemployment benefits. We all want to work.

To prove that, I would like to make a request of any or all of you, Mr. Chairman and everyone. Come with us back to New York for a day or come here to Washington. Come to a one-stop career center or sit with any of us as we do cold calls and go through classifieds, sift through on-line job postings and make cold calls. Spend a week in our shoes, and let's have this conversation again.

I am just shocked and hurt and incredibly upset that the Committee would have the—I don't know what the word is—temerity on the same day that the Department of Labor announced 108,000 more jobs lost in the economy that you announce a hearing about how unemployed workers and UI are to blame for the joblessness. You can't be that out of touch, can you? You must see that American workers are now disposable. Chief Executive Officers get rewarded for running their companies into the ground, and the employees end up paying with their jobs. Government subsidizes and bails out industry, and employees get the boot. Now you want to blame us for not working, for living off the government dole which we paid into?

We are asking you to help us the way you help industry. Mr. Chairman, we paid for this, everything, this building, the chairs you are sitting in and UI that protects us when we are discarded. We are also paying for the time you are taking to try and take those benefits away from us.

You want to blame something? Blame the economy, not the unemployed and the unemployment system for why we haven't returned to work.

As for these studies that lead to this hearing, I did a little research on Dr. Decker and Dr. O'Leary and, no disrespect, but didn't you used to work for the Upjohn Company at one time?

Dr. O'LEARY. I work at the Upjohn Institute for Employment Research in Kalamazoo, Michigan.

Chairman HERGER. If the gentleman could summarize, please.

Mr. BERGMANN. Mr. Upjohn had an idea of putting all unemployed people on his company's farms. Is that where we are headed?

I find the basis of this hearing to be offensive to all Americans and not just the unemployed. Take a moment to talk to these people and learn from them. I don't know what else to say.

[The prepared statement of Mr. Bergmann follows:]

Statement of Joe Bergmann, Member, New York Unemployment Project, New York, New York

Thank you for giving me this opportunity to talk to you. My name is Joe Bergmann, and I am here today as a member of the New York Unemployment Project, and as someone who has been job-hunting for 18 months.

I live in New York City. I'm 54 years old. I have a wife and two daughters, one 8-years-old and another, 16, who is going to be in the twelfth grade next year and hoping to go to college. How do I do that with no income?

I have been working since I was 14. In 40 years I have never been out-of-work for more than a month—until now.

For the past 15 years I've worked in interactive marketing and advertising. I was a Creative Director of a company that was a subsidiary of TMP Worldwide, who owns Monster.com. We were breaking even, but after 9/11 everything just fell apart. Our office was just north of the World Trade Center. On October 2nd of 2001, 75 percent of our people were laid-off. Now, my division no longer exists.

The parent company, TMP Worldwide, has gone from 10,000 employees to less than 6000, with more layoffs coming.

I started looking for work on October 2, 2001—The minute I got home. Up till now, I've sent out 2000 resumes and have had only 10 responses. Three responses led to interviews. All three of the companies were about to offer me a job, but at the final stage, they pulled the position entirely. This due to a having a "bad quarter."

But I continue to look for work. I have 32 different internet job sites that I visit on a weekly basis, but there are less and less jobs each time. I network with people I've worked with and I cold call.

I help develop and market websites, but since the economy began to stall companies are spending less and less in their web development and marketing in general. I had three different freelance jobs. I even offered to pitch new business for free with a small pharmaceutical marketing company. I was hoping it would lead to paid work. We won some business, and I've managed to get some freelance work, but it's nothing regular, and certainly not enough to make ends meet.

My wife is also unemployed. She had found a job last November and then one month later the company went out of business.

Both my wife and I have taken extra training courses to help us get work. I have taken digital video production courses and a web production course to increase my skills, and a writing course.

I have done everything I can to look for a job, everything that's been asked of me, everything I know how. I am still out of work. Even the people in 9/11 assistance programs, and Department of Labor programs take one look at what I'm doing and say that there's nothing else I could do to find work.

The last thing that I am is lazy. I'm not looking for handouts. I'm looking for a job.

I started out burning boxes at a discount store when I was fourteen. I've been a tennis pro, a TV News Reporter, an actor, a playwright, a copywriter, a novelist, and one of the first people to do Interactive marketing. You could say that I've got quite a few skills. But that doesn't seem to mean much anymore.

Unemployment helped me when I needed it. But when it ran out, it was like a knife through my heart. How was I going to pay my bills? How am I going to take care of my family?

I've gotten help from Safe Horizon, a little bit from Red Cross and quite a bit from the Salvation Army (food vouchers/Metrocards). Whatever IRA we had is worth less than half of what it was.

Nevertheless, I've had to go bankrupt. Extended benefits for unemployment would have helped prevent that. That's why I, who have tried to do the right thing all my life, come here begging you to do the right thing.

I am here today with fifty other unemployed people from New York and Pennsylvania. We are members of the New York Unemployment Project and the Philadelphia Unemployment Project. All of our stories are different, but one thing we have in common is that we all want to work.

I haven't read Dr. Decker or Dr. O'Leary's studies, but I know a couple of things—and would challenge them or any of you to contradict me:

- This economy has lost 2.6 private sector jobs since the recession began in 2001.
- 21.4% of the unemployed have been jobless—like me—for more then six months.
- We are hurting. Literally tens of thousands of workers are out of benefits or are collecting benefits that are a small fraction of our former earnings. Let's be clear: no one prefers to collect unemployment benefits. We all want work.

Let's be clear: No one prefers to collect unemployment benefits. We all want to work.

I have a request both for you Mr. Chairman, your colleagues and the other witnesses before this committee: come back to New York with us, or join us today in Washington, D.C. Come to a one-stop career center or sit with any one of us as we read through the classifieds, sift through hotjobs.com, cold call for resumes. Spend a week in our shoes and then let's have this conversation again.

I have to admit, speaking for all of us here today—I am just so shocked and so hurt and so angry that this committee would have the temerity on the same day that the Department of Labor announced 108,000 more jobs lost to this economy that you would announce a hearing about how unemployed workers and the unemployment insurance program is to blame for our joblessness.

Mine is not the only story here. Behind me are 50 other members of the New York Unemployment Project who are in the same situation. They're the real experts in what it's like to feel discarded in this dying economy. Yet, they still have hope that meaningful work will be out there. Don't destroy that hope by blaming them for what is out of their control. All of you, Mr. Chairman, have an opportunity to show real compassion and understanding by what you do here. I ask you to support the people who make American companies work.

You want to blame something? Blame the economy, not the unemployed and the unemployment system for why I haven't returned to work.

Thank you.

Chairman HERGER. I thank you, Mr. Bergmann.

I want to remind our audience that we will not allow outbursts during this hearing. Those who do feel they need to have an outburst will be asked to leave.

Mr. Bergmann, I want to thank you for your obviously heartfelt testimony. My heart, as well as, I am sure, I know everyone here in our country, goes out to you and those many who are like you and are in the same position that you find yourself at this time.

I want to reemphasize that the purpose of this hearing is not to deny anyone assistance during a time when they are trying to help themselves. It is an attempt to try to help the system to work better and more efficiently and assist individuals like yourself find work sooner. That is the purpose of this hearing.

With that, we will turn to our next witness, Dr. O'Leary.

STATEMENT OF CHRISTOPHER J. O'LEARY, PH.D., SENIOR ECONOMIST, W.E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH, KALAMAZOO, MICHIGAN

Dr. O'LEARY. Good morning, Mr. Chairman. Thank you.

I am pleased to work at the Upjohn Institute for Employment Research, which was established on the endowment created before there was UI in the United States. Dr. Upjohn created a private program in 1932; and, as you know, in 1935 the Social Security Act created the UI system as we know. After that was up and running, the money was used to create an institute to study the causes and ways to deal with unemployment.

This year marks the 10th anniversary of Federal legislation creating the Worker Profiling and Reemployment Services (WPRS) system to promote speedy reemployment for UI beneficiaries at risk of long-term unemployment. The WPRS has two main parts, identification of claimants most likely to exhaust their regular UI benefits and referral of those clients to reemployment services.

The WPRS is based on a large body of research that found targeted job search assistance to be a highly cost-effective means for promoting return to work. Recent evaluations show that WPRS has provided an effective incentive for shortening periods of UI benefit receipt and increased earnings during the benefit year of those targeted for services.

Traditionally, the program participant selection process has been informal, relying on the judgments of frontline staff or the queuing mechanism of first-come, first-served.

The WPRS provides a formal systematic method based on objective criteria applied equally to all customers. Evaluations of profiling models have shown that they reliably distinguish those

who are most likely to exhaust UI from those who will probably draw only a small fraction of their UI entitlement.

To ensure that profiling is as accurate as possible, States should regularly update these models. This was the first recommendation by the 1998 WPRS policy work group. Subsequently, the Department of Labor gave significant improvement grants to 11 States. The WPRS would benefit from more resources for model refinement. Supplemental funding could be provided in a way that would encourage cooperative linkages between the State workforce agencies and economic research units at local universities and other institutes.

In fact, I should note, Mr. Lewis, that the University of Kentucky helps the State of Kentucky with their model estimation and revision; and the private, non-profit Upjohn Institute does the same for the State of Michigan, Mr. Levin.

Given an efficient referral process, effective employment services are key in making the WPRS system work. Services typically include a group orientation to job search services followed by individually customized services like skills assessment, resume preparation, job interview referrals, plus access to the one-stop resource room.

The WPRS has reinvigorated the linkage between UI and the employment service established by the work test for continued benefit eligibility, a linkage in jeopardy with the growth in telephone and Internet UI claims. By supplementing the employment service work test monitoring role with a program of reemployment services, WPRS adds a type of carrot to the traditional stick of the work test for UI beneficiaries.

Since the inception of WPRS, services have been funded creatively by States. Some have used funds from UI penalty and interest accounts. In recent years, Congress has provided $35 million per year for reemployment services grants to the States. However, these grants were not included in the administration's proposed fiscal year 2004 budget.

Statistical targeting has great potential in the one-stop environment created by the Workforce Investment Act 1998 (P.L. 105–220). Currently, the Upjohn Institute is working with the Department of Labor and the Georgia Department of Labor to develop a Frontline Decision Support System (FDSS).

The FDSS will help frontline staff assess available job openings and determine which among the array of services offered at the one-stop center may best meet a customer's needs. The system relies on patterns observed for similar clients in recent administrative data to inform customers about reemployment prospects and which particular services might be most effective.

Unlike WPRS, which focuses only on one decision—whether or not to refer UI beneficiaries to services—FDSS uses statistical methods to help inform the referral decision for all customers of one-stop career centers. By helping staff and customers make more informed decisions, FDSS promises to reduce the length of time a job seeker is out of work.

To summarize, Mr. Chairman, WPRS has introduced a modern public management approach to the workforce development arena. It has provided staff with an effective means of directing reemploy-

ment services to UI beneficiaries at risk of long-term unemployment, and evaluations have found that WPRS helps the system by reducing unemployment duration and helps workers by increasing benefit year earnings.

Thank you.

[The prepared statement of Dr. O'Leary follows:]

Statement of Christopher J. O'Leary, Ph.D., Senior Economist, W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan

I. Introduction

This year marks the tenth anniversary of legislation that established the Worker Profiling and Reemployment Services (WPRS) system. Passage of PL 103–152 in November 1993 required each state to implement a WPRS system, with the purpose of promoting speedy reemployment for unemployment insurance (UI) beneficiaries at risk of long-term unemployment. The system includes two key components: 1) identification of UI beneficiaries who are most likely to exhaust their regular UI benefits and 2) referral of those individuals to reemployment services. WPRS is based on a large body of research conducted by states and the federal government that found targeted job search assistance to be a highly cost effective means for promoting return to work (Wandner 1994, Meyer 1995). WPRS has been operational in all states since 1995, and recent evaluations of the program show that it has provided an effective incentive for reducing UI benefit receipt (Dickinson, Decker, and Kreutzer 2002). There is also some evidence that WPRS has led to increased earnings during the UI benefit year (Black, Smith, Berger and Noel 2001).

The purpose of my remarks is to describe the profiling and referral process, to offer evidence of its effectiveness, and to suggest areas that need improvement. I will also briefly describe two innovative extensions of the profiling concept to other workforce programs.

II. Formal Selection Process

One of the innovative aspects of WPRS is the formal approach it takes in selecting customers into employment programs. The administrative process by which individuals are selected to participate in employment is referred to as targeting. When program participation is not an entitlement and existing capacity of the program cannot accommodate all those who may desire to participate, a selection process must be adopted. To achieve an efficient and effective program, one must devise a selection process that directs customers to services that best meet their needs.[1]

Through its statistical profiling model, WPRS offers a systematic referral process using objective data which is applied equally to all eligible customers. Traditionally, the selection process has been informal, relying upon the judgment of frontline staff or the queuing principle of first-come, first-served.[2] Formal methods like WPRS provide for systematic selection based on objective criteria applied equally to all customers. Evaluations of WPRS have shown that the statistical models are able to distinguish among those most likely to exhaust UI benefits from those least likely to exhaust with significant precision (Dickinson et al. 1999, 2002).

III. Concept and Purpose of WPRS

Through WPRS, states have taken preemptive action to help unemployment insurance (UI) beneficiaries shorten their duration of UI compensation. A state WPRS system identifies, primarily through statistical methods, those UI recipients who are most likely to exhaust their benefit entitlement and refers them to required reemployment services. The profiling and referral process is performed in three stages. First, unemployment insurance recipients who are expecting to be recalled to their previous job or who are members of a union hiring hall awaiting their next assignment are dropped from the process.[3] Second, the remaining unemployment insur-

[1] For more information on the concept of targeting employment services and descriptions and evaluations of programs that use targeting techniques, see Eberts, O'Leary and Wandner (2002). It should also be noted that the OECD has recognized targeting as having broad application to workforce development programs (OECD 1998). Eberts and O'Leary (1997) describe profiling efforts in other countries.

