THE HAMILTON PROJECT

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# Strengthening Reemployment in the Unemployment Insurance System

Adriana Kugler

## MISSION STATEMENT

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth.

We believe that today's increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.

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NOTE: This discussion paper is a proposal from the author(s). As emphasized in The Hamilton Project's original strategy paper, the Project was designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The author(s) are invited to express their own ideas in discussion papers, whether or not the Project's staff or advisory council agrees with the specific proposals. This discussion paper is offered in that spirit.

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# Abstract

Helping unemployed workers return to work has long been a policy challenge in the United States, and the urgency of the problem tends to increase during and after economic downturns. Immediately after the Great Recession the average duration of unemployment reached forty weeks, and even by the end of 2014 the average duration of unemployment remained above thirty weeks—higher than the worst it had been during previous periods of recession. Such spells of long-term unemployment impose enormous costs on individuals, their families, and the economy as a whole; the longer an individual is out of work, the harder it is for her to find new employment. While the unemployment insurance system is structured to provide benefits to unemployed workers while they search for work, many of its eligibility requirements can effectively discourage a large number of unemployed workers from pursuing job opportunities that may be to their advantage. This paper offers three pilot programs to reform the unemployment system by encouraging different ways to return to work. The first program would allow the unemployed to continue claiming benefits while receiving entrepreneurial training and other assistance for setting up a business. The second program would support the unemployed through temporary positions and internships that might lead to full-time jobs. The third program would provide partial benefits to claimants who accept part-time jobs. By helping the unemployed transition back to work, these programs have the potential to break the cycle of long-term unemployment before it starts.

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# Chapter 1. Introduction

A period of unemployment, whether short or long term, imposes significant costs on unemployed workers and their households. The longer the spell of unemployment, the more difficult it becomes for a household to cope with these costs, both financially and in terms of mental and physical health. This discussion paper proposes three ways to help the unemployed transition back to work and thereby reduce the risk of long-term unemployment. These proposals emphasize the importance of removing hurdles currently built into the unemployment insurance (UI) system and of introducing a combination of incentives and services so that the unemployed can return to work more quickly. The first proposal is to conduct pilot programs in five states to adopt Self-Employment Assistance (SEA), which would allow the unemployed to continue to claim unemployment benefits while receiving entrepreneurial training and other support for setting up a business. The second proposal is to conduct Bridge-to-Work (BTW) pilot programs in five states so that the unemployed can continue to claim benefits while returning to work through a direct placement with an employer, and to provide a bonus to employers who hire the unemployed and retain them for an established period. The third proposal is to conduct Under-Employment Assistance (UEA) pilot programs in five states to test the importance of allowing the unemployed to continue to claim partial benefits when they get a part-time job or a job that pays less than their previous job. To select states for participation in these pilot programs, the U.S. Department of Labor would evaluate applications from states based on a competitive process similar to the one used in setting up demonstration projects created through the Middle Class Tax Relief and Job Creation Act of 2012.[1]

