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UI: Preventing Poverty, Supporting Job Search, and Helping the Economy

Question: What is known about the impact of unemployment on individuals?

Answer: Common sense tells us that having no income is distressing not only for economic reasons, but because work is central to identity and status in the American culture. Anyone who knows someone unemployed, or who has personally suffered a period of unemployment, knows that lack of work for most individuals is an unpleasant state. As economist Robert Solow observed 25 years ago, "A job is a source of self-respect that even moderately cushy unemployment could never be." (1990: 40).

Economists often refer to those without work as experiencing "leisure." Leisure is a technical term to economists, but advocates can and should point out that unemployment, even for those getting UI benefits, is unpleasant and provides most jobless workers with ample motivation to find new work. And, since the majority of jobless workers typically don't get UI benefits, jobless workers without UI have even greater incentives to find jobs. Theoretical models of UI are too often based upon assumptions regarding work as more onerous than unemployment and that all jobless workers are getting UI benefits. In short, viewing unemployment as leisure is inconsistent with common sense, the views of sensible economists, and findings of many social scientists (Schwartz, 2015). Nonetheless, this unrealistic view of unemployment lies at the heart of many economists' focus on moral hazard when examining UI.

There is abundant evidence that unemployment is a bad experience for affected workers from an economic, psychological, and health perspective. Here we mention three. Henry Farber (2015) uses the BLS dislocated worker survey data to assess the impact of dislocation in the Great Recession years in the United States. Not surprisingly, Farber finds record levels of job losses, that those losing jobs experienced "unusually large" wage losses, and that jobless individuals faced low rates of reemployment years after the recession's end. Jennie Brand, a sociologist at UCLA, produced a 2014 paper summarizing research on the impact of unemployment, finding that "job loss is an involuntary disruptive life event" followed by a host of negative impacts. Connie Wanberg of the University of Minnesota has a useful review of a decade's worth of research on psychological health (2012). Other studies find unemployment results in increased mortality, adverse effects on health, and a higher incidence of social problems (for example, see Nichols, 2013) Another recent review of many studies also finds that more generous UI benefits mitigate these negative impacts of unemployment. (O'Campo, 2015).

Advocates need not resolve theoretical disputes among economists in order to point out that economists do differ as to the role moral hazard plays in UI. Clearly, consideration of competing economic factors can exaggerate or reduce this role based upon the model's assumptions, and, certainly, more complex models of job finding and more nuanced assumptions are now producing results that undercut the older consensus that UI is little more than a subsidy for leisure.

Question: How does partially replacing lost wages with UI benefits help jobless workers?

Answer: The primary function of UI is to provide partial wage replacement for eligible workers. UI benefits have a variety of positive impacts, but for claimants, the most important impact is that UI helps them meet their basic needs. Maintaining some spending in turn reduces poverty in households experiencing unemployment, supports job search by claimants, and boosts the overall economy. We discuss these positive impacts of UI in our last series of questions and answers in this chapter.

Income replacement helps reduce poverty among jobless workers. A 2012 report by the Congressional Research Service examined 25 years of Census data in order to assess the anti-poverty effects of UI (Gabe, 2012). This study period included the three most recent U.S. recessions. The report found that UI appears to reduce poverty significantly among its recipients and their family members, estimating that UI benefits lifted 2.3 million individuals out of poverty in 2011.

Question: Does UI boost the economy?

Answer: Many economists acknowledge that UI has a positive role in maintaining a healthy economy, especially during a recession. Simply put, by partially replacing lost wages for UI claimants household spending continues at higher levels than they could afford without those benefits. This spending cushions the macro economy and helps break the recessionary cycle of layoffs, reduced consumer spending, and further layoffs that might otherwise occur (Vroman, 2010: iii).

A number of reports estimate the positive impact of UI spending on the economy. Wayne Vroman, in a 2010 report commissioned by the Labor Department, reviews prior research relying upon economic models to estimate the impact of UI. These earlier studies, overall, estimated that UI reduced GDP declines in past recessions by about 15 percent. Following a similar approach, Vroman used an econometric model maintained by Moody's Economy.com to estimate the role of UI during the heart of the Great Recession (from the third quarter of 2008 through the second quarter of 2010). To take account of state-level variation in UI programs, Vroman used 51 separate regressions to model the impact of UI on individual state's economies and then summed the totals. He estimated that UI reduced the decline in economic activity by 18 percent during the time period examined. Expressed in more common terms of an economic multiplier, Vroman found that a dollar of UI benefits produced about two dollars of economic impact during the recession (Vroman, 2010: 68-70). Vroman noted that it was likely that UI had a greater impact during the recent recession because of the unprecedented level of benefit extensions and delays in state UI payroll tax increases that will pay for state benefits in future years.

For state-level advocates, Vroman's report offers some unique resources. First, by estimating positive economic benefits for individual states (and regions) he shows that states with more generous UI programs received greater anti-recession impacts than states with stingy UI programs. In concrete terms, he finds that the 10 states with the

lowest rates of recipiency got economic benefits that were only 70 percent of the benefit effects in the 10 highest-recipiency states. Additional state-level findings can be found in the report's Appendices.

Additional papers recognizing UI as economic stimulus are summarized in the Center for Budget and Policy Priorities helpful background summary, "Introduction to Unemployment Insurance" (Stone and Chen, 2014).

Question: Does UI support job search and positively impact job matching?