[2] Gueron and Pauly (1991) cite two studies that show little correlation between the job-readiness ratings by frontline staff and participants' performance in the program.

[3] Since WPRS is designed for permanently separated workers who are likely to be unemployed for long periods, workers who are job attached and not looking for a new job are excluded. Workers with specific recall dates and who find jobs through union hiring halls are considered to be waiting to return to their previous jobs.

ance recipients are ranked by their likelihood of exhausting regular unemployment insurance benefits as determined by a statistical model. Third, beneficiaries are then referred to reemployment services in order of their ranking until the capacity of local agencies to serve them is filled.[4]

To profile workers, most states have adopted a statistical methodology that assigns a probability of benefit exhaustion to each UI beneficiary who is eligible for profiling.[5] A few states, which lacked sufficient data or expertise to estimate a probability model, started with a simple screening device based on one or two characteristics. Some of these states have moved to statistical models once the data deficiencies were corrected. Today, about 85 percent of the states use statistical models. The probability of exhausting benefits is derived from estimating the effects of personal characteristics and economic factors on the likelihood that a UI recipient will exhaust benefits. Personal characteristics typically include: educational attainment; tenure, wages, industry and occupation of last job held; and exhaustion of benefits in prior benefit years. Civil rights legislation prohibits using a claimant's age, race, and gender as variables in the model. Local labor market conditions are also included to reflect the likelihood of reemployment in the various local labor markets within a state. In essence, the probability assigned to each eligible UI recipient is a weighted average of the effect of each of these characteristics on the likelihood that an individual exhausts UI benefits.[6]

IV. Background

WPRS can trace its roots to research sponsored by the U.S. Department of Labor during the 1980s. Those studies revealed several common characteristics about dislocated workers, which could be used to identify those who would have the most difficulty finding employment. For example, workers with longer job tenure (more than three years) and who were employed in manufacturing industries were more likely to experience long durations of unemployment and significant earnings reductions than those with shorter tenure and in industries other than manufacturing, particularly nondurable industries. In addition, demonstration projects conducted in New Jersey, Nevada, Minnesota, and Washington, offered convincing evidence that supported the profiling and referral concept (Meyer 1995). The demonstrations in New Jersey and Minnesota established the efficacy of using statistical methods and administrative data to identify, early in their unemployment spell, those who are likely to experience long periods of joblessness. Results from all four states showed that providing more intensive job search assistance reduces the duration of insured unemployment and UI expenditures. The magnitude of the effects were large enough to make a difference in program costs: Reduction in UI receipts ranged from 4 weeks in Minnesota to a half week in Washington, and the government benefit-to-cost ratio varied from 4.8 in Minnesota to 1.8 in New Jersey. At the same time, workers' earnings were higher because job search assistance accelerated their reemployment and thus increased the number of hours worked (Corson, Dunstan, Decker, and Gordon 1989).

Encouraged by the prospect of UI benefit savings from the early identification and referral of long-term unemployed to reemployment services along with the persistent increase in the number of long-term unemployed, Congress passed legislation in November 1993 that mandated states to implement WPRS programs. The legislation gained broad bipartisan support in part because of the large and convincing body of prior research findings and the estimates by the Congressional Budget Office that the WPRS would generate significant savings for the federal government over the first five years of the program. The bill did not create new services for displaced workers, and states were required to provide only those services that were already available. Workers who were referred to available services were required to participate in the program or risk losing their UI benefits.

Although WPRS is federally mandated, each state was asked to implement the program themselves. The federal government provided states with one-time funds to build capacity and expertise and offered state agencies limited technical assistance. After that, states were expected to finance the program out of ongoing employment and training program funds. Consequently, the ability of the states to serve claimants depends upon the capacity of the existing reemployment services. For some states, the demands of designing and testing a statistical profiling model were

[4] See Wandner (1997) for a more detailed description of the national guidelines and requirements for the state WPRS systems.

[5] See Eberts and O'Leary (2003) for a description and analysis of the updated profiling model for the State of Michigan.

[6] The U.S. Department of Labor recently sponsored a study by Black, Smith, Plesca, and Plourde (2002) of the lessons learned from the worker profiling. This study also includes recommendations of the best ways to simplify and improve statistical WPRS models.

beyond the technical expertise of their staff, and they elicited the assistance of universities and other research groups to help develop a model. Therefore, successful implementation of the program required cooperation and coordination among a variety of federal and state agencies, including UI, the employment service, the Economic Dislocated Worker Adjustment Assistance (EDWAA) training programs, and research groups.

V. Evaluations of the Effectiveness of WPRS

Two evaluations have been conducted to determine the success of WPRS. A multi-state evaluation of WPRS, sponsored by the U.S. Department of Labor, was based on claimant-level data from a sample of states (Dickinson et al. 1999, 2002). In each of the states included in the study (Connecticut, Illinois, Kentucky, Maine, New Jersey, and South Carolina), labor market outcome data were compiled from administrative records on all new initial UI claimants between July 1995 and December 1996 who were eligible for referral to mandatory WPRS job search assistance (JSA). The combined samples included 92,401 profiled and referred claimants, and 295,920 claimants who were profiled but not referred to WPRS JSA. The impact estimates were statistically significant in all states except South Carolina. For those five states with statistically significant results, the largest impact was 10.98 weeks in Maine with the other impacts ranging from 10.21 to 10.41 weeks of UI benefits.

The State of Kentucky also sponsored an assessment of its WPRS system. A feature of the Kentucky evaluation that sets it apart from the national evaluation was that the evaluation design was incorporated into the profiling modeling and implementation process. This allowed for the randomized assignment of claimants to treatment and control groups—an improvement over the design of the multi-state evaluation. A team of economists at the Center for Business and Economic Research at the University of Kentucky developed the profiling model and conducted the evaluation (Berger et al. 1997, 2001).

The impact estimates for WPRS in the Kentucky evaluation were more dramatic than those found in the multi-state evaluation. With regard to the three outcomes of interest, the estimated impacts were a reduction of 2.2 weeks of UI, a reduction of $143 in UI benefits per beneficiary, and an increase of $1,054 per beneficiary in earnings during the UI benefit year. The differences in these estimates from those of the multi-state WPRS evaluation are most likely due to the fact that Black et al. (2001) essentially confined their comparisons within narrow intervals of exhaustion probabilities, thereby achieving a closer counterfactual. Dickinson et al. (1999) compared those assigned to WPRS, who had the highest probability of benefit exhaustion, with all those profiled but not referred, including many with very low exhaustion probabilities. This meant that the comparison group in the multi-state evaluation was likely to have shorter mean benefit duration than program participants, even in the absence of WPRS services. The ideal approach is to use beneficiaries from the same percentile group to make the comparison between the outcomes of those who were referred to orientation with those who were not.

VI. Issues Requiring Attention and Improvement

Two aspects of WPRS require particular attention and improvement. The first issue is the ability to provide reliable estimates of a beneficiary's likelihood of exhausting benefits. At the heart of WPRS is a statistical model that predicts the probability that a UI beneficiary will exhaust his or her benefits. The model is based on the relationship between the event that a UI beneficiary exhausts benefits and key personal characteristics and local labor market conditions. Using the experience of UI beneficiaries who have recently filed claims, estimates of the relative contribution of each of the characteristics embedded in the model are obtained. These estimates are then combined with a claimant's personal characteristics to generate that person's probability of exhaustion.

In order to ensure that the predictions are as accurate as possible, states must be diligent in updating their statistical models on a regular basis. The WPRS policy workgroup established in 1998 by USDOL recommended that states update their models so that they reflect current labor market conditions and worker behavior (Messenger, Schwartz and Wandner 1999). The USDOL also provided Significant Improvement Demonstration Grants to 11 states, half of which used the funds to update their models (Needels, Corson, and Van Noy 2002). Unfortunately, limited funds were available to assist only a handful of states. More resources, both at the state and federal levels, should to be provided to ensure the quality of these models and to make sure they reflect current labor market conditions. One approach is for state workforce agencies to establish linkages between economic research units at universities and other research institutions. Such collaboration can leverage government funds and benefit everyone involved.

The second issue is the integration of the identification process with the provision of services. Adequate reemployment services are the critical step between profiling and getting the unemployed back to work. Worker profiling alone is not sufficient to yield the intended results of the program. WPRS has made significant strides in placing greater emphasis within the UI system on the work test by requiring UI beneficiaries to participate in services and to actively search for jobs, and has prompted claimants to undertake these activities earlier than later in their unemployment spell. One office manager we talked with during our evaluation of Michigan's WPRS offered that WPRS gave his staff the opportunity to do what they were supposed to do—assist the unemployed in finding a job. Previously, staff was frustrated because too few people were requesting assistance (Eberts and O'Leary 1997).

Yet, reemployment services require funding. Since the inception of WPRS, the funding of services has come from sources outside of WPRS. The federal legislation assumes that states will provide the services from other federal funds, mainly ES grants. ES grants are the primary source of funding of public labor exchange and job search assistance services. Congress has provided $35 million for FY 2003 and in several prior years for "Reemployment Services Grants," which are part of "Employment Service Grants to States. However, these grants are not proposed in the Administration's budget for FY2004.

VII. Extension of Statistical Targeting Tools to Other Programs

Although WPRS is entering its second decade, the use of statistical methods to target resources is only in its infancy. These statistical management tools have great potential, particularly in the one-stop environment established by the Workforce Investment Act (WIA). WIA has established a hierarchy of services, from core to intensive to training. Given the extensive number of services available, one-stop staff is faced with the challenge of directing customers to services that best meet their reemployment needs. Currently, the Upjohn Institute is collaborating with the U.S. Department of Labor and the Georgia Department of Labor to develop a statistical assessment and targeting methodology that assists frontline staff in evaluating available job openings and making referrals to services. This system, termed the Frontline Decision Support System (FDSS), offers a systematic framework for staff to quickly assess the needs of customers, to target services that meet customers' needs, and to deliver services in an effective and efficient manner. The FDSS tools are similar to worker profiling models in that statistical relationships are estimated between a customer's outcomes and personal characteristics and other factors. In the case of FDSS, the outcome is employment rather than UI benefit exhaustion (Eberts, O'Leary, and DeRango 2002).

Despite the similar methodologies, FDSS's referral decision process is more complex than that of WPRS. With WPRS, the decision is whether or not to refer a UI claimant to a predetermined set of services. Under FDSS, the decision is which among a large number of services best meets the needs of a specific customer. FDSS provides a customized list of services, ranked from most effective to least effective for each individual. The list is customized for each individual in that it reflects the effectiveness of services for past participants with characteristics similar to the customer that a staff person is currently serving. FDSS also provides specific information about job prospects and wage potential for each customer. Thus, FDSS serves all customers who enter the one step, not simply UI claimants. Yet, like WPRS, FDSS promises to reduce the length of time job seekers are out of work by helping staff and customers make more informed decisions about services and job prospects. FDSS is currently in operation at two sites in Georgia and is scheduled to go statewide in a few months.

Prior to developing and implementing FDSS, the Upjohn Institute with support from the U.S. Department of Labor, extended the statistical assessment methods of WPRS to welfare-to-work programs. The success of this project provided the basis for developing FDSS. Welfare-to-work programs typically treat all recipients the same, providing the same basic services regardless of a participant's skills, aptitudes, and motivation. Yet, barriers vary widely among participants. Some customers require little assistance in finding a job, while others have multiple barriers and stand to benefit from more intensive, targeted services. The Upjohn Institute developed and conducted a pilot that used administrative tools to target services to customers without changing the nature of the program or significantly raising costs. Statistical techniques were developed to estimate the likelihood of employment based on participants' demographic and work history information found in administrative records. An employability score was computed for each customer and was then used to assign each participant to one of three service providers. Each provider offered the same basic set of services but differed in the mix of services and in their

approach to delivering services. The pilot used these differences to determine the best provider for each customer.

An evaluation, based on random assignment, provided evidence that the pilot was successful in using statistical tools to improve program outcomes by placing more welfare recipients into jobs.[7] It showed that the statistical assessment tool successfully distinguished among participants with respect to barriers to employment. It also found that referring participants to service providers according to their individualized statistical needs assessment (employability score) increased the overall effectiveness of the program by 27 percent as measured by the program goal of customers finding and retaining a job for 90 consecutive days.

VIII. Conclusion

WPRS has introduced an innovative management tool into the workforce development arena. The statistical targeting methodology has provided staff with an effective means of directing reemployment services to those unemployed workers who need them most. Evaluations have shown that such a tool has benefited both the UI system by reducing unemployment duration and the worker by increasing earnings. Furthermore, statistical tools have also been successfully used in workforce programs that are broader in scope. I believe that with the proper support for WPRS and continued encouragement for states to develop and implement additional tools to help staff and customers make more informed decisions, we can continue to improve the efficiency and cost-effectiveness of the UI and workforce development systems in this country.

References

Berger, Mark C., Dan A. Black, Amitabh Chandra and Steven N. Allen. 1997. "Profiling Workers for Unemployment Insurance in Kentucky," *The Kentucky Journal of Business and Economics* 16: 1–18.

Black, Dan, Jeffrey Smith, Mark Berger and Brett Noel. 2001. "Is the Threat of Reemployment Services More Effective than the Services Themselves? Experimental Evidence from the UI System." Unpublished manuscript. College Park, MD: University of Maryland.

Black, Dan, Jeffrey Smith, Miana Plesca and Suzanne Plourde. 2002. "Estimating the Duration of Unemployment Insurance Benefit Recipiency." Final Technical Report. Contract Number UI–10908–00–60. Washington, DC: U.S. Department of Labor (February).