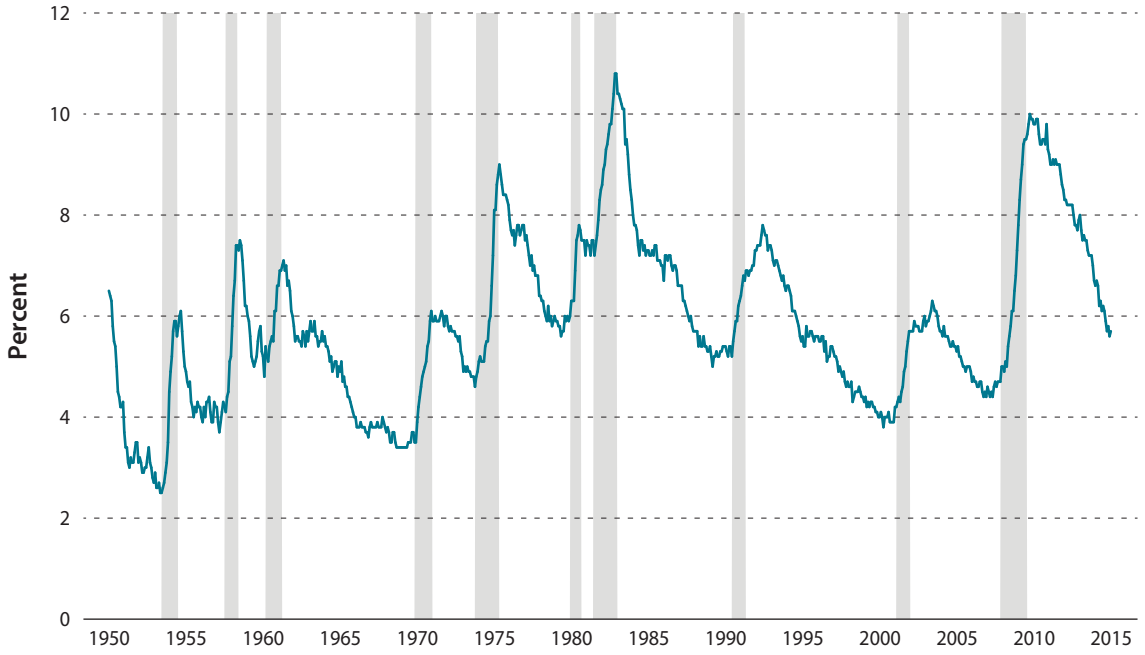
Finding ways to reduce the length of unemployment is an especially pressing problem because long-term unemployment has been prevalent during and since the Great Recession. Figure 1a shows the civilian unemployment rate since 1950. If you look across the figure at the level of 8 or 9 percent unemployment, you will see that unemployment at these levels occurred for a much longer period after the Great Recession than after other recessions since 1950. Figure 1a also shows the good news that by the end of 2014 the unemployment rate had dropped about 4 percentage points from its post-recession high of 10 percent. But this good news is not the entire story: for example, the unemployment rate does not reveal how long people were unemployed. Figure 1b shows the average duration of unemployment. After past recessions the duration of unemployment rose to about twenty weeks at its worst. But after the Great Recession the duration of unemployment climbed to forty weeks. Even by the end of 2014 the average duration of unemployment remained above thirty weeks—higher than the worst it had been during previous periods of recession. Figure 1c shows the percentage of the unemployed who have been without a job for more than twenty-six weeks, which is the standard definition of long-term unemployment. After past recessions, the share of the unemployed who were long-term unemployed climbed to the range of 20–25 percent, but after the Great Recession this share rose to 45 percent, and even by the end of 2014 it had only fallen to 30 percent. The long-term nature of recent U.S. unemployment is one reason that the costs of being unemployed are higher than the standard unemployment rate measure would suggest.

The most salient costs of unemployment—especially long-term unemployment—are economic losses. During the Great Recession and its aftermath, for example, many long-term unemployed workers saw their family income fall by 40 percent. They were twice as likely to experience poverty as workers who had been unemployed for shorter periods of time, and almost four times as likely to experience poverty as workers who had never been unemployed (Nichols, Mitchell, and Linder 2013). Historically, those who return to work after a period of unemployment are paid less, which probably reflects in part an erosion of work skills, and in part the attitudes of employers toward the long-term unemployed. In a recent study researchers sent highly similar résumés to real-world employers, with some résumés indicating a lengthy period of ongoing unemployment. Employers were much less likely to call back and offer an interview in response to the résumés showing long-term unemployment (Kroft, Lange, and Notowidigdo 2013). Another recent study presents strong evidence in macroeconomic labor market data of duration dependence, or the finding that the longer someone is out of work, the more likely she is to remain unemployed (Katz et al. 2013).

But the costs of unemployment extend beyond costs that are explicitly economic, and include costs measured in terms of dignity, human connectedness, mental health, and physical

FIGURE 1A.

## Civilian Unemployment Rate, 1950–2015




Source: Bureau of Labor Statistics 2015b; National Bureau of Economic Research 2012.

Note: Gray bars indicate periods of recession in the United States.

