Extended Unemployment Benefits:

A Review of the Literature

Walter Nicholson

Karen Needels

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Extending the number of weeks over which unemployment insurance (UI) recipients can collect benefits has become an important component of counter-cyclical policy in the United States. This paper provides a succinct review of the recent literature that examines the success of such policies. The primary goal is to provide background information for a forthcoming theoretical and empirical analysis of optimal extended benefits policy. A final section summarizes the major policy issues about extended benefits programs that are relevant to developing such a policy.

A. CONCEPTUAL RATIONALE FOR EXTENSIONS OF BENEFITS

The federal-state Unemployment Insurance program offers assistance to workers who have lost their jobs through no fault of their own. Since the program's inception, all states have allowed claimants to collect benefits for only a limited number of weeks—largely because states were initially concerned that they would be unable to finance long periods of benefits given their financial resources. UI was also viewed as only the "first line of defense" in unemployment assistance. Providing longer-term benefits, it was believed, would blur the distinction between UI and "welfare" and might also create a disincentive for workers to seek new jobs. For all these reasons, states were cautious in setting policies on durations and ultimately settled on a "standard" 26-week maximum.[1]

[1] Two states, Massachusetts and Washington, provide a 30-week maximum. Eight "uniform duration" states provide 26 weeks to all claimants regardless of previous work experience (Connecticut, Hawaii, Illinois, Maryland, New Hampshire, New York, Vermont, and West Virginia), as does Puerto Rico. All other states base claimants' potential durations on prior work experience. At times, some states have implemented extended benefits programs on their own. Here, we discuss only the federal initiatives.

Because the risk of long-term unemployment varies over the business cycle, the 26-week maximum may not be appropriate in all economic circumstances. Providing benefits for longer periods during economic downturns is conceptually consistent with an insurance-based rationale for UI under which the degree of worker protection is augmented in the face of these increased risks.[2] Similar arguments for increased protection might be made for workers with longer-than-expected durations of unemployment regardless of the condition of the general labor market.[3] For example, the Advisory Council on Unemployment Compensation (1994) suggests that extended UI benefits might be made payable to exhaustees of regular UI benefits who can be identified as dislocated workers (who, presumably, face greater risks of long unemployment spells). The Trade Adjustment Act provides extended benefits to some UI recipients whose unemployment results from import competition or certain shifts of production to other countries, while they participate in reemployment services or training.[4] Most recently, the enactment of Temporary Extended Unemployment Compensation for displaced airline industry and related workers (TEUC-A) might be rationalized as the proper response to the greater long-term unemployment risks posed for this group of workers as a result of the post-September 11

[2] Corson and Nicholson (1982) argue that a potential goal of UI is to keep the benefit exhaustion rate constant over the business cycle. They conclude that this can be accomplished by increasing durations by 3.5 to 5 weeks for every one-point increase in the insured unemployment rate. Moffitt (1985) obtains a similar estimate through a different approach.

[3] There is a considerable literature on "optimal unemployment insurance" that explores the general trade-off between the weekly unemployment insurance benefit amount and the maximum duration of benefits. Davidson and Woodbury (1997) argue that, given current levels of weekly UI benefits, unlimited durations would be optimal for risk-averse claimants. Others (Hopenhayn and Nicolini 1997; and Fredriksson and Holmlund 2001), however, develop models of job search behavior in which declining weekly benefit amounts over time are optimal.

[4] See, for example, Corson et al. (1993).

decrease in air travel. Historically, however, most innovations in extended benefits policy in the United States have focused on risks posed for all workers by cyclical economic downturns.

In addition to providing added insurance to individual workers, extended unemployment benefits may also play a role in macroeconomic stabilization. In normal times, unemployment benefits provide substantial aid to workers in smoothing their consumption over short periods of unemployment (Hamermesh and Slesnick 1995). Although the role of extended benefits in smoothing consumption has been less intensively studied, it could be quite important. Because workers who are experiencing longer unemployment spells are less likely to be able to draw on their own savings to maintain consumption, extended benefits will be more likely to result in spending that would not otherwise have occurred (Gruber 1999). Of course, the total dollar amounts involved in extended benefits programs are small in relation to aggregate consumption, but such benefits look larger in relationship to the decline in purchasing power being experienced as a result of recessions. One set of simulations reported in Corson, Needels, and Nicholson (1999) estimates that benefits paid under the emergency extended benefits program of the early 1990s (EUC) replaced about 2.5 percent of the shortfall in disposable income during a 30-month period. Extensions during earlier recessions may have played an even greater role in sustaining consumption.[5] A recent macroeconomic simulation model developed by Chimerine et al. (1999) concludes that recessions over the past three decades would have been about 17 percent deeper if the entire UI program had not existed.[6] They also show that there is little difference in counter-