Corson, Walter, Shari Dunstan, Paul Decker, and Anne Gordon, 1989. "New Jersey Unemployment Insurance Reemployment Demonstration Project," Unemployment Insurance Service, Occasional Paper 89–3. Washington, DC: U.S. Department of Labor (April).

Dickinson, Katherine P., Paul T. Decker, Suzanne D. Kreutzer, and Richard W. West. 1999. "Evaluation of Worker Profiling and Reemployment Services: Final Report." Research and Evaluation Report Series 99–D. Washington, DC: Office of Policy and Research, Employment and Training Administration, U.S. Department of Labor.

Dickinson, Katherine P., Paul T. Decker and Suzanne D. Kreutzer. 2002. "Evaluation of WPRS Systems" in *Targeting Employment Services*, Randall W. Eberts, Christopher J. O'Leary, and Stephen A. Wandner, eds. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

Eberts, Randall W. 2002. *Design, Implementation, and Evaluation of the Work First Profiling Pilot Project.* Washington D.C.: U.S. Department of Labor, Employment and Training Administration Occasional Paper 2002–07.

Eberts, Randall W., and Christopher J. O'Leary. 1997. "Process Analysis of the Worker Profiling and Reemployment Services (WPRS) System in Michigan." Prepared for the Michigan Employment Security Agency. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research (April).

Eberts, Randall W., and Christopher J. O'Leary. 2003. "A New WPRS Profiling Model for Michigan," Report to the Michigan Unemployment Agency prepared by W.E. Upjohn Institute for Employment Research (March).

Eberts, Randall W., Christopher J. O'Leary, and Kelly J. DeRango. 2002. "A Frontline Decision Support System for One-Stop Centers," in *Targeting Employment Services*, Randall W. Eberts, Christopher J. O'Leary, and Stephen A. Wandner, eds. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

[7] See Eberts (2003) for a description and evaluation of the Work First Targeting pilot, which was conducted at the Kalamazoo/St. Joseph Michigan Works Agency.

Eberts, Randall W., Christopher J. O'Leary, and Stephen A. Wandner, eds. 2002. *Targeting Employment Services*, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

Gueron, Judith, and Edward Pauly with Cameran M. Lougy. 1991. *From Welfare to Work.* New York: Russell Sage Foundation.

Messenger, Jon, Suzanne Schwartz, and Stephen A. Wandner. 1999. *The Worker Profiling and Reemployment Services Policy Workgroup: Policy Analysis and Recommendations*. Washington, D.C.: U.S. Department of Labor, Office of Policy and Research.

Needels, Karen, Walter Corson, and Michelle Van Noy. 2002. "Evaluation of the Significant Improvement Demonstration Grants for the Provision of Reemployment Services for UI Claimants," Final Report to the U.S. Department of Labor, Mathematica Policy Research, Inc. July.

OECD. 1998. Early Identification of Jobseekers at Risk of Long-Term Unemployment: The Role of Profiling. Paris: Organisation for Economic Co-Operation and Development.

Wandner, Stephen A., ed. 1994 "The Worker Profiling and Reemployment Services System: Legislation, Implementation Process and Research Findings." Unemployment Insurance Occasional Paper No. 94–4. Washington, DC: UI Service, Employment and Training Administration, U.S. Department of Labor.

Wandner, Stephen A. 1997. "Early Reemployment for Dislocated Workers in the United States," *International Social Security Review* 50(4): 95–112.

Chairman HERGER. Thank you, Dr. O'Leary. Dr. Benus.

STATEMENT OF JACOB M. BENUS, PH.D., EXECUTIVE DIRECTOR AND VICE PRESIDENT FOR RESEARCH, IMPAQ INTERNATIONAL, LLC, COLUMBIA, MARYLAND

Dr. BENUS. Good morning, Mr. Chairman and Members of the Subcommittee. Thank you for giving me the opportunity to testify.

We can probably all agree that providing UC benefits to unemployed workers while they look for a new job or wait to be recalled to their former job is an important benefit to the U.S. worker as well as to the U.S. economy. However, providing UC does not come without adverse incentive effects. For example, a number of studies have shown that more generous UC amounts are likely to increase the duration of unemployment.

Policymakers have available a number of instruments that can be used to restore and/or create incentives that encourage UC recipients to return to work more quickly. The following policies have been used in the United States and in other countries to restore incentives without reducing the insurance protection of the UI system: Time sequencing of benefit payments; workfare; and monitoring work search and sanctions.

My focus in this statement will be on the research evidence that is currently available on the effectiveness of monitoring work search. I will also mention briefly the other policies that have been suggested.

The first policy that I mentioned is time sequencing of benefit payments. A number of research efforts have addressed the issue of time sequencing of benefits. Should benefits be paid at a fixed rate over the entire unemployment spell or should these payments decline over the unemployment spell?

The general conclusion from this literature is that a reasonable case can be made for a declining time profile. That is, some research has concluded that a benefit system with a declining

amount over a worker's unemployment spell provides better work search incentives. However, there are a number of important caveats to this conclusion and, thus, I believe that it would be inappropriate to propose such a system without further evidence.

The second policy that I mentioned is workfare. The idea that benefit claimants should be required to work in a public works job or participate in some formal training program in exchange for benefits has a long tradition in many countries, places like France and Britain.

Three arguments are often used to promote this concept. The first argument is that workfare may make income transfers to the unemployed more politically acceptable. The second argument is that workfare may serve as a screening tool and thus improve the targeting of UC payments. That is, people who are not interested in finding a job will self-select out of the UC system. Third is a deterrent argument. The threat of workfare will make some people more eager to leave unemployment quickly.

While there is not much research in this area, some research studies have suggested that the threat of requiring UC recipients to participate in the public works and/or participate in a training program may be more effective than the training itself. This result suggests that workfare may be a useful tool in promoting a return to work more quickly. However, the main issue is whether this approach is cost-effective. That is, providing intensive training and/or providing public work opportunity for the unemployed will be expensive. Other approaches for improving the incentive structure to return to work more quickly may be more cost-effective.

This leads me to the third alternative, which is improved monitoring and sanctions. The UC system conditions benefit payments on such criteria as "availability for work" and "actively searching for work." In most States, UC claimants must report a minimum number of employer contacts each week in which benefits are claimed. Claimants who fail to meet these minimum requirements may be sanctioned, for example, by a temporary loss of benefits.

Unfortunately, there is relatively little evidence on the effectiveness of monitoring and sanctions as a tool for promoting more rapid reemployment of the unemployed. The most convincing evidence in this area is found in a group of experimental design studies that were funded by the Department of Labor in the eighties and early nineties.

The first example is the Charleston Claimant and Work Test Demonstration. This 1983 demonstration used an experimental design to evaluate strengthened work search requirements. The result of this demonstration indicated that strengthened work search reduced UI payments by a half a week per claimant without affecting the claimant's likelihood of working or his average earnings. Thus, results of this study clearly indicate that increased oversight or monitoring of UI work search requirement reduces the duration of UC benefits.

In contrast to the Charleston demonstration, a Washington State demonstration in 1986–87 tested the effect of relaxing the standard work search requirements. One of the treatment groups in this study was not required to report work search contacts or to file the standard UI claim form.

As we might expect, the Washington "exception reporting" treatment—essentially, they were required to report only if they found a job—increased the number of weeks of UC benefits received. These additional weeks of UC benefits did not translate into any improvement in earnings in the year after the claim.

There was a third study, but I notice that I am out of time. I will wrap up quickly.

The Maryland work search demonstration was done in 1994, and the results of this evaluation suggested that increased work search requirement and increased monitoring can have a significant impact on UC receipt. Increasing the number of employer contacts reduced the duration of benefits by 6 percent. Verification reduced the duration of UC benefits by even more, by 7.5 percent.

The conclusion of these experiments is relatively clear. If you relax the monitoring requirements, UC duration will increase. If you strengthen the work search requirements, the UC benefits will decrease; and verification will even have a greater impact.

[The prepared statement of Dr. Benus follows:]

Statement of Jacob M. Benus, Ph.D., Executive Director and Vice President for Research, IMPAQ International, LLC, Columbia, Maryland

Thank you for giving me the opportunity to submit testimony on the Unemployment Compensation (UC) system and the effect of UC benefits on the reemployment of recipients.

We can probably all agree that providing UC benefits to unemployed workers while they look for a new job or wait to be recalled to their former job is an important benefit to U.S. workers as well as a benefit to the U.S. economy. However, providing UC does not come without adverse incentive effects. For example, a number of studies have shown that more generous UC amounts are likely to increase the duration of unemployment.

Policy makers have available a number of instruments that can be used to restore and/or create incentives that encourage UC recipients to return to work more quickly, thus, shortening UC spells. The following policies have been used in the U.S. and other countries to restore incentives to return to work more quickly without reducing the insurance protection of the Unemployment Insurance system.

- Time sequencing of benefit payments,
- Workfare, and
- Monitoring work search and sanctions.

My focus in this statement will be on the research evidence that is currently available on the effectiveness of monitoring work search in reducing the duration of unemployment. I will also mention briefly the other policies that have been suggested for encouraging UC recipients to return to work more quickly.

Time Sequencing of Benefit Payments

A number of research efforts have addressed the issue of time sequencing of benefits. That is, should benefits be paid at a fixed rate over the entire unemployment spell or should these payments decline (or increase) over the unemployment spell. This topic was first introduced in the late 1970's (Shavell and Weiss, 1979) and has recently attracted new attention in the academic literature (Hopenhayn and Nicolimi, 1997; Wang and Williamson, 1996; Davidson and Woodbury, 1997; Cahuc and Lehmann, 1997, 2000; Fredriksson and Holmlund, 2001). The general conclusion from this literature is that a reasonable case can be made for a declining time profile. That is, some researchers have concluded that a benefit system with declining amounts over a worker's unemployment spell provides better work search incentives. However, there are a number of important caveats to this conclusion and, thus, I believe that it would be inappropriate to propose such a system without further evidence.

Workfare

The idea that benefit claimants should be required to work in a public works job or participate in some formal training program in exchange for benefits has a long tradition in many countries (e.g., France and Britain). Three arguments are often

used to promote this concept. The first is that workfare may make income transfers to the unemployed more politically acceptable. The second argument is that workfare may serve as a screening tool and thus improve the targeting of UC payments. That is, people who are not interested in finding a job, will self-select out of the UC system. Third, is a deterrent argument: the threat of workfare will make some people more eager to leave unemployment quickly.

While there is not much research in this area, some recent studies have suggested that the threat of requiring UC recipients to participate in a public works job and/or participate in a training program may be more effective than training itself. This result suggests that workfare may be a useful tool in promoting a return to work more quickly. However, the main issue is whether this approach is cost-effective. That is, providing intensive training and/or providing public work opportunities for the unemployed will be expensive. Other approaches for improving the incentive structure to return to work quickly may be more cost-effective.

Monitoring and Sanctions

The UC system conditions benefits payments on such criteria as "availability for work" and "actively searching for work." In most states, for example, UC claimants must report a minimum number of employer contacts each week in which benefits are claimed. Claimants who fail to meet these minimum requirements may be sanctioned, for example, by a temporary loss of benefits.

Unfortunately, there is relatively little evidence on the effectiveness of monitoring and sanctions as a tool for promoting more rapid reemployment of the unemployed. The most convincing evidence in this area is found in a group of experimental design studies that were funded by the U.S. Department of Labor in the 1980's and 1990's. Below, we briefly summarize each of these studies (for a more complete review of these studies, see: Meyer, 1995; Fredriksson and Holmlund, 2003; and O'Leary, 2003).

Charleston Claimant and Work Test Demonstration. This 1983 demonstration used an experimental design to evaluate new, strengthened work search requirements. Specifically, the control group in this experiment was given the customary work test that required Employment Service (ES) registration (there was no systematic monitoring of this requirement). The design also included three treatment groups:

(1) Strengthened work test (i.e., claimants must register with the ES or they will be denied benefits),
(2) Strengthened work test plus enhanced placement services, and
(3) Strengthened work test plus enhanced placement services plus job search workshops.

The results of this demonstration indicated that the strengthened work test reduced UI payments by 0.5 weeks per claimant without affecting claimants' likelihood of working or average earnings (Johnson and Keplinger, 1994). Thus, the results of this study clearly indicate that increased oversight or monitoring of the UI work search requirement reduced the duration of UC benefits.

Washington Alternative Work Search Experiment. In contrast to the Charleston demonstration, the Washington State demonstration (1986–87) tested the effect of relaxing the standard work search requirements. Specifically, one of the treatment groups in this study was not required to report work search contacts or to file the standard UI claim form. Instead, for this group, payments were mailed automatically unless the claimant called the local office to report a change in circumstances that affected the UC benefits amount.

As might be expected, the Washington "exception reporting" treatment that essentially eliminated oversight or monitoring of work search, resulted in a very large (3.3 weeks) increase in the number of weeks of UC benefits received. These additional weeks of UC benefits did not translate into any improvement in earnings in the year after the claim.

Maryland UI Work Search Experiment. The most recent work search experiment was conducted in Maryland (1994). In this experiment, claimants were randomly assigned into four treatment groups and two control groups. The Treatment groups were:

(1) Report four employer contacts per week (not verified);
(2) Contact two employers per week, but need not report the contacts;
(3) Report two employer contacts (not verified) plus attend a 4-day job search workshop early in the unemployment spell;
(4) Report two employer contacts per week and claimants were informed that their contacts would be verified.

In addition, the demonstration included two control groups to test the Hawthorne effect (i.e., to examine whether knowing that they were part of a demonstration in and of itself would alter claimants behavior). Both control groups were required to follow the normal requirements of two employer contacts per week (with no verification and no specific re-employment services offered). One of the groups, however, was informed that they were part of a demonstration project and that their administrative records would be included in the evaluation of the study.