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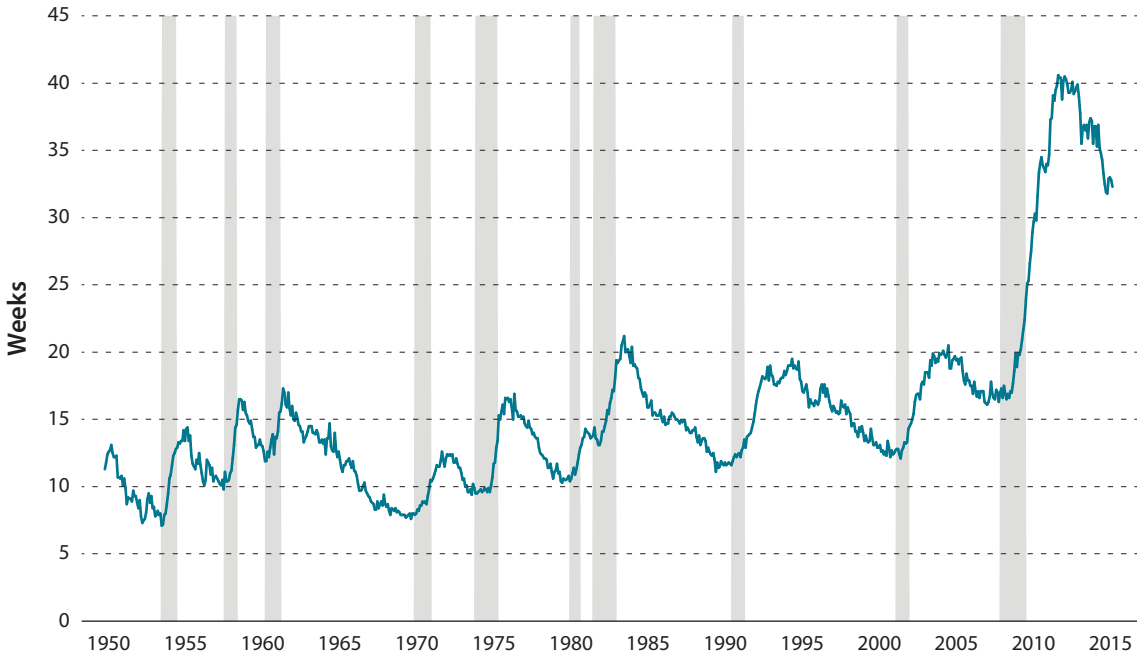
FIGURE 1B.

## Average Duration of Unemployment, 1950–2015




Source: Bureau of Labor Statistics 2015b; National Bureau of Economic Research 2012.

Note: Gray bars indicate periods of recession in the United States.

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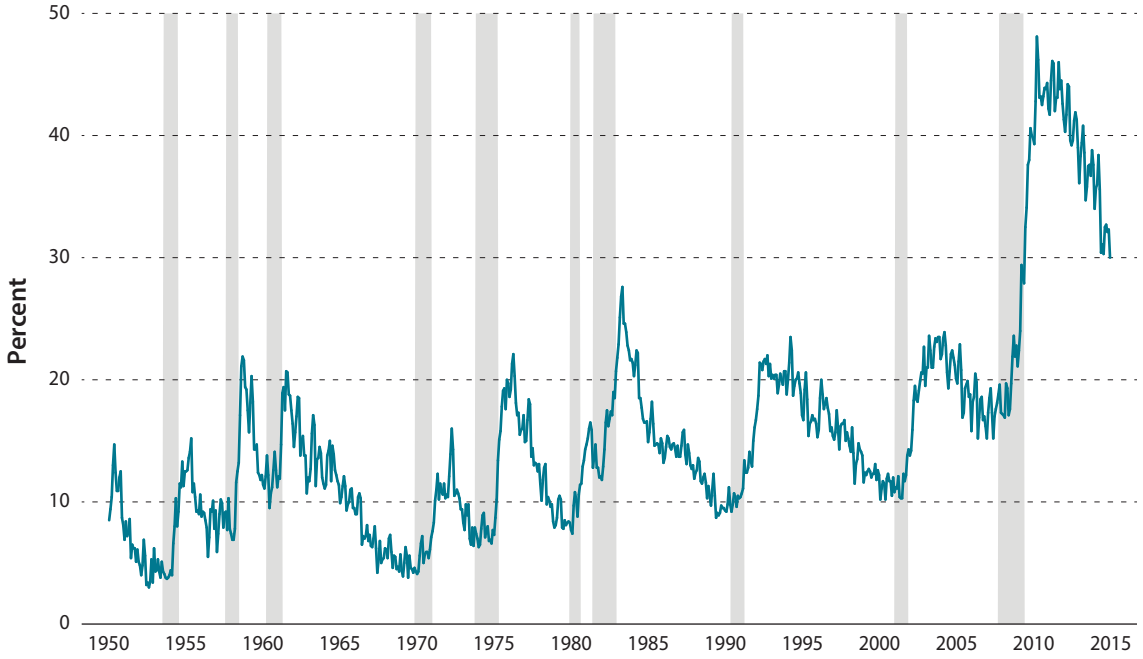
FIGURE 1C.

## Long-Term Unemployed as a Share of Total Unemployed, 1950–2015




Source: Bureau of Labor Statistics 2015b; National Bureau of Economic Research 2012.