[5] Probably the most important stabilizing effect occurred under the Federal Supplemental Benefits (FSB) program of the mid-1970s, which (in combination with the standby Extended Benefits [EB] program) is estimated to have replaced about 7.5 percent of the decline in disposable income over a two-year period. Overall, UI benefits replaced more than 25 percent of such lost income during the period.

[6] Consistent with most other studies, this estimate does not consider the stabilization properties of the UI taxes and other general revenue taxes required to support these extra

cyclical effectiveness between benefits paid under regular UI programs and those paid under extended benefits programs (although they do suggest that the extended benefits programs might be better timed—see the discussion of triggering that follows).

B. HISTORY OF EXTENDED BENEFITS PROGRAMS

Extended benefits programs have been available during every recession in the United States since the late 1950s. While the regular UI program is referred to as the "first tier" of unemployment compensation benefits, extended benefits are either "second-tier" or "third-tier" benefits.[7] The sole "second-tier" program is the standby EB program, first enacted in 1970. Although the relative importance of this program has varied substantially over the years, it remains the only extended benefits program that is a permanent feature of UI laws. In each recession, a variety of "third-tier" programs have been enacted through congressional legislation on an emergency basis. These usually have had their own unique features and have interacted with the second-tier EB program in complex ways. In contrast to the EB program, the third-tier programs are enacted for specific calendar periods and have expiration dates. To understand current policy issues related to extended benefits, it is therefore important to understand the history of this interaction.

(continued)
benefits. Although in some macroeconomic models such tax effects could negate a portion of the stabilizing effects of extended benefits payments, most research suggests that such offsetting effects are rather small.

[7] This terminology is frequently used to indicate the availability and sequencing of the types of benefits that are available. Conceptually, first-tier (regular UI) benefits are available all the time, regardless of the strength of the economy, while second-tier benefits automatically become available as the economy worsens. Third-tier benefits might be legislated if first- and second-tier benefits are not sufficient as defense against a severe economic downturn. As discussed below, however, this conceptual framework has not always materialized in practice during economic downturns.

1. Extended Benefits Program

Experience with two temporary extended benefits programs in the late 1950s and early 1960s suggested the need for a more systematic approach to extended benefits policy during recessions. With the passage of the Employment Security Amendments of 1970, the federal government established a permanent "standby" EB program under which up to 13 additional weeks of benefits would be available to people who exhausted their regular UI entitlements. Under the legislation, the EB program—financed jointly by the federal government and the states on a 50-50 basis—was to be automatically "triggered" whenever the insured unemployment rate (IUR) reached certain critical levels.[8] Initially, the program contained both a national trigger (4.5 percent) and state-specific triggers (4 percent), either one of which would lead to activation of the program when the trigger was met. Amendments to the program in 1981 eliminated the national trigger and raised the state triggers to a threshold at which a state's 13-week average IUR would equal or exceed 5 percent and 120 percent of the average IUR in the corresponding period in the previous two years.[9] The 120 percent threshold would be waived if the IUR exceeded 6 percent.

These changes in the EB program had a substantial effect on EB caseloads. One simulation of the impact (Corson and Nicholson 1985) suggests that caseloads fell by 25 to 30 percent during the early 1980s. The simulations also suggested that caseloads would drop even more precipitously during periods of stronger labor market activity.

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[8] The IUR is computed from administrative data collected weekly by the UI system. It is defined as the number of insured unemployed persons divided by total (reimbursable) employment covered by the UI program. Technically, the number of insured unemployed persons is measured as the number of continued weeks claimed, which includes individuals with UI waiting weeks and may include some weeks claimed by disqualified individuals.

[9] The 1981 Amendments also eliminated EB claimants themselves from the computation of the IUR and imposed somewhat stiffer base-period earnings requirements for benefit eligibility.