The results of the Maryland evaluation suggest that increased work search requirement and increased monitoring can have significant impacts on UC benefit receipt. Increasing the number of weekly employer contacts, for example, reduced the duration of benefit receipt by 0.7 weeks (or 6 percent). Thus, increasing the number of required work search contacts from two to four is an effective approach to reducing UC payments.

In contrast, informing claimants that they should continue to contact two employers per week but they need not report the contacts ("honor system" approach) increased the duration of UC benefits by 0.4 weeks.

Requiring claimants to attend a 4-day workshop also reduced the duration of UC benefit receipt. Specifically, receipt of benefits was reduced by 0.6 weeks (or 5 percent).

Informing claimants that their employer contacts would be verified had the largest impact in reducing UC payments. Specifically, relative to the normal work search policy, verification reduced UI benefits by 0.9 weeks (or 7.5 percent). The study concluded that a verification rate of 10 percent is sufficient to affect behavior and that increased monitoring is an effective approach to reducing UC payments.

It is interesting to note that just telling claimants that their weekly employer contacts would be verified does not generate a reduction in the duration of UC payments. The impact will only occur if verification actually takes place.

Conclusions

Based on the results of the experiments cited above, a consistent story emerges. Relaxing the standard work search requirements increases the duration of UC benefits receipt without an attendant increase in work or future earnings. In contrast, both strengthening the work search requirement and increasing the verification of claimants' work search effort has a statistically significant impact on reducing the duration of UC benefits receipt. Moreover, there is no evidence that these changes have a detrimental effect on claimants' likelihood of finding work or their future earnings.

Thus, policy makers have an opportunity to restore the adverse incentives of the UC system by promoting programs that strengthen the work search requirements and increase oversight of these requirements. Whether or not such policy measures are cost-effective requires a rigorous experimental design demonstration.

The design of such an experimental demonstration would include a control group subject to current work search requirements and current verification procedures (essentially none) and three treatment groups:

(1) Enhanced work search requirements,
(2) Enhanced verification of work search effort,
(3) Enhanced work search requirements plus enhanced verification of work search effort.

The results from such a demonstration could provide policy makers with the necessary input to develop new instruments that can be used to restore and/or create incentives that encourage UC recipients to return to work more quickly, thus, benefiting both the job seeker and the UC system.

References

Cahuc, P and E Lehmann (1997), Equilibrium Unemployment and the Time Sequence of Unemployment Benefits, Working Paper 97.49, Université de Paris I, Panthéon-Sorbonne.

Cahuc, P and E Lehmann (2000), Should Unemployment Benefits Decrease with the Unemployment Spell? Journal of Public Economics 77, 135–153.

Davidson, C and S Woodbury (1997), Optimal Unemployment Insurance, Journal of Public Economics 64, 359–387.

Fredriksson, P and B Holmlund (2001), Optimal Unemployment Insurance In Search Equilibrium, Journal of Labor Economics 19, 370–399.

Fredriksson, Peter, and Bertil Holmlund (2003), "Improving Incentives in Unemployment Insurance: A Review of Recent Research." IFAU—Institute for Labour Market Policy Evaluation, Working Paper 2003:5.

Hopenhayn, H and J P Nicolini (1997), Optimal Unemployment Insurance, Journal of Political Economy 105, 412–38.

Johnson, Terry R., and Daniel H. Klepinger (1991), "Evaluation of the Impacts of the Washington Alternative Work Search Experiment." Unemployment Insurance Occasional Paper 91–4, U.S. Department of Labor, Employment and Training Administration.

Johnson, Terry R. and Daniel H. Klepinger (1994), "Experimental Evidence on Unemployment Insurance Work-Search Policies." The Journal of Human Resources, 29 (3) (Summer).

Klepinger, Daniel H., Terry R. Johnson, Jutta M. Joesch, and Jacob Benus (1998), "Evaluation of the Maryland Unemployment Insurance Work Search Demonstration." Unemployment Insurance Occasional Paper 98–2, U.S. Department of Labor, Employment and Training Administration.

Meyer, Bruce D. (1995) "Lessons from the U.S. Unemployment Insurance Experiments." Journal of Economic Literature, 33 (1): 91–131.

O'Leary, Christopher J. (2003), "Evaluating the Effectiveness of Labor Exchange Services." W.E. Upjohn Institute for Employment Research. Mimeo.

Shavell, S and L Weiss (1979), The Optimal Payment of Unemployment Insurance Benefits over Time, Journal of Political Economy 87, 1347–1362.

Wang, C and S Williamson (1996), Unemployment Insurance with Moral Hazard in a Dynamic Economy, Carnegie Rochester Conference Series on Public Policy 44, 1–41.

Chairman HERGER. I thank the gentleman. The gentleman's time has expired. We will now turn to questions. I would like to remind the Members that they each have 5 minutes for witness questioning. The gentleman from Louisiana.

Mr. MCCRERY. Thank you, Mr. Chairman. I thank all of you for your testimony today.

Dr. Benus, I have been active in efforts to examine some of the shortcomings of our unemployment system. One of those has been the administrative funding to the States. The evidence that we have received before this Subcommittee over the past few years indicates that there are a great many States who have insufficient funding from the Federal Government to run their administrative services for UC, including job search functions. Have you done any research on that or do you have any knowledge of the effect of shortchanging the States on administrative funding?

The Federal revenues collected, as you probably know, only about 50 or 55 percent of those get back to the States for administrative funding. Could you comment on that?

Dr. BENUS. I don't know the specifics of the funding for monitoring the work search activities of the unemployed. However, it is becoming increasingly apparent that States have reduced their effort to verify the work search effort of individuals, and it is largely attributed to a reduction in administrative funding.

My understanding is that there used to be some funding that may be targeted specifically for this quality control or verification of work search effort, but it is probably now subject to the same reductions as other administrative costs. Therefore, I believe that with increased funding for work search verification there could be a positive impact on the system and without hurting the job seekers.

Mr. MCCRERY. In fact, States tell me and the directors of the Departments of Labor and UI agencies in the States tell me that if they had more administrative funding it would actually greatly

enhance the chances for their unemployed to find a job because they could then match the unemployed with the jobs that are out there. Have you found that as well?

Dr. BENUS. I agree with the statement that increased funding would provide additional funds for both the job-matching activities as well as for such activities as I have described, which is the monitoring of these activities. I agree with that.

Mr. MCCRERY. Mr. Cardin, if you don't mind, would you read the quote from Chairman Greenspan again? Just remind me of what he said.

Mr. CARDIN. I have the full quote. The full quote is:

"But when you get into a period where jobs are failing, then the arguments that people make about creating incentives not to work are no longer valid. Hence, I have always argued that, in periods like this, the economic restraints on the UI system almost surely ought to be eased to recognize the fact that people are unemployed because they can't get a job, not because they don't feel like working."

Mr. MCCRERY. Thank you.

There are two things to consider in that statement.

Number one, he certainly implies that arguments that UI can be a disincentive to job search are valid, but that when we have periods of deep unemployment or sustained unemployment and sustained job loss that perhaps we ought to disregard that valid argument and provide more unemployment benefits. So, the question that we as policymakers have to ask, and I think Dr. Decker put it succinctly in his conclusion, we have to decide what the balance is.

We use various indicators to determine that balance. One of those indicators is level of total unemployment, level of insured unemployment, job creation, job loss and the economy. Then we weigh all of that against the disincentives that are created by providing unemployment benefits, disincentive to work search.

That is the job that we are about today and continuing, I hope, for not too much longer, because I hope the economy turns around and we start creating jobs again instead of losing jobs. That is what we are trying to balance, and that is what this hearing is about.

I appreciate all of you being here today to help us with that.

Chairman HERGER. Thank you, Mr. McCrery. The gentleman from Maryland, Mr. Cardin.

Mr. CARDIN. Thank you, Mr. Chairman.

Mr. McCrery, let me just agree with you. You have had a longstanding concern about the UI system. You have raised it in our Committees for many years. I respect your concerns about trying to improve the system.

My concern is not that we shouldn't be having a hearing on the subject. My concern is the timing of this hearing.

I remember in the 1980 recession—I happened to be Speaker of the Maryland legislature at the time—we were called back into special session by our Governor; and before that I knew there were always fights among the business community and labor community about what to do about UI. It was a traditional battle.

What was interesting, we went into that special session and there was total agreement among the business community, among labor that we had to do something to ease the UI system because people couldn't find jobs. We had to help our economy, and this was the time to pull together to use the system. There was agreement at that point.

I think the point that Mr. Greenspan is making is that here you have a pretty conservative economist who is telling us that 500,000 jobs have been lost in the last 2 months. This is not the time to be talking about the problems with the unemployment system discouraging people to find a job because there are no jobs out there for them to find or it is hard for them to find jobs. So, I guess it is the timing of this hearing that has many of us concerned and troubled and the reason why we are saying, okay, we can talk about this, but we should have done this 3 years ago, 4 years ago.

We asked for hearings. You asked for hearings. We had hearings at that time. Now we have the money in the UI fund. It is there. This is the time to ease up, not to tell people that more people are going to start losing their checks as of the end of May.

I really want to ask Dr. Decker and Dr. O'Leary the point about timing. I understand your concerns, but do you disagree with Dr. Greenspan? Do you disagree with just about every economist I have talked to that, at a time when you are losing jobs in your economy, where it is extremely difficult to find jobs, would your attention now be placed upon just the opposite of what Dr. Greenspan is saying? Is this the right time?

Dr. DECKER. I think it gets back to the point that was made earlier about balancing the disincentives against meeting the needs of the unemployed.

I think what Mr. Greenspan is saying is, as we move into times of recession, that you have to weigh the needs of the unemployed more heavily than you would in more positive economic times. I basically agree with that statement.

As to what should be done in terms of extended benefits, we can talk about the details of that. As to Mr. Greenspan's statement, I agree with the general statement.

Mr. CARDIN. Thank you. Dr. O'Leary?

Dr. O'LEARY. Yes, Mr. Cardin. I would never disagree with Alan Greenspan. He has proved us all wrong. He has longevity, and he is right more than he is wrong.

This is something that, even before you mentioned Alan Greenspan, I had in the back of my mind: All of these policies are more effective when labor demand is adequate. I think that is what Mr. Greenspan is saying. The time to emphasize incentives, the time when these things really work is when there is adequate labor demand. They also work at other times. We can't think of any particular beneficiary as representative of the whole. The point is to make the system focused on reemployment rather than unemployment.

Mr. CARDIN. We all agree that we want to find jobs. The question is, as Mr. Bergmann has pointed out very clearly, give him a job, give him the training he needs. He has gone through every training. The job training center says there is not much more they

can do to help him. It is a face on the numbers. The problem is we get caught up in all these numbers, and we don't see the face.

Mr. Bergmann, thank you for being here to put a face on the issue. We very much appreciate your—I didn't mean to invoke the wrath of my Chairman on that.

Dr. Decker, let me just conclude, as my time is running out, by thanking you for your observations.

We should be having a hearing on the need, how we should extend, what duration, what amount of benefits, how many weeks, but, instead, we are having this hearing, which, Mr. Chairman, I find somewhat offensive, I must tell you. I think we should be dealing with the urgent need, which is whether the current expiration is in the best interest of our country or not, rather than looking at a systemic problem that we need to deal with and we should have dealt with in the prior Congress.

Thank you, Mr. Chairman.

Chairman HERGER. Outbursts will not be tolerated. We appreciate our audience, but we will have order. I thank everyone for on the whole being very good, but I just want to remind everyone there are few issues that are more important than the issue we have before us.

Just again a comment to my good friend from Maryland, I believe the timing of this is appropriate. The timing of this hearing is to help those who are unemployed, those that want work such as Mr. Bergmann.

Again, I want to thank you for your heartfelt testimony, but the purpose of this hearing is to help the process to work better, to help the system to work better, to investigate, to look at what we can do to help those like yourself find work. I want to reemphasize the purpose of this hearing, and I believe it is appropriate at this time. I would like now to turn to the gentlelady from Connecticut, Mrs. Johnson.

Mrs. JOHNSON. Thank you very much. I appreciate the opportunity. I apologize to some of the speakers that I wasn't able to be here during the whole panel.

To those who are visiting us today and visiting this hearing, I appreciate your being here. Democracy is about all of our voices, and it is important for you to be here. I don't particularly appreciate your trying to make this about theater. We do hear you. You have a person testifying. We see you.

You do have to understand, this is a very big and challenging issue, and it has many facets to it. There have been periods and there are people and circumstances for whom unemployment is an opportunity not to work for a while.

I hear absolutely what you are saying about the shortage of jobs, particularly of the kind, Mr. Bergmann, for people with your work history. I admire your tenacity. I sympathize with the terrible struggle that you and your wife have had, not finding a job. It is hard to understand why there hasn't been an opening. I certainly have friends going through that. We appreciate that.

It is also to this Congress' credit, under Republican leadership we did expand unemployment for 13 weeks at 100 percent Federal funding. We expanded it another 13 weeks, so 52 weeks, 100 percent Federal funding. We will make that decision. We always make

that decision closer to the time, because if the war consummates itself, that is going to have an economic impact, and we need to look at that.

So, really why we are holding this hearing—at least the reason I am here—is because, as a Member of this Committee for many years, I have tracked closely and been a part of legislating to improve our job placement capability and improve our job search capabilities. Connecticut was one of the States where we piloted the one-stop centers which have made an enormous difference.

I want to ask Dr. O'Leary a question along that line. Our ability to profile and sort of identify people who are likely to be unemployed for long periods of time did begin to link unemployment with employment services far more effectively. Now, with so much telephone filing, that linkage is in jeopardy. As a State who has gone entirely to telephone filing, I feel like people are being left in isolation, that they are not getting the support they need in job search. Those one-stop centers were a place to meet other people and get references and build your network at a far more rapid rate. I don't know that you can just do this at home every day by yourself.

I am very concerned about the increased use of telephones for filing and the Internet. I would like you to comment on that specifically since you mentioned it in your testimony.