Note: Gray bars indicate periods of recession in the United States.

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health. The results of a June 2014 Gallup Poll indicate elevated levels of depression among the long-term unemployed. It would be hard to demonstrate these connections conclusively in a research study because of the possibility of reverse causality: that is, it can be hard to disentangle whether a job loss harms health, or that a decline in health makes a job loss more likely. But some evidence suggests that unemployment, and long-term unemployment especially, is a partial cause of these health problems. In particular, twenty years after an initial job loss, workers experiencing longer-lasting spells of unemployment were more likely to be on disability benefits or to have died, regardless of whether their initial job loss was voluntary or involuntary (Couch et al. 2013).

Long-term unemployment has broader social effects as well. Communities with many long-term unemployed may falter, experiencing a decline in various measures of the quality of life, from school performance to crime. The economy suffers when labor resources are unemployed. Government budgets are strained by paying unemployment benefits and other forms of income support rather than receiving tax payments from workers. For all of these reasons, it behooves us to consider policies that could reduce the prevalence of long-term unemployment.

The problems of long-term unemployment have been discussed among policy-makers for some time. Indeed, they are part of what sparked the passage of the Workforce Innovation and Opportunity Act, which was signed into law on July 22, 2014.[2] The Workforce Innovation and Opportunity Act (WIOA) is "designed to help job seekers access employment, education, training, and support services to succeed in the labor market and to match employers with the skilled workers they need to compete in the global economy. Congress passed the Act by a wide bipartisan majority; it is the first legislative reform in 15 years of the public workforce system" (U.S. Department of Labor 2014). The Workforce Innovation and Opportunity Act consolidates a number of federal job training programs in a way that should improve strategic planning across these programs, and it bolsters the functions of state and local workforce development boards. However, the law does not go into effect until July 2015, and the details of just what programs should be attempted or expanded with this streamlined administrative approach are still being actively discussed in spring 2015.

The next section of this paper sketches the requirements that unemployed people must follow before receiving benefits through the UI system. As we will see, the structure and incentives of UI in many cases actually discourage reemployment. The following three sections then discuss in some detail each of the proposed pilot programs for altering these incentives, so that the UI system can work as a reemployment system. The next section raises and answers some questions about this approach, and the conclusion offers key takeaway points.

# Chapter 2. Requirements for Receiving Unemployment Benefits

The current UI system is designed to provide income to unemployed workers for a limited period, provided they satisfy a number of requirements to qualify for benefits. In the UI system, benefits are available only to those who have worked a sufficient number of hours and earned a sufficient amount in the previous year or five quarters, and who comply with a number of other requirements, often including the ability and the ready availability for full-time work. This emphasis on paying unemployment benefits only to those who are eligible has created administrative hurdles that sometimes do not provide the right incentives or services for claimants to become reemployed.

The UI system is a joint federal-state program: the federal government sets minimum levels of taxes, benefits, and certain standards, but states have the power to go beyond those minimums. Overall, the program will collect an estimated $5.1 billion in federal taxes and $49.9 billion in state taxes in fiscal year 2014 (U.S. Congressional Research Service 2014). These taxes are collected from employers, and almost 90 percent of jobs in the U.S. economy—approximately 132 million jobs in 2014—are covered by the program. The main categories of workers not covered are the self-employed (including independent contractors) and those in the informal sector.[3]

The UI system, however, varies substantially by state, which in turn makes the program highly suitable for experimentation. Table 1 illustrates the variation in these requirements across four states: Iowa, Maryland, Texas, and Utah.

TABLE 1.

## Comparing the Requirements for Receiving Unemployment Insurance Benefits in Iowa, Maryland, Texas, and Utah

| | Monetary Requirement | Job Separation Requirement | Work Search Requirement | Ability and Availability Requirements |
|---|---|---|---|---|
| **Iowa** | Claimants must have worked two or more quarters from the previous four (or in some cases five) to qualify. Total base period earnings must be at least 1.25 of the highest base period quarter. The high quarter minimum is $1,430 and the low quarter minimum is $720. Income from vacation pay, paid time off, severance pay, disability, and pension is deducted from the benefits. Part-time earnings are deducted at 75%. Self-employment income is not deducted. | Claimants must have lost their job through no fault of their own. | Claimants are required to make two job contacts per week in person, online, by mail, or by fax (phone contacts are not permitted), and to keep records of each contact. They are also required to attend reemployment services that may include eligibility assessments, orientation workshops, audits, skills assessments, receipt of labor market information, employment plan, or referrals to training. | Claimants are required to be physically and mentally able to work and to be available for work. Thus, illness, injury, hospitalization, incarceration, school attendance, or loss of transportation or child care disqualify claimants from receiving benefits. Finally, claimants have to accept any job offering suitable wages, which are considered to be 100%, 75%, 70%, and 65% of the average wage in the highest quarter of the base period in weeks 1–5, 6–12, 13–18, and more than 18 weeks of unemployment, respectively. |