Perhaps an even more important reason for the decline in periods of EB availability may have been the secular decline in the IUR that occurred during the 1980s and persisted into the early 1990s (see, for example, Blank and Card 1991). Because of this changing relationship between the IUR and the overall strength of the labor market, EB triggers based on the IUR came to be regarded as too stringent. Therefore, in 1992, the program was modified to permit states to use a three-month moving average of the seasonally adjusted total unemployment rate (TUR) as estimated by the Bureau of Labor Statistics.[10] The trigger rate for the TUR was set at 6.5 percent, together with the requirement that the rate exceed that for the previous two years by 10 percent.[11] Corson and Rangarajan (1994) estimate that earlier adoption of this alternative triggering mechanism would have more than tripled the number of exhaustees of regular UI programs who would have been eligible for EB during the 1980s.

In recent years, however, the EB program has continued to experience little activity. Three factors account for the decline. First, the strong labor market throughout most of the later 1980s and 1990s meant that the EB trigger criteria were often not met. Second, in one case, states were permitted to opt out of EB during a recession and instead adopt the third-tier emergency program that had been put in place. Finally, in the most recent recession, the TEUC program changed the sequencing of extended benefits programs so that TEUC benefits would be paid first, followed by EB benefits. That made EB payable only to claimants with the longest unemployment

[10] The TUR is derived from data collected in the monthly Current Population Survey. It is defined as the total number of unemployed workers (those who do not have a job and are actively seeking work, regardless of whether or not they are collecting UI benefits) divided by the total civilian labor force.

[11] The 1992 Amendments also provided up to 20 weeks of benefits in states with TURs above 8 percent (again with the 10 percent threshold).

durations. Hence, recent analysis of extended benefits policy has focused on the operations of the emergency programs.

2. Federal Supplemental Benefits (FSB) Program

During every major recession since the EB program's inception, the federal government has provided third-tier emergency benefit extensions for much longer durations than promised under the standby second-tier EB program. The first of these third-tier programs, the FSB program, was enacted in December 1974 and, during much of its existence, provided up to 26 weeks of benefits in addition to what claimants could receive under the UI and EB programs.[12] Hence, during the 1974-1975 recession, many claimants were eligible to receive 65 weeks of benefits—26 from regular UI, 13 from EB, and 26 from FSB. This program ended in December 1977.

Analyses of the FSB program (Katz and Ochs 1980; and Corson and Nicholson 1982) suggest that the program's potentially long benefit durations substantially reduced the overall benefit exhaustion rate below that experienced during typical non-recessionary periods. By this measure, then, the program therefore may have gone "too far" in meeting the risks posed by the longer unemployment spells brought on by the recession. Some studies suggest that these very long potential durations may have encouraged workers to prolong their unemployment spells (Moffitt and Nicholson 1982; and Moffitt 1985—see the discussion of incentive effects later in this review). Hence, the FSB program itself may have exacerbated the extent of long-term unemployment.

[12] Initially, the FSB program was financed through the UI Trust Fund. In its later stages, however, it was financed from general revenues, which reflected an implicit recognition of the view that employers' liability for longer-term UI benefits should be limited. All later emergency extensions have contained similar provisions for general revenue financing.

3. Federal Supplemental Compensation (FSC) Program

The next emergency program (FSC) was enacted in response to the recession of 1981-1982. The program initially provided a maximum of 6 to 10 additional weeks of benefits, in addition to the regular UI and EB benefits to which a claimant was entitled. Whether claimants received 6 or 10 weeks of FSC depended on the EB status of each state. Ultimately, however, the FSC program involved four separate phases, each with a differing potential duration of benefits. In some cases, claimants who had exhausted benefits under one phase were eligible for further benefits under a later stage. In addition, the maximum potential duration within a state could change rapidly because of changes in the IUR. These complexities made it difficult to characterize precisely what benefit duration FSC actually provided.[13] Ultimately, FSC benefits were paid through March 1985—more than two years after the officially defined "end" of that recession.

Experience under the FSC program further confirmed some of the major difficulties associated with temporary extended benefits programs. Because the program was implemented late in the business cycle, its macroeconomic stabilization properties were considerably weaker than those of earlier programs such as FSB (Corson, Grossman, and Nicholson 1986). Similarly, the FSC triggering formulas, by requiring a minimum level of payments in all states, meant that benefits were not effectively targeted toward the labor markets and the time periods in which unemployment was most severe. The complex and frequently changing trigger requirements for FSC also led to administrative difficulties. Particularly problematic were issues relating both to the sequencing of EB and FSC (since many recipients were switched from one program to the other) and to the transitioning of claims between the four phases of FSC. Ultimately, the

[13] Corson, Grossman, and Nicholson (1986) report survey data that show that the typical FSC recipient actually collected about 12 weeks of benefits under the program.

program provided extended benefits in amounts similar to those provided by emergency extended benefits programs in previous recessions. However, it seems likely that a simpler program might have been both better focused and less costly to administer.