What we need help with is, what else could we be doing?

Mrs. JOHNSON. How else could we be supporting you, Mr. Bergmann. We need to know that because we cannot afford to have seasoned capable people not get back into the workforce in a timely fashion. It is too hard on their families. It is too hard on them, and it is a terrible waste of human resources that no democracy should tolerate.

So, we have come a long way in our ability to help you. I think if you look at the average unemployment, we are below what it was in the nineties, and what it was in the eighties. That is not good enough. We do face structural problems that we didn't face in those eras, and also we tend to have unemployment hitting different categories of workers than we did in the past, where reemployment is more difficult, and where retraining and connections and reconnections into different career ladders is far more important.

So, I want to know, have you gotten any help in finding new career ladders, where can your skills, which are clearly high, highly developed, be used in other career ladders? So, if I could first go to Dr. O'Leary and then—Dr. O'Leary and anyone else who would like to talk about how do we make it so that unemployment resources can help you not only find a job, but find a new career with a ladder that is appropriate to your talents, but also offers you the likelihood of getting back up to a salary that is commensurate with your abilities.

Dr. O'LEARY. Mrs. Johnson, briefly the telephone Internet claims, impersonalizes the process, and I think that is one of the things that the WPRS with the letters of invitation and getting people in contact benefits. As Mr. McCrery was noting, the administrative finances needs to be adequate to support that effectively, but also financing services, so that when people go down to the office, there is some services there. As far as other methods, probably

Dr. Benus should address the richness of the UI program in offering self-employment assistance, which is very effective for older workers with significant career experience, and perhaps talents like Mr. Bergmann. Thank you.

Mrs. JOHNSON. Anyone else care to comment? Yes, sir, Dr. Benus.

Dr. BENUS. As Chris mentioned, there is, within the system, there are programs available to unemployed people, including the Self Employment Assistance (SEA) program, which is targeted at unemployed workers who are interested in starting a business. There is currently a new demonstration that is looking at a similar type of program that is a partnership between the Department of Labor and the Small Business Administration, which also helps unemployed as well as other people who may be interested in such a program of starting small businesses. This is a small program now, but it is something that is particularly suitable for people with Mr. Bergmann's talents or other people in that situation.

Mrs. JOHNSON. Now, we've seen that work quite a bit. My time has expired. I will come back.

Chairman HERGER. I am going to use the Chairman's prerogative here. I am very interested in hearing that. Would you mind, would you like to comment on this also, Mr. Bergmann?

Mr. BERGMANN. Just quickly. I think your basic premise is that this is a UI problem. The amount of money that you have you had to spend on some of these SEA programs would have to be significantly increased to be effective. I think that it would be negligibly effective. I don't know if that is even the term you would use. I don't think it would be as effective as just increasing unemployment weeks, giving out—you said that unemployment had been raised twice. I have only gotten 13 weeks increase. My unemployment ran out on July 22 of last year. So, there has only been one 13-week increase. Another basic premise that I think we have a flaw here is that I make a lot more money working than I do on unemployment. So, I am a lot more incentivized to get to work than—and I don't know of many other people who would want to live on—what we make now is $364.50 because we are taxed on it.

Chairman HERGER. I thank you. Each of you. Now we will turn to the gentleman from Michigan, Mr. Levin, to inquire.

Mr. LEVIN. Mr. Chairman, in a sad way I am glad we are holding this hearing, if you will listen, because I think that—and I feel some sadness here. My friend from Louisiana, Mr. Cardin, has said he has worked on this problem. This is the wrong subject for this hearing, so I am glad you called it so that we can know that. We don't need to tell Mr. Bergmann and the millions of others how they can find work. We need to ask ourselves how people who are out of work and looking for work live.

That is the issue, Mr. Herger we should be having a hearing—the program ends in May. We should be having a hearing on what we do next. Your statement, and I don't have it verbatim. At times of high unemployment, you ought to be focusing on help, how we help people get to work. We ought to be asking ourselves how in the dickens people are going to be able to live when they can't find work.

Mrs. Johnson, my pal from so many decades, it is not 52 weeks for most people. That is wrong. It is 26 plus 13, and a few States beyond that. Some of you, some, keep talking about this isn't like 1981, 1982, 1991, 1992. The number of exhaustees now is twice what it was in 1991 and 1992. That is a fact. I have been involved in this since I was in the legislature in the mid-sixties in Michigan. I am sorry the gentleman—you are here not asking this Subcommittee to talk about extending benefits.

In Michigan, Dr. O'Leary, the Administration has eliminated the personal contact between unemployment and people helping the unemployed. That is what you should be talking about. This Congress has diminished funds for the employment service. That is what you should be talking about. Now, it is done by telephone. So, the people who say that there ought to be more contact are the same people who have reduced the funding for contact, including through the employment service. This Administration has underfunded or requested too little funds for employment service efforts, and some have urged its abolition.

It has been abolished in Michigan. There are three offices now in Michigan. People go into a one-stop thing and they see a machine. Chairman Herger, that is what we should be talking about, the millions of people who are out of work. I picked up this article, and I will finish from the Wall Street Journal. I don't think we should mind people reacting here Chairman Herger. They are unemployed. We are working. I picked up this article from the Wall Street Journal in March. This fellow who had been working 35 years going on a street corner with a sign saying employment.

You are telling him what he needs is help from you as to how he should get work. He sent out 700 resumes. That is what we should be talking about. There may be differences as to how long we extended the program, under what circumstances. Let's sit down and talk about those before the end of May. We have been urging an additional 13 weeks beyond the 39 weeks. There has been no interest whatsoever in this. So, look. I suggest, Mr. Chairman, you call a hearing in the next few weeks or as soon as we get back on what we do about the program that is going to be—that is going to end, unless we extend it and under what circumstances. When we get back, it will be almost May. We will have a few weeks before the program ends.

Chairman HERGER. I thank the gentleman from Michigan and I might comment, the Chair and the Committee is noticing the orderly manner in which the audience is responding and we accept that. It is the disorderly that we would caution you not to be involved with. With that, we will turn to the gentleman from Kentucky, Mr. Lewis, to inquire.

Mr. LEWIS. Thank you, Mr. Chairman. I really think this is the appropriate time to talk about—unemployment and the appropriate time to talk about employment, finding jobs. As I see, the signs in the audience today, these people want jobs. They are not about UI as Mr. Bergmann said, that is just barely enough money, if enough money to get by. I have been there.

My father was a pipe fitter, construction worker. He had to draw unemployment from time to time. It wasn't enough to take care of our family. He wanted his job back. I have been there. I worked

at a steel mill. I have been unemployed. I had to draw UI. It wasn't enough to take care of my family. I wanted a job. Mr. Bergmann is here saying today he wants a job. He has been trying to get one, but he hasn't been successful. I am sure everyone here today, you have been looking for jobs but you haven't been successful. You are asking for a job. We can extend UI until the cows come home, but it is not going to be enough to take care of you and your families. So, what the question is, what can we do to find jobs for people that are unemployed?

That is what I want to ask Mr. Bergmann. What can we do, what can be done in your community to help you find a job, to get you back in a position where you can provide for you and your family and for those that are here today. If the unemployment services or the employment services aren't adequate, what can we do to make them adequate to help you find a job. That is what I wanted. That is what my father wanted. That is what our family wanted. We wanted an income that was appropriate for keeping our family with a roof over our head and the opportunity to live a fairly good life. Mr. Bergmann.

Mr. BERGMANN. I am not an economist, and I just think that the economy needs to be stimulated in some way. I don't know how much a tax cut would help with the stimulus because I—if you don't have an income, I don't get a tax break. So, the next thing is you have—I think that you have to start thinking in terms of—you spend a lot of money on corporations, giving corporations the—you give a lot of money to corporations whether it is a tax break or it is bailing them out, things like that. Money was given during the—I know from the 9/11 fund for companies to maintain jobs which they turned around, kept the money and fired people. So, there was no accountability on that issue. There is much more money wasted in the—for corporate welfare than for unemployment. I just think that in some ways, I think there has to be a humanity put back into how we think about——

Mr. LEWIS. My question is——

Mr. BERGMANN. I am answering your question.

Mr. LEWIS. I am just saying though, there may be—those things may be true, but are we talking about putting more money back in, extending unemployment which, if we need to do that, that is fine to help bridge you over until you can find a job. What can we do? How can we fund a system that would provide an opportunity to get you employed again in, do we need to put more funding, do we need to direct it more into employment services? As has been stated here today, maybe those services aren't working well as Mrs. Johnson said.

A phone call to the employment agency, is that enough, or should they be—should they take you as—and put you, like any employment service, with some individual that works with you day in, day out to help find you a job? Go out and, like corporations do, as head hunters, go out and look for opportunities that would fit your particular need that would profile your qualifications.

Mr. BERGMANN. That would be wonderful if they had somebody like that. There are so many people that are unemployed. How are you going to do that? How are you going to have one person for each person? If that is the case then it becomes a caseload.

Plus, most of the things I find on Web sites, or at—when I went to the unemployment office, was most of the jobs were woefully horrible. Where you actually—I might as well go and work at McDonalds for the same thing.

Mr. LEWIS. Well,—and I understand that. There were times when I had to help provide for my family in ways that I didn't want to until I could find another job. I scrubbed out toilet bowls. I have done a lot of things that I didn't want to do, but I had to do because I had to provide again for my family. I am talking about finding a job that meets your qualifications. There are unemployment or employment services all over this country that do that. Maybe there is a way we can work through the private sector.

There has got to be a way that we can make it more efficient and more of an opportunity to work with individuals on a day in, day out basis to find them an a job. As I said, you are absolutely right. Unemployment doesn't provide the funding that will protect families, your—if you—you couldn't live on unemployment forever without ending up in the same situation, as you said, without being bankrupt. It just doesn't provide enough funding.

Mr. BERGMANN. I know how to look for a job. I have done it for 40 years. I know—I have signed up with head hunters. I have a lot of people. I have a network of friends that I have built. We all look for jobs for each other. There is a lot of things that I haven't told about that I do. I know how to look for work. If there is no work out there, it just, you just keep going. What I need is some support until I can get that job.

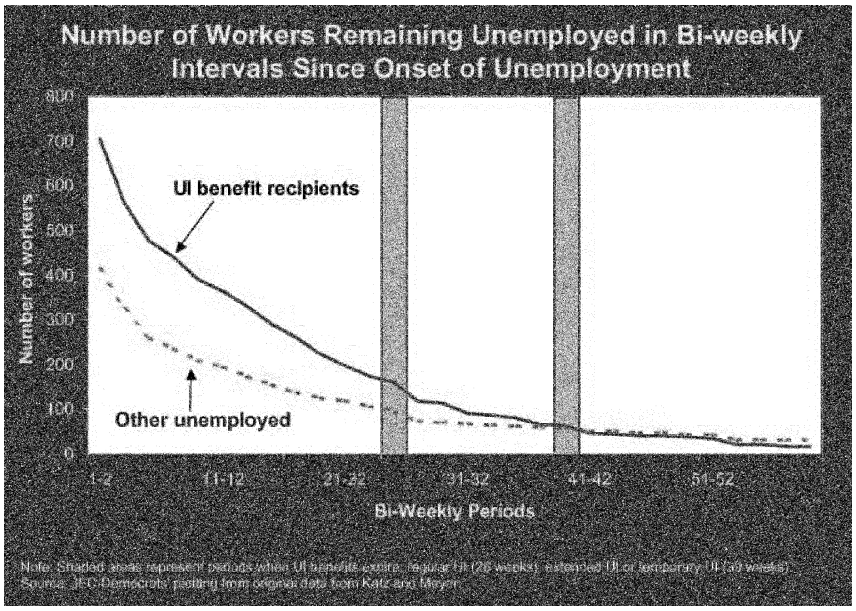
Mr. LEWIS. I agree with that. I understand that. It has to be a bridge to an opportunity to allow you to be all that you can be. Thank you, sir.

Mr. BERGMANN. Thank you.

Chairman HERGER. The gentleman's time has expired. The gentleman from Washington, Mr. McDermott, to inquire.

Mr. MCDERMOTT. Mr. Chairman, I don't really know why you called this hearing. Everybody is saying it is a good thing. I think it is irrelevant. All the data we are talking about is for good times, good economic times. Now, I put this chart up here because it shows you what the shape of the recovery has been, the broken line, the black broken line is recovery before 1990. Go down and then about in the 16th week, it would start up. Then you have got the blue broken line, which is what the 1990 recession was where it started up later, but the red line is what is happening right now. It is still going down.

[The chart follows:]



The Wall Street Journal says the International Monetary Fund says Mr. Bush's tax cut is poor policy, it is ill-timed and they go on to talk about what is going on in the international economy. I come from the State with the highest unemployment. We have got the airline industry sitting on us, right. Nobody's traveling. Boeing has got more planes sitting down in the desert than they will deliver this year. This quarter is the worst quarter in Boeing's history, since they joined McDonnell Douglas and the second worst quarter in their entire history.

So, if one of your major manufacturers, tied to the travel industry is not selling planes it means people aren't traveling. You have got USAir in the tank. Well, they just came out of the tank. You have got United Airlines just about to go in the tank. All their financing of their planes is on Boeing. Boeing is going to wind up taking those planes back. So, what you are looking at is an economy that isn't going anywhere because the President has forgotten about it. He is talking about war in Iraq.

Now, the war was supposed to get everything rolling again. I don't know, if this hearing turns out to be about how does Dr. Bergmann get a job. Or Mr. Bergmann get a job, we have really missed the elephant laying in the middle of the floor here. This President has ignored the unemployment of this country. All he does is cut taxes for people on the top. That is not bringing it back. That line is going down. It is continuing to go down. With no sign of it coming back. I think we ought to be talking—this hearing ought to be about extending benefits. I come from one of those few States where you do get 52 weeks, because we put the money away and it is not a welfare program. It doesn't keep people on the program. I was looking here at these various States.