| | Monetary Requirement | Job Separation Requirement | Work Search Requirement | Ability and Availability Requirements |
|---|---|---|---|---|
| **Maryland** | Claimants must have contributed two or more quarters out of the last four (or five) to qualify and have sufficient total base period earnings. If claimants work part-time, the benefits will be reduced by any part-time earnings over $50. | To qualify for benefits, UI claimants must have been separated from employment through no fault of their own. If claimants voluntarily quit or were discharged, they will not qualify for UI benefits. | Claimants must enroll in Maryland's One-Stop Career Centers within four weeks. Claimants must make a minimum of 2 contacts per week and keep records of work search contacts. If claimants have part-time work, they must continue to search for full-time work. Work search exemptions may be granted to those attending school or training if the hours and days of attendance interfere with availability for work, or in case of jury duty. | Claimants must be able and available for full-time work without restrictions. Persons must meet physical and mental fitness and they must be willing to accept work offering prevailing salary in that geographical area and at a reasonable commuting distance. |
| **Texas** | The Texas UI system uses the first four of the last five completed calendar quarters at the time of the initial claim. An alternative base period will be used in Texas only if a claimant has had a medically verifiable illness, injury, or disability in at least 7 weeks during the base period or if the claimant was pregnant within 24 months of the initial claim. Three fourths of part-time earnings are deducted from benefits. | Claimants must be unemployed or face reduced hours due to layoff or have been fired for reasons other than misconduct. If claimants quit due to medically documented illness or due to sexual assault or domestic violence, they can also qualify. If claimants quit due to a spouse's job relocation, then they will receive limited benefits, with the exception of military spouses, who get full benefits. | In Texas the claimants must register as a job seeker within 3 business days of applying for benefits. They must make 5 job contacts per week. Claimants must search for full-time work even if they are employed part-time. | Claimants have to be physically and mentally able to work the days and hours required and to have transportation and child care. Claimants also must be willing to accept customary wages given qualification and experience and to lower the wage request by 25% after the eighth week of unemployment. |
| **Utah** | Claimants must have contributed at least two quarters out of the previous four (or five). Claimants must have earned at least $3,300 in total wages in the base period and earned a total of 1.5 times the high quarter earnings in order to meet monetary eligibility. Seventy percent of earnings from part-time employment is deducted, and all other work and earnings have to be reported. Self-employment income will result in denial of benefits. | Unemployment benefits are available only to persons who have become unemployed through no fault of their own due to layoff, downsizing, or completion of an assignment. If the claimants quit, they have to show cause attributable to the employer (such as a hostile work environment) to qualify for benefits. | Claimants must register with the Department of Workforce Service Centers. However, employment centers are completely separate from the UI offices. Job search requires UI claimants to make a minimum of 4 job contacts per week and to keep a work contact report. | UI claimants in Utah must be physically and mentally able to work full time. Illness, injury, hospitalization, incarceration, school attendance, and loss of transportation and child care would make the person ineligible for benefits. The person must be willing to accept work that offers wages, hours, and conditions for similar work in that locality. |