Answer: For many years, economists accepted that UI claimants didn't really look for work. This viewpoint was consistent with their belief that people prefer not to work and that unemployment is largely voluntary (for additional background on this issue, see "Unemployment Insurance and Disincentive Effects" earlier in this chapter). In addition, economists believed that state workforce agencies did not effectively enforce work-search rules for UI, known as the "work test. This skepticism about work search was based on work undertaken by Paul Burgess, Robert St. Louis, and Jerry Kingston in the 1970s (Burgess and Kingston, 1976; Kingston, Burgess, and St. Louis, 1981, 1986). They then wrote other studies in the next several years regarding job search and overpayments (reviewed in Burgess and Kingston, 1990). These studies led to benefit quality control mandates from the U.S. Department of Labor to require states to measure eligibility on a continuing basis (id., 1990: 143-145).

Perhaps because the analysis of Burgess and Kingston fit easily into the standard narrative, there was little effort by economists to test their results until a 2000 paper written by Orley Ashenfelter, David Ashmore, and Olivier Duschêne of Princeton University. Their research consisted of field testing a random selection of claimants. Both claimant groups participated in an initial meeting at which UI eligibility was reviewed and job search requirements were emphasized. The treatment group's work search reports were then verified while the control group's work search reports were not verified. Surprisingly, there was very little difference in initial benefit payments or duration of benefits between the two groups. If shirking was happening, presumably those having their work search verified would have lost benefits sooner. Because both groups were in fact seeking work, there was no statistical difference between the two groups. In summary, the authors stated that their results "provide no support for the view that the failure to actively search for work has been a cause of overpayments in the UI system."

Sociologist Cristobal Young of Stanford has a helpful 2012 paper that looked at nearly 400,000 UI administrative records. Young's study confirmed that UI claimants looked for work. Importantly, he also finds that higher UI benefits increased the likelihood of active job search, especially among low-wage workers. Finally, the paper found that there was no spike in job searches near benefit exhaustion, undercutting claims that UI benefits help claimants delay their job searches until later in a spell of unemployment.

Common sense and economic theory indicates that UI's income replacement role could assist workers with job searches, and positively impact their ability to find jobs that better match their skills. However, over the years, economists have not had much success in finding statistical evidence that UI positively impacts wages or job tenure

upon reemployment. Recent papers make progress on answering this question. One of these takes a highly statistical and theoretical approach, while the other relies upon state UI administrative data.

An April 2015 paper by Arash Nekoei and Andrea Weber found that extensive administrative data from Austria discloses two small, but significant, impacts from UI benefits. They relied upon the fact that jobless workers over 40 years old with employment in six of the past ten years have eligibility for 39 weeks of benefits, while younger workers are only eligible for 30 or 20 weeks of UI. This enabled them to study job finding and reemployment wages among these groups. They found that older workers with eligibility for added weeks of benefits remained unemployed for two days longer, but upon reemployment, older claimants found jobs that paid 0.5 percent higher wages. The authors note the significance of their findings for policy—namely, that taking into account the higher quality of jobs found "could significantly change the optimal generosity of UI." (Nekoei, 2015: 5).

An August 2015 paper for the Labor Department for the Upjohn Institute re-examines a late 80s evaluation of the work search requirement in Washington state (Lachowska, Meral, and Woodbury, 2015). Rather than focusing upon the short-term effect of eliminating the work test as in an earlier study, Lachowska, et al. instead focused on measuring the effect of the work test over an added nine years of administrative data. In addition, the new paper specifically focused on the impact of the work test of those permanently laid off, since the impact of the work test on those temporarily laid off has less salience to UI policy as they are typically recalled to their former employers. The paper finds that for claimants overall, there was little impact of eliminating the work search requirement, but for permanent job losers the work search requirement resulted in shorter times to reemployment, higher earnings, and longer tenure at the first post-claim employer. While these positive impacts were modest, they were nonetheless statistically significant.

A recent evaluation using random assignment confirms the theoretical and empirical findings of Nekoei and Weber. In a follow-up to two earlier papers evaluating reemployment assistance programs in Nevada, Marios Michaelides (2013) finds that UI claimants who received personalized, staffed reemployment assistance not only had shorter unemployment spells because they found jobs more quickly than those not provided these services, but that those individuals found jobs at 18 percent higher wages than claimants not provided with personalized services. Michaelides concludes that the Nevada program was effective in promoting reemployment of claimants as well as "helping them get placed in jobs that paid higher wages than the jobs they would have obtained in the program's absence." (p. 24). Unfortunately, not many states have the resources to provide the sort of personalized services that Nevada used during this study. Advocating for these effective sorts of personalized services is certainly worthy of consideration. An earlier NELP report summarizes earlier research on individualized job search assistance for UI claimants through the public Employment Service, and makes a similar recommendation (NELP, 2012). Interested advocates should note the discussion in Chapter 2 involving state resources for effective reemployment practices.

Mario Centeno (2002) took a somewhat different approach to assessing UI impact on job matching. Using National Longitudinal Survey of Youth data from 1979 to 1998, Centano found that UI generosity improved the quality of reemployment when measured by tenure in recipients' newly-found employment.

In conclusion, theory certainly supports the idea that UI (through both carrots and sticks) supports job search. Confirmation of that theory is not yet robust, but certainly is more evident than many UI critics acknowledge. And, the Nevada evaluations show that high quality reemployment services is a worthwhile investment for both UI trust fund savings and workers benefitting by finding jobs through those services.

Resources:

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