In Connecticut the average benefit is $280, and if you live in Danbury, the rent, the average rent is $1,044. That is 93 percent of your unemployment benefit goes for rent. In Louisiana, the average benefit is $204, and in Shreveport the average rent, $522. That is 63 percent of your benefit goes for rent. Now, who in the world thinks anybody would stay on unemployment when you are trying to live on that kind of money? Bankruptcy is going to be a big problem in this country. We tighten up the bankruptcy law because we didn't want those poor investment companies out there. So, what we have done is in every way we have been able to we have squeezed the workers harder.

What this hearing ought to be about is simply the question of extending benefits. I don't think there is any reason to question these witnesses because their data is from good times. That is why Mr. Greenspan said what he said. Even they agree with him. Greenspan said in good times people might stay off an extra week because they are waiting for a better job. The times right now, as you see them up there, when you have got 3.4 people going for every job available, what are we talking about here? Services. Let me show you how to dial a phone.

Maybe that is the kind of service they need. Or maybe it is how to find the want ads in the newspaper. This kind of nonsense doesn't make any sense at all when the economy's collapsing. There ought to be more benefits, and the sooner you get about it, the more likely you are to still be in power in 2004. I am done.

Chairman HERGER. I am going to turn my closing time over to the gentlelady from Connecticut, Mrs. Johnson, to inquire.

Mrs. JOHNSON. Thank you. I thank you, Chairman. Washington State is in that higher extended benefit. Connecticut has just gone into it. New York is not into it, and so this kind of hearing is very useful. Why is it when New York has a very high level of unemployed, but not a high level of insured unemployed. Should we be changing the trigger? So, that is one issue. Then the other issue is we do have such good evidence that WPRS hooking reemployment services into those most likely to be unemployed a long time works. Yet we profile a very narrow portion. What I wondered was, Mr. Bergmann, have you ever—do you believe that you were profiled or were you part of the profiling process and did it help or not help? Then, Dr. O'Leary and others, should we be focusing this profiling process on far more of the workforce because we are exempting a lot of categories of people and make it our goal to fund that. Mr. Bergmann.

Mr. BERGMANN. I went through a process where they determined what jobs—this is also through the 9/11 fund because having loss my job because of 9/11. I went through a couple of places that were going to try and help place me. The problem is they said, well, we don't have anything in your field, like marketing, advertising, Web site development, things like that. I thought that was kind of strange since that is, that was such a growing industry.

So, they basically said they couldn't help me because there was no place for them to place me. They went through job listings. They have an online job board which I now just check once every 2 weeks because it never changes.

Mrs. JOHNSON. I see, I think that is instructive because one thing I run into over and over again, and for the number of years I was Chairman of this Subcommittee and we ran into it. The reemployment system is weak when it comes to people like you with high skills. It doesn't connect well with those jobs. In periods like this where we are having big layoffs of people across, sort of throughout the labor force, the whole system is not well geared to that. I think that is one thing. See, I think there is a usefulness to having this hearing, both in terms of identifying the weaknesses of the system, and dealing with people like you and then also this targeting issue as to where we go. We clearly also need to look at the triggers. So, Mr.—Dr. O'Leary.

Dr. O'LEARY. Thank you, Mrs. Johnson. The two groups that are excluded from the profiling process up front are those who are job attached with a definite employer recall date. Now, when the UI system was first established, as you know it is paid for by employer taxes. It was one of the principles was that UI would maintain the workforce for employers during down times, and so that the workers would be there when they needed to call them back if they didn't want to break those employer worker contacts. So, these workers are excluded from profiling. They are not expected to do independent job search. The other group that is excluded is Members of union hiring halls. That was a hard won provision that unions fought for and we are not about to break that.

We are not about to say union hiring hall Members have to go through profiling services. Our policy could change. That is the practice that is in operation now. All the others in the pool coming in claiming benefits go into the profiling pool and then the referrals are ordered based on those who are most likely to exhaust, estimated to be most likely to exhaust, to least likely. The numbers served depends upon the capacity. Which again, we get back to the funding for service availability. So, it is a capacity limitation on the remaining. Except for job attached or union hiring hall Members.

Mrs. JOHNSON. So, your point is that the weak link right now is the funding for services, for those who are profiled.

Dr. O'LEARY. If funding was expended, then more people could be served. Back in the late nineties, when unemployment was low, not only were the referred people using these WPRS services, but others were voluntarily using them and they have always had a positive reaction to the beneficial services. So, yes, I think that a key element is funding for the services.

Mrs. JOHNSON. Thank you. Well that gives us better guidance both for the appropriations process and for modernizing the law. I appreciate the panel's participation and I appreciate the audience visiting with us today as well. Thank you, Mr. Chairman.

Chairman HERGER. I thank the gentlelady from Connecticut. I want to personally, on behalf of myself and each Member of this Committee, thank each of you, each of our panelists who testified this morning.

Mr. Bergmann, I want to thank you for traveling here and giving us your heartfelt testimony. It has been very helpful to us. This is the first of a series of hearings that we will have on this very important issue, this safety net that we have for American workers. I also want to thank our audience for traveling here and with just

a couple of minor exceptions, you have been very good and I want to make you aware that your thoughts and your notes have been noted by myself and the Committee and again, I thank you. Let it not be misunderstood—our goal here is to make the system work better than it is now to help and assist each of you to find work. That way you can better take care of your families and yourself with a job that will pay much more than what you are able to receive at this time through the unemployment safety net. With that, this hearing stands adjourned.

[Whereupon, at 11:33 a.m., the hearing was adjourned.]

[Questions submitted from Chairman Herger to Messrs. Decker, O'Leary, and Benus, and their responses follow:]

Questions from Chairman Herger to Paul T. Decker, Ph.D.

1. The following is a quote from a study published in 2002 by economists Alan Krueger and Bruce Meyer on the labor supply effects of unemployment and other benefits:

"UI affects at least five dimensions of labor supply. First, UI can increase the probability of unemployment by affecting worker and firm actions to avoid job loss. Second, program characteristics affect the likelihood that workers will file a claim for benefits once a worker is laid off. Once a claim has been made, we expect that labor supply will be affected by the adverse incentives of the UI program. Third, once on the program, UI can extend the time a person is out of work. Most research on the labor supply effects of UI has focused on this issue. Fourth, the availability of compensation for unemployment can shift labor supply by changing the value of work to a potential employee. Finally, there are additional affects such as the work responses of spouses of unemployed workers."

Please discuss these individual effects in turn and explain how they each work to encourage more collection of unemployment benefits and discourage swift returns to work.

- By providing a safety net in case of job loss, UC may encourage some workers to accept jobs with a higher risk of layoff than they would accept in the absence of UC. Workers may also be less inclined to search for a new job while employed, even if they know their current job might be at risk. Both of these effects can increase the frequency of unemployment.
- A large proportion of unemployed workers do not apply for UC benefits. If benefits were made more generous, some of these unemployed workers would probably apply for benefits. Once these workers start receiving benefits, they would be affected by the work disincentive associated with UC receipt and would consequently remain unemployed longer than they would if they did not receive UC.
- The UC system creates a work disincentive for benefit recipients because it lowers the income loss associated with unemployment. Unemployed workers who have access to UC will tend to reduce the intensity of their job search or be more selective in accepting a job offer than they would be in the absence of UC. Both of these tendencies generate longer unemployment spells. Increasing the generosity of the system, either through increased benefit amounts or additional weeks, adds to this effect.
- By making employment less risky and therefore more attractive, the UC system increases the likelihood that some individuals will enter the labor force. Hence, this effect of the UC system may increase employment among the working-age population.
- When a worker is laid off, one potential response to the loss in household income is for the unemployed worker's spouse to increase his or her employment. By reducing the income loss due to unemployment, UC may reduce the degree to which spouses increase their employment in these situations. Recent research demonstrates, for example, that higher UC benefits are associated with less work by the wives of unemployed men.

2. It probably should not shock anyone that providing unemployment benefits to individuals who are out of work may delay returns to work for some workers. Many workers in construction and seasonal industries, for example, rely on unemployment benefits between jobs. I suspect this effect has been understood since this program started in the 1930s. Other countries no doubt face similar issues. Are there any policies developed by other countries specifically to address concerns about delayed returns to work?

My knowledge of UC policies in other countries is limited. The U.S. does more than most other countries to limit the reemployment disincentive effect of UC. The limited duration of regular UC benefits in the U.S. is one example of this effort. Other countries generally provide longer unemployment benefits, and once unemployment benefits are exhausted, recipients are often automatically transferred to social assistance benefits. Dr. Benus or Dr. O'Leary may be able to provide additional information and specific examples of UC policies in other countries.

3. Research suggests that the likelihood of finding work increases sharply as benefits are about to or have ended. Here's how you put it in a study you wrote in 1997:

"Research has also addressed the issue of the timing of reemployment relative to the timing of benefit exhaustion. Both the labor-supply and job-search theories imply that the probability of reemployment increases near the point of benefit exhaustion. These predictions are confirmed by empirical research (Katz and Meyer 1990), which shows that the rate at which claimants secure work increases substantially just before they exhaust their benefits." ***(From "Work Incentives and Disincentives," Chapter written by Paul Decker in*** **Unemployment Insurance in the United States: Analysis of Policy Issues*****, Christopher O'Leary and Stephen Wandner, Editors, 1997, p. 297)***

What are the implications for policymakers of this clustering of returns to work near the end of benefits?

The clustering of reemployment near the end of maximum UC benefit durations suggests that the maximum benefit duration has an effect on either recall policies of firms or on job-search strategies of workers. For example, firms may plan to recall workers near the end of maximum benefit durations because they fear losing these workers to other employers once UC benefits run out. Alternatively, unemployed workers may increase the intensity of their job search or reduce their standards for acceptable job offers as they near the end of their benefits.

Despite this relationship between timing of reemployment and benefits, most UC exhaustees do not appear to appear to be purposely timing their return to work according to the duration of their benefits. A recent study of UC recipients in 1998 found that only 11 percent of exhaustees were reemployed within 4 weeks of benefit exhaustion and only 23 percent were reemployed within 10 weeks. Most UC exhaustees had very long unemployment spells—62 percent of exhaustees were still unemployed 26 weeks after exhaustion.

Questions from Chairman Herger to Christopher J. O'Leary, Ph.D.

1. Research suggests that the likelihood of finding work increases sharply as benefits are about to or have ended. Here's how Paul Decker put it in a book you edited in 1997:

"Research has also addressed the issue of the timing of reemployment relative to the timing of benefit exhaustion. Both the labor-supply and job-search theories imply that the probability of reemployment increases near the point of benefit exhaustion. These predictions are confirmed by empirical research (Katz and Meyer 1990), which shows that the rate at which claimants secure work increases substantially just before they exhaust their benefits." (From "Work Incentives and Disincentives," Chapter written by Paul Decker in Unemployment Insurance in the United States: Analysis of Policy Issues, Christopher O'Leary and Stephen Wandner, Editors, 1997, p. 297)

Q: What are the implications of this issue for worker profiling?

A.: The typical statistical models used by states to identify those most likely to exhaust benefits assign a probability score to each claimant profiled. The scores for claimants who nearly, but don't completely, exhaust their entitlement tend also to be at the high end of the range. That is, WPRS systems tend to refer to reemployment services all claimants likely to draw all or most of their UI entitlement.

2. Q: Who gets profiled and who is exempted from profiling?

A: Among all new claimants for UI, those exempt from profiling are claimants who would normally be exempt from required work search. This includes claimants who are either job attached with a definite recall date set by their recent employer, or members of a union hiring hall that does job search for them. By excluding these two groups of workers from profiling ex ante, the UI system maintains a long policy of seeking to preserve employer-employee relationships and respect union rights. All other new UI claimants are profiled. That is, an estimate is made of the probability that they will exhaust their entitlement for regular UI benefits. Among the profiled, those identified as having the highest likelihood of UI benefit exhaustion are referred to job search assistance (JSA).

Q: What criteria are used in the profiling process to determine whether a particular claimant is likely to exhaust his or her benefits before returning to work?

A: The original profiling models established by most states in 1994 based on recommendations of the U.S. Department of Labor included the following factors: educational attainment, duration of tenure on the prior job, prior occupation, prior industry, and local economic conditions. Some revised state WPRS models have added important factors from UI administrative records including: an indicator that the previous UI claim was exhausted, earnings in the base period, and the length of UI benefit entitlement.

Q: Are the criteria the same for every claimant?

A: When a state adopts a profiling model, the same model is applied to all UI claimants required to search for work. That is, the same selection criteria for referral to reemployment services are applied to all job seekers in the pool for profiling.

Q: Once someone is profiled, what happens then?

A: Most state systems assign a score between zero and 100 to each profiled claimant representing the likelihood of UI benefit exhaustion. Scores are then grouped for a 1 week period and ranked from highest to lowest, and depending on local capacity to serve, UI claimants with the highest scores are referred to special reemployment services. In some areas a predetermined score threshold is set, and anyone with an exhaustion likelihood higher than that score is automatically referred to services. This latter arrangement speeds up the process which can result in quicker return to work.

Q: What services are they to receive?

A: Profiled claimants selected for referral to services typically attend a group orientation to job search followed by additional individually chosen or customized job search services. These may include: skills assessment, aptitude testing, counseling, resume preparation, career planning, job interview referrals, and use of the one-stop-center job search resource room.

Q: How long do those services last?

A: Usually a total of 8 to 10 hours over 2 or 3 days. The orientation is usually about 2 hours long and times for the other services are chosen individually.

Q: Are some unemployed workers who are profiled as likely to exhaust unemployment benefits exempted from receiving additional services? Why?