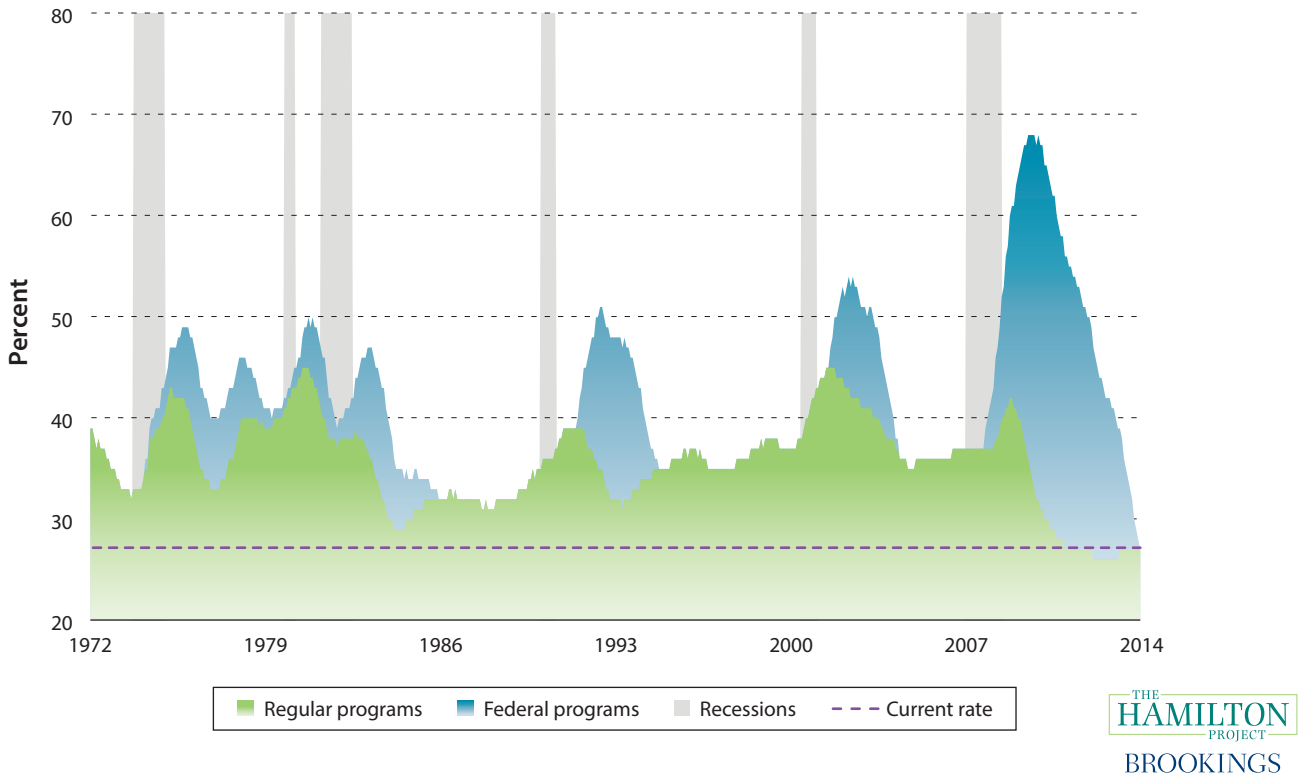
First, there is a monetary requirement. To qualify for unemployment benefits, a worker typically must have paid into the system (through her employer) for at least two quarters of the base period—usually the last four completed calendar quarters before the start of the claim or the first four of the last five completed calendar quarters before the start of the claim—and to have received a minimum level of earnings in the base period. In some states, this minimum is a set level: $2,200 in West Virginia, $3,200 in Rhode Island, and $4,620 in New York, respectively. In many other states, cumulative earnings across the base period must surpass a certain amount, usually a fraction of the worker's highest base-period quarter; for example, total base-period earnings must surpass 1.25 times the highest single base-period quarter in Iowa, and must surpass 1.5 times the highest single base-period quarter in Utah. Collectively, these earnings requirements mean that part-time workers often are less likely to be eligible for benefits than are full-time workers.

Second, there is a job separation requirement. To qualify for benefits, individuals must be totally or partially unemployed through no fault of their own, due to a layoff, for instance, or being fired for reasons other than misconduct. A person who quits is typically disqualified from receiving benefits, although some states have exceptions if the unemployed person can document that she quit due to work-related conflict that she tried to resolve, or if she quit due to sexual assault or domestic violence. In other states, someone who quits can get partial or full unemployment benefits if the departure was caused by a spouse's job relocation, or if the spouse is in the military and is relocated.

Third, all UI systems have a work search requirement, which generally implies that the individual must make an active search for work and must register in the One-Stop Career Center closest to them. These centers are administered by local and state governments and are coordinated and authorized by the Employment and Training Administration of the U.S. Department of Labor, whose Web site reports that "the centers offer training referrals, career counseling, job listings, and similar employment-related services" (U.S. Department of Labor n.d.). In most states, the unemployed must keep a record of all work-search contacts. In some states, the person must have proof of having applied to a given number of jobs during the week (e.g., two jobs per week in Maryland, four in Utah, and five in Texas).

FIGURE 2.

## Percentage of Unemployed Workers Receiving Unemployment Insurance, 1972–2014




Source: McKenna 2015; originally from National Employment Law Project analysis of monthly UI continued weeks claimed data, from Employment & Training Administration report 5159, U.S. Department of Labor; McKenna (2015) obtained federal programs data by request from the U.S. Department of Labor.