4. Emergency Unemployment Compensation (EUC) Program

The EUC program was implemented in five phases, starting in November 1991. Phase 1 (as amended) provided either 13 or 20 weeks of benefits, depending on a state's unemployment level. To be eligible for 20 weeks of benefits, states were required to have an "adjusted" IUR, or AIUR, of 5 percent, or a six-month average TUR of 9 percent. The adjustment to the IUR used in the EUC triggering formula consisted of including exhaustees over the most recent three-month period in the numerator of the IUR. States that did not meet these trigger requirements were eligible for 13 weeks of benefits.

These initial EUC trigger requirements were novel for three reasons. First, they represented a first use of the TUR as a trigger device for temporary programs, thereby raising issues about the accuracy of this measure, especially for smaller states for which the TUR is measured less precisely. Second, the EUC trigger levels were set in a way that ensured that EUC would be implemented before standby EB in nearly all circumstances. This possibility was formalized by a provision that permitted states to elect to trigger off EB in favor of EUC even during periods for which they qualified for EB. Because EUC was financed solely from federal sources, the state-federal cost sharing that characterizes the EB program was consequently superseded during the 1990-1992 recession. Finally, because the trigger rates specified in the EUC law were high relative to overall labor market circumstances, most states were able to offer their long-term unemployed claimants only the minimum 13 weeks allowed by law.

Subsequent phases of EUC modified the allowed durations on several occasions. For example, phase 3 of the program contained provisions for "phasedown" durations, depending on

the national TUR. Each change in duration brought about complex regulations governing how former and current recipients were to be treated.

The EUC program included two additional provisions that added to its administrative difficulties. First, as was the case for previous temporary extensions (FSB and FSC), EUC included "reach-back" provisions that permitted the payment of benefits to claimants who had exhausted UI within a defined period before the enactment of EUC. Specifically, people who had exhausted benefits under claims with a benefit year that ended after February 28, 1991, were entitled to benefits if they remained unemployed, even though the program was not enacted until November 1991. Second, certain claimants (those who were newly eligible for regular UI and who had previously exhausted UI or had reached the end of a benefit year when EUC was in effect) were permitted to choose between regular UI and EUC. This provision, which was in effect from July 1992 to November 1993, created a number of administrative problems for states, including the need to explain the choice and its implications to claimants. The provision also had its own reach-back element: states had to go back to claimants who filed before July 1992 and offer them a choice between the two programs if they were eligible for it.

Findings from an evaluation of the EUC program (Corson, Needels, and Nicholson 1999) suggest that the program performed an important counter-cyclical role during the recession of the early 1990s, in part because of the extended length of that recession. In general, it appeared that workers receiving benefits under the program found it very difficult to secure a job even after they had exhausted their benefits. As for the FSC program, the complexities introduced by the five program phases made EUC a difficult program to administer. In addition, the option that allowed some claimants to choose EUC instead of regular UI not only added to the administrative challenges but also directed a substantial portion of program funds (about 12 to 16

percent) to people who generally were not long-term unemployed. Because EUC was federally funded, these funds also represented a windfall for state trust UI funds.

5. Temporary Extended Unemployment Compensation (TEUC) Program

The latest temporary extended benefits program, TEUC, signed into law on March 9, 2002, provided up to 13 weeks of federally financed benefits in all states. It also provides up to an additional 13 weeks of benefits (TEUC-X) in states that are in an EB period or would be if they used a 4 percent IUR trigger for EB. Initially, benefits were paid to eligible people who first filed a claim for weeks during or after March 15, 2002, through the end of December 2002. Subsequent additions to the program extended benefits to claims initially filed by the end of December 2003, with a phase-out period through April 2004, for people with a remaining claim amount. Unlike the EUC program, however, the added phases of TEUC were essentially identical to the first phase, which made implementation by the states fairly seamless.