A: The most common reason profiled UI claimants are excused from participating in job search assistance is that they've found a job. That is, they have a definite date to report for work within 2-weeks. (UI benefits claimed after that date could be suspended if participation in services is not excused further.) Other excuses are medical conditions and child or elder care obligations, however these excuses would suspend UI benefit eligibility because of the "availability for work" rule.

3. Q: How successful has profiling been in reducing the number of claimants who exhaust their benefits before returning to work?

A: Evaluations of WPRS have yielded impact estimates on weeks of UI benefits paid in the range of -0.5 weeks (six state study by Dickinson, Decker, Kreutzer and West 1999) to -2.2 weeks (Kentucky by Black, Smith, Berger and Noel 2001).

Q: Is profiling cost effective? For example, a 1997 report commissioned by DOL for Congress found that worker profiling and reemployment services "reduced benefit receipt by slightly more than half a week per claimant, which translates into a UI savings of about $100 per claimant." (Dickinson et al, p. IV–4) How does this compare with the cost of providing such services?

A: WPRS is cost effective, partly because it is a very inexpensive service. The process of profiling and referral is fully automated, and the basic ES services provided are inexpensive. Profiling saves UI benefit payments and the cost of services provided is low.

Q: How could profiling be made more effective?

A: First, states should update their models on a regular basis to keep the profiling selection process as accurate as possible. Second, profiling and referral to services should be done as soon after a claim is filed as possible. Currently, there is a lag as long as 6 weeks before referral is made. Research suggests that the earlier the job search assistance the greater the impact of shortening the duration of joblessness. Finally, and perhaps most importantly, employment services should be of a high quality and adequately funded. The group orientation to job search should all be in tune with current labor market conditions and additional job search services should be chosen to suit the particular situation of the job seeker.

4. Q: To what extent do factors such as household income from other family members impact return to work incentives?

A: In economic models of labor supply, the income of other household members usually has the effect of making labor supply more responsive to variations in wage levels.

Q: Do workers who have a working spouse or other working family members return to work as quickly as those workers who have no other income source?

A: In terms of choosing to work, other household income permits a job seeker to be more choosey.

Q: Should profiling take the family characteristics into account?

A: Unemployment compensation is a social insurance program providing security against the unavoidable risk of joblessness. It is an earned entitlement for those who have chosen to work and have sufficient recent earnings. UI involves no means test appraising other wealth of an individual or income of other household members. WPRS profiling models are based on objective criteria predicting UI benefit exhaustion. Civil rights considerations prohibit use of certain variables such as age, gender and race in WPRS models. If you were to attend a WPRS orientation you would see diverse group of attendees. All ages, races, and backgrounds are represented. The unobservable objective common trait they share is a high likelihood of UI benefit exhaustion. The aim of WPRS is to provide early assistance in gaining employment for such job seekers.

References

Black, Dan, Jeffrey Smith, Mark Berger and Brett Noel. 2001. "Is the Threat of Reemployment Services More Effective than the Services Themselves? Experimental Evidence from the UI System." unpublished manuscript. College Park, MD: University of Maryland.

Dickinson, Katherine P., Paul T. Decker, Suzanne D. Kreutzer, and Richard W. West. 1999. "Evaluation of Worker Profiling and Reemployment Services: Final Report." Research and Evaluation Report Series 99–D. Washington, DC: Office of Policy and Research, Employment and Training Administration, U.S. Department of Labor.

Questions from Chairman Herger to Jacob Benus, Ph.D.

Question 1. It probably should not shock anyone that providing unemployment benefits to individuals who are out of work may delay returns to work for some workers. Many workers in construction and seasonal industries, for example, rely on unemployment between jobs. I suspect this effect has been understood since this program started in the 1930's.

Other countries no doubt face similar issues. Are there any policies developed by other countries specifically to address concerns about delayed returns to work?

It is well established in the economics literature that providing unemployment benefits to individuals who lose their jobs has desirable social benefits. The literature also recognizes that some features of the UC system may also delay return to work. Policy makers must, therefore, balance the socially desirable aspects of the UC system while minimizing the system's disincentive effects on return to work.

A number of countries have developed policies specifically to deal with delayed returns to work. Unfortunately, there is very little rigorous research to determine, which, if any, of these policies have been effective in expediting return to work. While some of these policies may be effective, a great deal remains to be done before any conclusions can be reached.

One approach that was tried in the late 1980's in the United Kingdom is *compulsory intensive interviews*. Dolton and O'Neill (1996) report on the Restart experiment that was conducted in the U.K in 1989. In this experiment, individuals who were unemployed for 6 months were randomly assigned to participate in an interview to counsel them on active job search (treatment group). Control group Members were not notified to attend such an interview. For the treatment group, failure to show up at this interview carried the explicit risk of losing benefits. The results of this study indicated that the notification of an interview had statistically significant positive effect on exit rates to employment.

A related finding from the U.S. corroborates the finding that the "threat" of special services encourages individuals to exit the UC system. Specifically, in the Maryland Unemployment Insurance Work Search Demonstration (Benus and Johnson, 1998), a randomly selected sample of unemployed individuals was required to attend a 4-day job search workshop early in their unemployment spell. The results of this experiment found that Members of this treatment group exhibited a sharp increase in exit rates from unemployment *prior* to their scheduled workshop date. This finding is consistent with a finding from a similar experiment in Washington (Johnson and Klepinger, 1994).

Other countries have used a variety of other policies to encourage unemployed workers to return to work quickly. For example, Norway uses a strict definition of *suitable work*. In Norway, unemployed workers who receive unemployment benefits are required to accept employment even if the job offer is for shift or night work. UC recipients must also be prepared to work anywhere in Norway and must be ready to accept any job they can do without reference to their previous occupation or wage level. Other countries have a much more relaxed definition of *suitable work* and the requirements for accepting a job offer are less strict. For example, in the Netherlands and the U.K., unemployed workers must accept suitable work if the job involves no more than 2 hours' travel daily; in Belgium and Switzerland, the daily travel time requirement is 4 hours. While strict suitable work requirements may seem like a potentially useful policy for expediting return to work, it is unlikely that many placements under such strict conditions are stable in the long run.

In a recent study of four European countries where unemployment fell during the 1990's (Denmark, Ireland, the Netherlands and the United Kingdom), three of the four countries clearly tightened their surveillance of unemployment benefit eligibility. Denmark, for example, set up a special "availability inspection unit"; the Netherlands started to use sanctions as an instrument for encouraging reemployment; and the United Kingdom made participation in a 1-week course mandatory for those who had been unemployed for 2 years. Furthermore, in the U.K. benefit legislation was radically overhauled in 1996, outlining the processes for monitoring unemployed workers' availability for work and their compliance with instructions from the Public Employment Service.

While some of the above policies may seem feasible for the U.S., few have been subjected to rigorous research. To determine which, if any, of these policies may be appropriate for implementation in the U.S., further research is required.

Question 2. Research suggests that the likelihood of finding work increases sharply as benefits are about to or have ended:

"Research has also addressed the issue of the timing of reemployment relative to the timing of benefit exhaustion. Both the labor-supply and job-search theories imply that the probability of reemployment increases near the point of benefit exhaustion. These predictions are confirmed by empirical research (Katz and Meyer 1990), which shows that the rate at which claimants secure work increases substantially just before they exhaust their benefits." (From "Work Incentives and Disincentives," Chapter written by Paul

Decker in Unemployment Insurance in the United States: Analysis of Policy Issues, Christopher O'Leary and Stephen Wandner, Editors, 1997, p. 297)

Are there implications of this research for work search requirements?

While there are a number of implications from the observation that unemployed workers tend to find jobs as they near benefit exhaustion, the implications are mostly in the area of establishing the appropriate duration and level of unemployment benefits. For example, a number of researchers have proposed that benefit level should decline over the unemployment spell (Shavell and Weiss, 1979). Others have argued that a combination of declining unemployment benefits with a rising wage tax (based on the worker's unemployment history) would encourage unemployed workers to find jobs more quickly (Hopenhayn and Nicolini, 1997). A number of other theoretical proposals have been made; none, however, have been tested empirically.

The most convincing empirical evidence regarding the effectiveness of work search requirements on the return to work comes from the Washington and Maryland work search experiments. Both of these studies concluded that more stringent search requirements combined with monitoring reduces the length of benefit receipt.

Question 3. What share of UC recipients are expected to search for work?

How many people do search for work, and what do states do to confirm their work search efforts?

How well do States do in enforcing UC work search requirements?

Have these States policies changed over time to become more or less stringent?

What does the research suggest about less stringent work search requirements in terms of returns to work?

The present UC system has been in effect for many years with little structural change. In recent years, the main changes have been in computerization and automation of the entire UC system. In many states, it is now possible to file an initial UC claim as well as continued claims by computer or by telephone. There is also a movement toward promoting self-directed employment services through the One-Stop Centers. Thus, many of the core services that were previously offered by staff are increasingly offered through Internet-based systems that require little, if any, in-person contact with staff. The impact of this trend is not clear. The new automated systems may enhance the ability to monitor and enforce UC regulations; on the other hand, this trend may encourage UC recipients to take advantage of gaps in the new system.

Nearly all UC recipients are required to search for work. The typical exceptions to this requirement are: temporary layoff with a definite return to work date, members of a union who get their work through the union hiring hall, participating in an agency-approved training program, over 60 and subject to recall by employer, serving on a jury, participating in Work Sharing Program, or participating in Self Employment Assistance Program.

In filing a continuing claim, UC recipients are typically required to report biweekly by telephone. They are also required to: actively search for full-time work, be physically able to work, be available for full-time work, apply for and accept suitable work, be registered for work at the local One-Stop Center, call or report to the One-Stop Center as instructed.

Given the available budget for staff, the prevailing impression is that there is very little enforcement of the work search requirements. In Washington State, for example, UC claimants are required to place and log at least three phone inquiries about employment opportunities each week. Claimants are not required to visit any business or to meet with a job counselor in order to show that they are expending a reasonable effort into their job search.

Since there has been very little research on this subject, it is difficult to determine if State monitoring and enforcement of UC recipients' work search behavior has become more or less stringent in recent years. The last study on this subject was the 1994 Maryland Unemployment Insurance Work Search Demonstration (Benus and Johnson, 1998). As described in this study, relaxing work search requirements extended the duration of unemployment. In contrast, making the work search requirements stricter in combination with enhanced monitoring reduced the duration of unemployment. One might speculate that the recent automation in the UC system may have made enforcement of the work search requirements less strict, thus, making the system more vulnerable to abuse by UC claimants.

I hope that my answers to your questions are helpful in your consideration of how to address the issues that have an effect on the implementation of the Nation's unemployment compensation system. I look forward to hearing about the Committee's progress in deliberating on these important issues.

REFERENCES

Benus, Jacob, Terry R. Johnson, Klepinger, Daniel H., and Jutta M. Joesch, (1998), "Evaluation of the Maryland Unemployment Insurance Work Search Demonstration." Unemployment Insurance Occasional Paper 98–2, U.S. Department of Labor, Employment and Training Administration.

Dolton, P. and O'Niell, D. (1996) "Unemployment Duration and the Restart Effect: Some Experimental Evidence", *Economic Journal*, March, pp. 387–400.

Hopenhayn, H and J P Nicolini (1997), Optimal Unemployment Insurance, *Journal of Political Economy* 105, 412–38.

Johnson, Terry R. and Daniel H. Klepinger (1994), "Experimental Evidence on Unemployment Insurance Work-Search Policies." *The Journal of Human Resources*, 29 (3) (Summer).

Shavell, S and L Weiss (1979), The Optimal Payment of Unemployment Insurance Benefits over Time, *Journal of Political Economy* 87, 1347–1362.

[Submissions for the record follow:]

New York, New York 10012
April 9, 2003

Dear Ways and Means Committee:

I am unable to attend the hearing tomorrow since I can not afford to travel from New York to Washington, D.C. at this time.

I lost my job due to 9/11. I received Disaster Unemployment benefits through June 17, 2002. I am offended by the conclusion that unemployment benefits prevent people from going back to work. This is particularly offensive in light of the current job market in which employment opportunities are at an all-time low.

It is irresponsible to the people who have been attached to the workforce for their entire adult lives and find themselves out of work through no fault of their own, to conclude that the receipt of benefits is the problem, not the lack of jobs or the failing economy.

The benefits received by individuals impacted by the disaster have been inadequate at best. Those benefits in no way contributed to the difficulty of finding employment. I hope that the committee will review these issues responsibly.

Sincerely,
Jennifer Romine

Statement of Dale Tuvey, Chief Executive Officer, United Claims Management, Seattle, Washington

Thank you for the opportunity to present comments on issues affecting the return to work of Unemployment Compensation (UC) recipients. This is an important topic that has received too little attention over the years.

I have read the written statements of the witnesses that appeared at the Subcommittee's hearing on April 10, 2003. The summaries of the various academic studies cited by Dr. Decker, Dr. O'Leary and Dr. Benus were enlightening and were generally in accord with my observations as a daily practitioner in the field of unemployment compensation.

I wish, however, to offer some additional comments of a less academic nature based on my 12 years' experience as a Washington State Employment Security Department employee and my 21 years' experience representing employers in all aspects of unemployment insurance cost control. I will focus my comments on three areas: system structure, laws and policies, and other issues.

I strongly support the UC system and its role in stabilizing the economy, assisting workers in transition between jobs, training and retraining of workers, and helping employers to find employees to fill jobs. Having a sound system is important to workers, employers and the public. We have a good system, but one that can be improved by fixing some fundamental problems. While I do not support, and in fact oppose, federal benefit eligibility standards as a way to fix the problems, I do think Congress and the Department of Labor can play key roles in improving the system by providing adequate funding, by playing a leadership role in developing policy ini-

tiatives, research, and best practice dissemination, by assuring compliance with Federal law, and by encouraging an economic climate that benefits both workers and employers.