Note: The figure shows 12-month moving averages; regular programs include state UI, unemployment compensation for federal employees, and unemployment compensation for ex-servicemembers. Federal programs include federal-state extended benefits and emergency benefits, including the most recent emergency unemployment compensation from 2008. These data include waiting and penalty weeks; recipiency based on the number of weeks claimed for which benefits are paid is even lower.

Fourth, the individual must meet ability and availability requirements. The ability requirement means that the person must be physically and mentally able to work. The availability requirement means that if a job is offered, the person must be able to work the days and hours required for the job; if that means arranging transportation and child care, the individual must have done so beforehand. Moreover, the unemployed person must be willing to accept suitable work if offered. In most states this entails that the worker must be immediately available to accept full-time work. In many states suitable work implies taking work that pays and has conditions commensurate with the person's education and experience. However, in several states this means willingness to take a salary cut after several weeks of unemployment: for example, in Texas this stipulation requires accepting a job offering 75 percent of the previous job's wage after the eighth week of unemployment; in Iowa, the longer a person has been unemployed, the lower this threshold falls, to 65 percent after eighteen weeks of unemployment.

Together, these requirements mean that a majority of the unemployed are not receiving unemployment benefits. Moreover, although low-wage workers are much more likely to become unemployed, they are much less likely to meet the criteria for benefits (National Employment Law Project [NELP] 2012). Figure 2 shows, over time, the share of the unemployed who were receiving unemployment benefits (McKenna 2015). At the end of 2014 only 27 percent of all unemployed workers were receiving UI benefits—the lowest level in over forty years.

There have been some recent efforts to modify the requirements of UI so that benefits can be available to a larger share of the unemployed. For example, the American Recovery and Reinvestment Act of 2009 (ARRA) introduced $7 billion in funds to provide states with an incentive to alter their requirements.[4] In particular, to qualify for one third of the ARRA incentive funding a state was required to adopt an alternative base period for the earnings eligibility requirement. Specifically, workers would be allowed to count their recent earnings when needed in order to qualify for unemployment benefits, a provision that would be especially useful to those with an irregular earnings history. To qualify for the additional two thirds of the funding, states were required to expand benefits to two of the following four groups: (1) part-timers who are currently denied benefits; (2) individuals who had to quit because they were victims of domestic violence or were caring for a sick family member, or who quit to relocate after a spouse's move; (3) the permanently laid off who require training; and (4) workers with dependent family members. The ARRA incentive funding prompted forty-one states to introduce nearly one hundred reforms that helped simplify UI programs. It is estimated that these reforms helped to extend eligibility for unemployment benefits to an additional 200,000 workers (NELP 2012).

However, even after these changes, UI systems across the country remain highly restrictive. Paradoxically, UI systems sometimes include requirements that discourage individuals from engaging in the kinds of activities that could help them eventually obtain productive employment. For example, UI systems have the effect of discouraging internships or volunteer work, because such activities can make it difficult to satisfy the availability and work search requirements. Similarly, many UI systems discourage the unemployed from starting their own businesses, because anyone working to start a business would have a difficult time satisfying the monetary, work search, and availability requirements. Finally, while most states allow part-time employees to get partial benefits, they also include rules that limit how much part-time income will be disregarded, or not counted against benefits. The amount of income that will be disregarded is generally set as a fraction of the weekly benefit amount (WBA) (e.g., 30 percent), with earnings above this amount reducing benefits dollar for dollar. These disregard levels are low enough that a large number of workers who find part-time jobs are effectively disqualified from receiving benefits. Also, part-time workers who wish to continue receiving unemployment benefits must continue to meet the work search requirement for full-time employment; it may be difficult for them to do so, especially if the part-time schedule is irregular

At the end of 2014 only 27 percent of all unemployed workers were receiving UI benefits—the lowest level in over forty years.

or needs to be balanced with family obligations. As pointed out above, the availability requirement means that both child care and transportation have to be worked out beforehand—or else the person is not eligible for UI benefits.

Thus, state UI systems are in many ways imposing requirements that hinder many claimants from making a transition to productive employment. The proposals in this paper recommend eliminating several of these hurdles, while building on the existing system of reemployment services (RES) in a targeted way. Each of the proposals has a different focus, because workers differ. Some people may be entrepreneurial and, with a boost, could become their own boss. Other unemployed workers may instead benefit from some mixture of socioemotional and practical skills that they can learn only once exposed to a work environment. Other individuals may show their true potential as employees only after an employer gets to know them through provisional or probationary employment. Given the diverse hurdles and needs faced by the unemployed, reforming the UI system to get individuals reemployed requires a multipronged approach with alternative paths.