As in earlier temporary programs, workers were eligible for TEUC if they had exhausted regular UI benefits or had no benefit rights because of the expiration of a benefit year ending after March 15, 2001. In its relationship to regular UI, however, the TEUC program differed from the EUC program in that anyone who can establish a new regular UI benefits period could not choose TEUC instead. Thus, TEUC avoided the choice-related problems inherent in EUC. Finally, as was the case with EUC, states could choose to pay TEUC and TEUC-X benefits instead of EB if they trigger on to EB, but unlike EUC, states choosing TEUC did not have to opt out of the EB program. Instead, they could choose to pay TEUC benefits first and then pay claimants EB benefits if they are still in an EB period when a claimant exhausts TEUC.

In April 2003, Congress added a new provision to the TEUC program, under which displaced airline industry and related workers could collect benefits for longer periods. Specifically, the program (TEUC-A) provided up to 39 weeks of benefits to workers who have

exhausted a regular UI claim based in whole, or in part, on employment for an airline or related industry and who can show that their job loss resulted from (1) reductions in airline service because of the terrorist attack of September 11, 2001; (2) the closing of a U.S. airport because of terrorist actions or security measures; or (3) the war in Iraq.[14] Benefits under this provision could be extended by a further 13 weeks (for a total of 52 weeks of TEUC benefits) in states where TEUC-X triggering levels are met. Claims under TEUC-A can be initiated for unemployment after April 16, 2003, and can be filed up until the end of 2003. All benefits were scheduled to be phased out by the end of 2004.

C. MAJOR RESEARCH ISSUES SURROUNDING EXTENDED BENEFITS PROGRAMS

These many twists and turns in extended benefits policy over the past 30 years have spawned research in many areas. Here we briefly summarize the results in four such areas:

1. Characteristics of extended benefits recipients
2. Disincentive effects of extending UI durations
3. Issues in the administration of extended benefits programs
4. The effectiveness of reemployment services received by recipients of extended benefits

In the final section of this review, we summarize the overall status of extended UI benefits programs in the United States.

1. Who Collects Extended Benefits?

The characteristics of recipients of emergency extended benefits have varied both because of broad labor market changes over time and because recessions have differed in the specific

[14] Weeks of TEUC already collected are deducted from this figure.

industries that were affected. It is therefore difficult to judge whether extended benefits programs have been closely focused on those workers who face the most enhanced risks from labor market downturns. For example, studies of FSB in the mid-1970s found that recipients differed in several ways from regular UI claimants and from the more general population of the long-term unemployed. Corson and Nicholson (1982) characterized these differences as suggesting that FSB recipients tended to have a somewhat less significant attachment to the labor force than did other groups of unemployed workers.

This characterization did not hold for the FSC program of the early 1980s, however. Perhaps because that recession hit employment in durable goods quite hard, the long-term unemployed person who collected FSC was quite similar to the average UI recipient (Corson, Grossman, and Nicholson 1986). A decade later, however, the situation changed again. During the early 1990s, EUC recipients (excluding those who collected under the option to choose EUC instead of regular UI) were somewhat older, more likely to be female or a minority, and were less likely to be on temporary layoff than were recipients who only collected UI (Corson, Needels, and Nicholson 1999). EUC recipients were also less likely to work in manufacturing industries than were recipients of earlier extended benefits programs. However, these differences seemed to reflect both secular changes in the overall labor market and the nature of the recession of the early 1990s rather than changes in characteristics of extended benefits recipients per se.

A recent study of exhaustees of regular UI benefits (Needels, Corson, and Nicholson 2002) suggests that the nature of the pool of workers potentially eligible for benefit extensions may have changed again. As expected, exhaustees continue to be more likely to be female and minority and less likely to be on temporary layoff than regular UI recipients. However, the new data suggest that, despite the stronger labor market of the late 1990s, exhaustees were having

more significant problems in finding jobs than they had a decade earlier. Even those workers who found employment tended, on average, to take much larger wage cuts than they had taken previously. These findings, in combination with what appears to have been some lengthening in the number of weeks that workers collect UI (Needels and Nicholson 1999), suggest that workers potentially eligible for benefit extensions may indeed face more significant labor market risks than similar workers faced in the past. Identifying precisely why has proven to be rather difficult, however. There is some suggestion that workers with large amounts of job-specific human capital may constitute a larger share of the long-term unemployed than was previously the case. Perhaps the large number of information technology-related layoffs in the late 1990s and early 2000s is also having some effect. However, these are just plausible conjectures. Research on the employment histories of TEUC recipients would help to clarify the extent to which the pool of long-term unemployed workers has actually changed from prior decades.