System Structure

The three witnesses at the hearing did an effective job of presenting many of the fundamental issues regarding how the very nature and structure of the unemployment compensation system contributes to longer periods of unemployment than might be found absent any wage replacement system. I would like to mention a few additional points.

First, the funding mechanism for UC administration does not provide strong incentives to State Agency staff to consider an applicant's return to work as their highest priority. In fact, the mechanism gives an inherent incentive to State agency personnel to make policies, decisions, and practices that encourage claimants to continue collecting UC benefits. The vast majority of UC administrative funding is done on a workload basis so that it is in the self-interest of the entire system to have more rather than fewer people drawing benefits. There is no corresponding budgetary incentive to adopt policies and practices that will quickly put people back to work. The incentive is in the wrong direction.

In addition, the complex funding system for UC administration has resulted in too few resources to do an adequate job of ensuring that claimants comply with their responsibilities to be fully available for and actively seeking suitable work. More of the funding currently available could and should go to those efforts, but it is also clear that the funds appropriated by Congress for overall administration of the UC system have declined in constant dollars over the years. An increase in administrative funding directed at re-employment and integrity activities would be money well spent.

Our company specializes in managing unemployment claims filed by hospital employees. We have been very frustrated by the number of Registered Nurses who exhaust their entire 30 week regular benefit claims under Washington State UC law (at a time when there was, and is, a dire shortage of nurses to the point where some hospitals are closing beds for lack of nurses and other health care personnel). Consequently, we hired our own placement specialist who is specifically assigned to assist former hospital employees to return to work. That is a job that should be done by Wagner-Peyser staff in the local one-stop centers. Our placement specialist position has more than paid for itself working only with people who are eager to return to work. As a private company with no threat to a claimant's unemployment benefits for non-cooperation, we can not compel any participation or action. State Employment Security Department staff performing the same functions could do as well with the eager applicants, and they could take action to discontinue the benefits of those claimants who are not cooperating or when availability issues that hinder a return to work are discovered. For example, a claimant may choose not to apply for a job because the opening is on a night shift, even though work on the night shift is a customary trade practice in their profession. As it is, if we discover what we believe is a potentially disqualifying eligibility issue and report it to the Department no action may be taken. The Department often may not even interview the claimant about their situation. What the claimant has told our placement specialist about their availability for work is not considered by the State in determining their eligibility. With State Agency staff working with claimants more claimants would be served and issues raised would be routinely adjudicated with good results obtained from each of those factors. More money appropriated for placement activities using highly trained and compensated staff, with significant performance standards and expectations would actually be a cost saving expenditure.

Inadequate funding is generally cited as the reason for states changing their claim procedures, first from in-person to mail claims reporting to receive benefits, and now to telephone call centers and internet reporting. Although the money saved by call centers was vastly overestimated and the problems encountered were far greater than expected, I have heard no proposals to abandon the current "hands off" system, despite its difficulties. It is now possible, and not uncommon, for a person to complete an entire unemployment claim without ever seeing a State Agency employee, let alone have any contact with the Wagner-Peyser staff that might help them return to work. The lack of personal contact and the lack of the claimant ever having a physical proximity to the work search assistance available at a One-Stop Center tend to discourage utilization of that resource. The "out of sight, out of mind" phenomenon operates and the claimant may not even know where to find the One-Stop office even if he or she is motivated to use it.

One other structural issue is that unemployment benefits are often thought of as a right or an entitlement rather than as an "insurance policy" that provides finan-

cial support when certain conditions are met. Even referring to the program as Unemployment *Compensation* rather than Unemployment *Insurance* contributes to the entitlement mentality. A business orientation rather than a social service orientation toward UC activities is important. It is praiseworthy that many people go to work in the UC, ES, and WIA system to "help people," but often their vision of "helping people" is to make sure those people get as much money as possible without realizing that the primary goal ought to be to help the claimant return to work. Symptomatic of this mentality is the rather casual acceptance of a rate of improperly overpaid benefits that is consistently greater than 8% as reported in official Department of Labor statistics. Work search issues are one of the most prevalent reasons for improper payments. Approximately one half of the total improper payments in the states with the highest improper payment rates are due to work search issues according to DOL UI Performs data. There should be immediate, intensive, efforts made by State Agency staff to reduce the improper overpayment of benefits starting with a concentration on work search and unreported earnings issues.

Laws and Policies

The second area involves laws and policies that encourage longer claim duration. Some are codified in law or administrative rules and some are an unwritten standard operating procedure. For example, it seems incredible that some states' laws do not even require that a claimant make an active search for work while claiming benefits. In addition, in some states the penalty for refusing an offer of suitable work is an eligibility disqualification of as little as one week, and even then the penalty most often results in only a one-week delay in the claimant receiving benefits. The total amount of benefits the claimant ultimately receives is not reduced at all. Provisions like these certainly do not encourage an early return to work.

Even those states which do have work search requirements in their law make precious little, if any, attempt to enforce their requirements. Most states do not require the claimant to make any record or report of their work search to the State Agency. There is no way for the State Agency or an interested employer to verify a work search that is not recorded even if there is a suspicion of non-compliance. I have even been told that it is considered "harassment" to ask claimants where they looked for work without having a specific reason to believe that they did not do so.

There are four additional problems with work search requirements as they are generally administered. First, the expectation of what constitutes an adequate work search is usually not specifically and adequately communicated to claimants at the beginning of their claim. The second problem is a corollary to the first. Work search requirements for a particular employee are generally not tailored to that claimant's individual skills and the labor market for people with those skills. It would be interesting to test a "case management" model of unemployment insurance eligibility determination and work search expectation and assistance, where a State Agency employee would be responsible for evaluating a claimants skill set and qualifications, for providing "hands on" assistance to the claimant in identifying and removing barriers to employment, and for assisting the claimant to identify, contact, and apply for work at appropriate employers. Third, the "real world" expectations regarding the number of employer contacts that should be made for eligibility are woefully small. By far the most common minimum number of employer contacts that must be made weekly for eligibility in most states is three. Even under adverse circumstances three employer work search contacts can be made in a few hours. What about the rest of the week? A person who truly desires to become re-employed as rapidly as possible, i.e. someone who is "actively" searching for work, would make far more than three contacts. Some far more realistic number of contacts should be required. And fourth, a critical evaluation of the quality of the contacts reported by the claimant must be made. Currently, virtually any contact with an employer, regardless of whether or not the contact has any reasonable possibility of leading to an offer or acceptance of work is counted as valid. The claimant's search should be realistic as well as active. Claimants whose only work search for a given week was visiting three employer internet web sites that listed job openings have been accepted as actively seeking work.

It is clear from research cited in oral testimony before the Subcommittee that extending the maximum duration that benefits are available to claimants increases the average length of unemployment. The record clearly shows that many claimants respond to economic incentives and that when benefit duration is extended they postpone a serious job search, especially if there is another income source in the family. Therefore I think it is reasonable and realistic to have requirements for claimants receiving benefits beyond the "regular" program make an even more intensive work search even in a soft job market, to have additional documentation requirements regarding work search, and to expect claimants to take any job they are

capable of doing rather than to continue receiving extended benefits. Although previous federal benefit extensions included strong work search mandates, the current TEUC program does not include them, and the Bush Administration's proposed UC administrative financing reform would repeal these requirements under the Extended Benefits program. The most common argument for weakening the work search requirements for benefit extensions is that state administrators find such requirements burdensome, but based on the results of research I think that elimination of these requirements is a mistake. I think the same research argues for general revenue to be used a source of funding for extended benefits payable outside the permanent EB program, rather than expecting employers to finance long-term unemployment claims through their UC contributions.

Unemployment benefits are used by many people to buy time to find the perfect job or at least a job as close as the claimant thinks he or she can get to the ideal, rather than to serve as a temporary stop gap between jobs that are then currently available. If a claimant can not find a job within a reasonable amount of time such as 8–10 weeks, the expectation should be for them to accept an available job and then continue to seek that ideal job while working, *not* to draw benefits while awaiting the ideal. There needs to be a better understanding by claimants of what it is to be "available for" and "actively seeking" work. More specific, more demanding, and better-enforced standards regarding these issues would significantly contribute to reducing the length of unemployment for many people.

I want to mention two examples from my state of Washington that are good illustrations of the type of unwritten policies and attitudes that unnecessarily prolong unemployment claims. Each of these situations occurred in April 2003. In both cases the Department's actions were confirmed as current State policy with appropriate personnel in our state's central office policy unit. These were not cases of an uninformed or untrained field office staffer making a decision outside of that endorsed by the agency as official policy.

We telephoned a local unemployment call center to ask that a former employee of one of our clients be directed to apply for work at that business because the former employee's old job was available and the employer wanted to consider the claimant for rehire. The job was professional/technical in nature and was in a small town where the employer had no other applicants for the position and the claimant had a very small (1–2) number of opportunities for work in her field with other employers. The first and only question asked by the Department interviewer was whether or not the employer had listed the job with the Department's Work Source Center. When informed the employer had not listed the job, the interviewer stated that as a matter of policy the Department would not ask or require the claimant to contact the employer in question about the job, a job for which they would almost certainly be hired. That is absurd.

The second situation happens very frequently. We routinely are informed when a former employee has filed a claim for benefits and has been found by the Department to be eligible to begin receiving benefits. Often that claimant does not contact their former employer in search of work either for their former job or a different job for which he or she might be qualified. This situation often occurs in small towns with limited labor markets but it also happens in metropolitan areas as well. We will generally inform the Department that the person has not re-applied for work with their former employer, especially when the job was in a small town. Often the claimants' skills are professional, semi-professional, technical or specialized in nature with very few or no other employers in the community that could hire them to do that work. A claimant whose highest skills are utilized by only one or a very few employers in a community should be expected to have contacted those employers immediately when beginning a work search. Failure to make such contact raises a serious question as to whether the claimant is available for and actively seeking work pursuant to customary trade practices, and thus should not be eligible for UC benefits. The failure to apply at that particular employer should cause the Department to (1) question their eligibility to receive benefits, (2) investigate the claimant's eligibility through an in-person interview as to why they have not applied with that employer, (3) issue a directive to apply for work there if appropriate, or (4) disqualify the claimant if appropriate. The response we commonly receive, and that was confirmed as official Department policy, is that a claimant is not required to apply at any particular business and that as long as the individual is making (or more accurately *report if asked*) the required three contacts per week, that situation raises no eligibility issue.

Even in a metropolitan area with a larger labor market it seems that claimants should be expected to have contacted a former employer from whom they separated in good standing in order to be considered to be conducting an active and realistic work search. This example illustrates why tailored, specific, realistic work search

expectations and plans should be clearly communicated to each claimant at the beginning of his or her claim, unless there is an expectation of immediate recall, he or she is a member of a full referral union, or there is some other special circumstance that makes such requirement moot. State Agencies need to be creative and specific about what work search efforts are required and diligent in making and documenting those requirements. They should help claimants create realistic, effective work search plans, monitor claimant compliance with the directions given, and immediately disqualify those that do not comply. Those actions would help people get back to work and better assure that only truly eligible claimants are receiving benefits.

Other Issues

In addition to the need for *more* staff in the UC system as discussed above there is a serious need for *training* of those UC staff already employed. The inadequate training, and in some cases, lack of aptitude for the work assigned to the agency staff due to restrictive union rules or other factors, results in inconsistent treatment of similarly situated claimants and employers. The quality of service received by claimants, applicants, and employers alike is widely varying depending on who happens to be assigned to your case, whether it is eligibility determination or work search assistance. In the vernacular, it is a "crap shoot." State Agencies must pay serious attention to having the right people doing a particular job and giving them the training they need to be successful. Training is always one of the first casualties of an actual or perceived budget shortfall. But it is crucial to have trained employees administering these very complex laws and assisting people to make effective career and job search decisions. And while greater budgetary priority of current dollars to training is needed, more administrative financing appropriated by Congress is also critical.

Along with training for employees, training for *claimants* is an important issue as well. For example, hospitals and other health industry employers in Washington State are facing a critical shortage of workers at the same time our state has one of the highest unemployment rates in the nation. While it would seem logical to take advantage of the industry workforce shortages to hire dislocated and other unemployed workers or to develop underemployed incumbent workers, there are major barriers to doing so. Beyond the entry level, health industry employment requires significant educational preparation. Existing educational programs lack enough capacity to train the number of workers desperately needed in health careers. The need and the applicants are there, training capacity is not. Currently in our state two thirds of qualified applicants to these programs are turned away due to lack of capacity due to inadequate space, funding, faculty, student financial aid, clinical sites and equipment. Until this bottleneck can be relieved a critical industry which continues to hire, pays high wages, and is desperate for workers will not be able to impact unemployment even when the unemployed are interested in the opportunities presented. Thus the health care industry will increasingly turn to foreign sources to import workers while unemployment claimants will continue to draw benefits. That is wrong. And there are other industries with the same problems. In fact, they now compete for the meager training slots available. More training capacity is crucial to solving many of these related problems.

One of the most important ways the federal government can help ensure that people return to work quickly is to adopt laws and policies that aid economic growth and promote job creation so that there are jobs available to be filled. All of the unemployment system is sound and fury unless there is a job available for the unemployment claimant. When economic conditions are weak it will legitimately take longer for claimants to become re-employed. However, many claimants can and should be expected to find work sooner than they do now with a different expectation of what they will do and an increased effort to find that different work. We can and should reverse the trend that shows longer duration of claims now as compared to past periods of similar economic conditions. Changing expectations of work search and acceptance would be effective. The best solution is to create the conditions that make jobs available, makes training available to allow people to get the skills to fill those jobs, and expects claimants to take the jobs that are available. I believe that the single best way to begin that process is for Congress to make an investment in the Administrative funding of the unemployment system with the money targeted toward training of staff and to improvement of the work search expectation, assistance and monitoring process.

Thank you for the opportunity to present these comments to the Subcommittee.

○