2. Do Extended Benefits Cause Workers to Remain Unemployed Longer?

In theory, extending UI potential duration should cause a worker to be somewhat choosier about the jobs he or she takes, which would thereby lengthen the time unemployed. Empirical evidence about the size of this effect from the regular UI program is well summarized elsewhere (Decker 1997; and Woodbury and Rubin 1997). Although deriving these estimates can pose serious methodological challenges, there is some convergence of the estimates to a somewhat narrow range.[15] Specifically, most of the existing econometric estimates imply that the

[15] The most important such challenge is whether the potential UI duration variable used in the studies is truly "exogenous." Because much of the variation in workers' potential duration for regular UI is dependent on their own labor market histories, there is concern that a simple regression analysis may bias the estimated impact of duration downward. Concerns about endogeneity are heightened in studies that measure unemployment duration using data on the length of spells of UI collection rather than an independent measure of the length of the unemployment spell (see, for example, Katz and Meyer 1990).

availability of an extra week of regular UI benefits causes the average worker to remain unemployed about 0.2 weeks longer.

Whether this estimate can be easily extrapolated to the large changes in potential duration brought about by implementation of extended benefits programs is a difficult question. Because those extended benefits programs typically increase potential duration by 50 or even 100 percent, prediction on the basis of results from the studies of regular UI would involve very large confidence intervals indeed. A further methodological problem is that most extended benefits programs are triggered by weakness in the labor market, so it may be difficult to disentangle the effects of the program from the more general impact of labor market conditions.

Despite these difficulties, Table 1 summarizes five studies that have focused specifically on the disincentive effects of extended benefits programs. All these studies used microeconomic data on individual recipients of extended benefits, and all except the Card and Levine (2000) study of the New Jersey extended benefits program used an independent, survey-based measure of the length of the unemployment spell.[16,17]

[16] Nicholson (1981) provided an early estimate of the effect of extended benefits on UI exhaustion rates using aggregate data. His results suggest that exhaustion rates were 4 to 5 percentage points higher during periods when extended benefits were available.

[17] Such data are superior to data on the duration of UI receipt both because they provide a more complete measure of unemployment experiences and because they do not require the researcher to address the definitional relationship between actual and potential UI duration.

TABLE 1

ESTIMATES OF EFFECT OF POTENTIAL UI DURATION FROM EXTENDED BENEFITS PROGRAMS ON UNEMPLOYMENT DURATION

Author and Year	Program	Estimated Effect of 1 Week
Moffitt and Nicholson (1982)	EB/FSB	0.10
Moffitt (1985)	EB/FSC	Men: 0.45 Women: 0.28
Grossman (1989)	FSC	0.90
Corson, Needels, and Nicholson (1999)	EUC	0.0–0.42
Card and Levine (2000)	NJEB	0.08

In general, these results suggest that the range of estimates of the effect of an extra week of extended benefits is wider than is the range for estimates based on the regular UI program, though they are not inconsistent with them. Possible reasons for the greater imprecision include (1) difficulties in controlling adequately for labor market strength during periods when extended benefits programs are in effect, (2) the importance of worker heterogeneity in determining the lengths of longer unemployment spells, and (3) uncertainty on the part of UI recipients about what their potential durations actually are when extended benefits programs are in effect. Whatever the reason, it seems clear that extended benefits do increase unemployment durations to some extent. If we eliminate the Grossman (1989) estimate as being implausibly large and disregard the Card and Levine (2000) estimate because of the very short time that the New Jersey program was in effect, we arrive at a range of estimates of approximately 0.1 to 0.4 extra weeks of unemployment for each week of potential duration added by extended benefits programs. Perhaps the estimates from the regular UI program (about 0.2 weeks) are not too different from those for extended benefits programs after all.

3. How Effectively Have Extended Benefits Programs Been Administered?

Most of the difficulties that have arisen in the administration of extended benefits programs have been related to the timing with which the programs are initiated and to the complex structures of some of the emergency programs.[18] With regard to program implementation, the original plan of the EB program was to provide an automatic trigger mechanism that would obviate the need for explicit congressional action in all but the most severe recessions. As our review of the history of EB pointed out, however, these trigger procedures have seldom provided the degree of response that was deemed sufficient for labor market circumstances. In part, this failure can be traced to technical problems with the trigger indicators used. By its very nature, unemployment is a lagging indicator of business cycle activity. Therefore, benefits triggered by unemployment rates will be initiated well after a recession has begun and remain in effect after it has ended. Such timing is probably appropriate given the risks workers face, but it does diminish the counter-cyclical effectiveness of such policies.

The long-term decline in the fraction of the unemployed who receive unemployment benefits has posed further problems for trigger mechanisms based on IURs (Vroman 2002). By one estimate, the IUR trigger in EB would have to have been reduced to as low as 1.5 percent to obtain the same EB coverage during the 1980s as would have been obtained with a TUR trigger of 6.5 percent (Corson and Rangarajan 1994). Various "threshold" provisions in the EB triggers also had the effect of directing benefits toward labor markets where conditions were worsening

[18] Benefit computation and enforcement of continuing eligibility has been relatively simple under all extended benefits programs because they have typically incorporated existing state laws and procedures. In the early 1980s, the EB program (following earlier experiences under FSB) did institute, in the UI work test, several changes involving the definitions of "suitable employment" as it applies to evidence of job search activity. Somewhat more stringent initial eligibility requirements were also introduced in EB at that time (see Corson and Nicholson 1985). Most of these differences between regular UI and extended benefits programs were relaxed in later years.

and away from labor markets with the most significant incidence of long-term unemployment. Recent simulations conducted by Woodbury and Vroman (2003) suggest that under the original EB trigger (4 percent IUR with a 20 percent increase threshold), the program would have covered even fewer exhaustees in the 2001-2002 recession than it did in the recession of the early 1990s. Adoption of the alternative TUR triggers has the potential to make EB more widely available during this time period, but the sequencing alternatives incorporated into the TEUC program (under which EB is paid after TEUC) will reduce actual EB collections.

Although adjustments to the EB triggers might have the potential to restore the program's usefulness as a second tier of defense during cyclical downturns, it is probably the program's financing that has led to its recurring replacement by newly implemented emergency programs. Because the emergency programs are fully federally financed, states have a clear incentive to rely on them rather than on the 50-50 financed EB program. However, because each such program has its own implementation procedures, this reliance on the use of emergency programs has resulted in periodic administrative difficulties. For example, all the emergency programs have had reach-back provisions that seek to include, sometime before the programs officially begin, claimants who exhausted their benefits. Corson, Needels, and Nicholson (1999) estimate that perhaps as many as 30 percent of the claimants who collected benefits under the initial phase of the EUC program of the early 1990s were eligible because of such provisions. Implementing reach-back provisions poses significant administrative difficulties for the states, primarily because of problems in using existing computer systems to identify eligible claimants. Similar problems arise when the emergency programs are provided in a number of phases with different trigger requirements and (possibly) different potential durations, such as what occurred in the EUC program in the early 1990s.

A final set of administrative issues in the emergency programs concerns special provisions that are not well integrated with the regular UI program. For example, the FSB program in the 1970s was accompanied by a program of Special Unemployment Assistance that expanded regular UI eligibility to previously uncovered groups of workers. The program had a number of unintended side effects, and its eligibility provisions had to be changed several times to avoid providing unintended benefits to workers (Corson et al. 1977). A similar difficulty occurred with the EUC program in the early 1990s. In this case, the program contained an "optional claims" component that resulted mainly in having the federal government fund the benefits of workers that would normally have been financed through state programs. As for the case of FSB, this special provision had the effect of using funds presumably intended to finance benefits for the long-term unemployed for other purposes. Because such special provisions are unique to each emergency program, it is difficult to generalize about how the inclusion of such options affects the overall effectiveness of extended benefits programs.

4. Have the Needs of Extended Benefits Recipients for Reemployment Services Been Met?

In recent years, a number of changes have been made to the way in which reemployment services are directed toward UI recipients. The two most important such innovations are the development of "one-stop" employment service centers and the use of "profiling" to target services toward UI recipients who are most likely to exhaust their UI entitlements. The general belief underlying these innovations is that a more efficient delivery of services may yield greater payoffs in terms of claimants' finding new and better jobs. There is also the related hope that receipt of such targeting services might reduce the overall amounts of UI benefits paid.

There is evidence that recipients of extended benefits do receive substantial levels of reemployment services. Corson, Needels, and Nicholson (1999) find that about 75 percent of recipients of EUC received some services from the Job Service and that 17 percent of such

recipients began education or training programs while collecting benefits. Recipients under the earlier emergency programs exhibited similar high levels of service receipt. There is concern, however, that such programs may not reach low-skilled workers. Few of those claimants with low pre-UI wages participated in any employment or training programs under EUC, for example. A recent study of exhaustees of regular unemployment benefits also suggests that there may have been a decline in service receipt since the late 1980s (Needels, Corson, and Nicholson 2002). However, that study focused on a strong period of labor market activity. Whether the reduction in service receipt characterizes recipients of benefits under the recently implemented TEUC program is an open question.

Whether employment and training services directed toward recipients of extended benefits programs are cost-effective has not been the subject of much empirical research. For example, while the extensive survey of employment and training programs by Heckman et al. (1999) summarizes estimates from approximately 50 U.S. evaluations of employment and training programs for youth and other low-skilled workers, it includes the results from only two such studies for workers who can be regarded as similar to recipients of extended benefits.[19] A major reason for the absence of studies on extended benefits recipients is the methodological problems that such research encounters. Impact estimates based on those recipients who choose to participate in an employment or training program would clearly be subject to selectivity biases of unknown sizes and directions. It is unlikely that special econometric techniques would resolve these issues—primarily because of the absence of a "good" instrumental variable that predicts

[19] These are the studies by Bloom (1990) of Job Training Partnership Act participants and by Decker and Corson (1995) of recipients of Trade Adjustment Act benefits. Both nonexperimental studies find positive earnings gains for workers who participate in training programs.

service use among extended benefits recipients.[20] However, estimates of the earnings losses for workers eligible for extended benefits can be large, so there is considerable interest in discovering whether these losses can be mitigated.[21]

Perhaps the literature most relevant to assessing the effectiveness of employment services for recipients of extended benefits is that which looks at dislocated workers.[22] Because most of the research on employment and training programs has been focused on disadvantaged workers, much less is known about impacts on more skilled, dislocated workers. The Heckman et al. (1999) survey reaches two general conclusions about the literature on this topic. First, job search assistance seems to be a cost-effective strategy for dislocated workers and seems to be especially effective if it is delivered early in the worker's unemployment spell. Second, participants who receive classroom or on-the-job training seem to have derived little or no additional benefits from these services. These conclusions mirror the earlier conclusions drawn by Leigh (1990) from his review of nine different demonstration projects in the United States, Australia, and Canada. The author's conclusions about the dubious value of remedial education to claimants' later labor market success are especially striking (though, in this case, Leigh stresses both the methodological problems in assessing basic skills programs and the desirability of considering alternative outcome measures for assessing the success of such programs).

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[20] A "good" instrument is one that predicts program participation and affects outcome variables only through that participation. For a discussion, see Wooldridge (2002).

[21] Needels, Corson, and Nicholson (2002) report earnings declines that average 16 percent for a recent sample of exhaustees who found post-UI employment. That figure is quite similar to that obtained from UI administrative records by Jacobson et al. (1993) who also show that such losses tend to persist for up to five years.

[22] The Bureau of Labor Statistics defines as "dislocated" a worker who lost a job of three or more years' duration because: (1) the plant closed, (2) the company went out of business, or (3) the worker was laid off and not recalled. Approximately 19 percent of EUC recipients fit this definition.

D. Conclusions about Extended Benefits Policy in the United States

This brief review offers several generalizations about the performance of extended benefits policy during the past 30 years in the United States. In terms of program history, four trends are apparent:

- Benefits have been extended on an "emergency" basis in every recession since 1970. The emergency programs have varied significantly in their timing and overall complexity. Several "special provisions" of the emergency programs have been especially problematic;
- The standby EB program has come to play a smaller and smaller role in anti-recession policy, in part because of dissatisfaction with the program's triggering requirements;
- Interactions between the emergency programs and regular UI have at times been quite complex; and
- Because the emergency programs have been federally financed, the overall level of experience-rating of recessionary UI benefits has declined over time.

Research on the extended benefits programs also can be succinctly summarized:

- There is some evidence that the pool of extended benefits recipients may contain more workers who face significant reemployment difficulties in recent years than was true in the past;
- Extended benefits programs do appear to have significant incentive effects. A median estimate is that each extra week of benefits is associated with an extra 0.2 weeks of unemployment;

- Evidence on whether employment and training programs can significantly mitigate the impact of unemployment on extended benefits recipients is mixed. Lower cost interventions (job search assistance) seem to be more effective than higher cost ones (training), though few rigorous evaluations have been completed for this group of workers.

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