Each of the following three sections offers a proposal to reform the requirements imposed by UI systems in a way that holds promise to aid some of the unemployed in their transition back to employment: SEA programs, BTW programs, and UEA programs.

# Chapter 3. Proposal: Self-Employment Assistance

The first proposal is to conduct five federally funded pilot programs that would allow states to adopt SEA to encourage self-employment among the unemployed. Several states have tried versions of such programs under a federal law, introduced in 1993 and made permanent in 1998, that allows SEA programs to pay unemployment benefits to claimants setting up their own business. The federal law, however, stipulates that no more than 5 percent of those receiving regular UI benefits may participate in SEA programs (Employment and Training Administration 2014). Thus, this proposal is meant for and would reach a small fraction of UI claimants.

Seven states are currently using SEA: Delaware, Mississippi, New Hampshire, New York, Oregon, Rhode Island, and Vermont. The Middle Class Tax Relief and Job Creation Act of 2012, among many other employment-related provisions, gave federal grants to states if they set up SEAs. In 2012, five of those seven states received such grants (which expired in August 2014): Mississippi, New York, Oregon, Rhode Island, and Vermont. Three other states that formerly operated an SEA program have since discontinued it over the past few years due to lack of staff and resources: Maryland and Pennsylvania discontinued their programs in 2009, and Maine discontinued its program in 2013. The New York SEA is due to expire in December 2015.

SEA programs allow unemployed workers to continue to receive full unemployment benefits while they are setting up a new business; these programs waive the work search requirement during this period, which is generally between twelve and twenty-four weeks. Moreover, SEA programs provide the unemployed with entrepreneurial assistance to teach the skills needed to set up a new business. For example, entrepreneurial training typically includes the development of a business plan, as well as modules on marketing strategies, sources of possible financing, and information on state and local taxes and regulations.

Self-employment may be a viable and fruitful way to get some individuals back into productive employment. In 2011, 9.6 percent of all U.S. workers were self-employed (Layne 2013), and this share has remained fairly constant over the past decades (Hipple 2010). While self-employment is not for everyone, it seems to be a solution for about one in ten workers.

There is already some evidence suggesting the effectiveness of SEA programs. One starting point is to use a statistical difference-in-difference analysis. This analysis essentially compares the differences in self-employment that occurred over time in the states with an SEA program, before and after its introduction, with the change over the same period in states that never enacted such a program. By comparing individual states, before and after, this method can control for idiosyncratic differences across individual states, as well as time trends that might affect all states equally, so that the resulting estimate captures only the effect of the program itself. The analysis shown in appendix table 1, drawing on data from the March Current Population Survey, suggests that SEA programs increased self-employment by 1 percentage point.

There is also credible evidence from a number of studies of SEA programs implemented in Washington State and Massachusetts during the late 1980s and early 1990s. Even though this evidence is now somewhat dated and limited in nature, it provides useful lessons. The Washington State Self-Employment and Enterprise Demonstration (SEED) was implemented in six sites between 1989 and 1991, and the Massachusetts Enterprise Project began in 1990 and ended in 1993. The two programs allowed UI claimants to be eligible for and receive biweekly UI benefits. In addition, the programs offered enterprise training, consisting of sessions covering topics from financing to taxes. The two programs did have some key differences, however. First, the Washington State pilot allowed program participants to receive a lump sum of their remaining benefits after meeting five program milestones: (1) completion of training sessions, (2) development of a business plan, (3) establishment of a business bank account, (4) satisfaction of licensing requirements, and (5) obtaining adequate financing. Second, the Washington State pilot offered training compressed in one week, while the Massachusetts pilot provided would-be entrepreneurs six workshops over twelve weeks. Finally, the Massachusetts pilot was restricted to claimants who were predicted to continue receiving unemployment benefits until they ran out; it also required UI claimants either to stay self-employed and

BOX 1.

## The Massachusetts Enterprise Project

The Massachusetts Enterprise Project was introduced between 1990 and 1993 and targeted the newly unemployed. Because the legislation required Massachusetts to reimburse the Unemployment Trust Fund for any additional costs imposed by the project, the project tried to target those individuals who were otherwise predicted to receive unemployment benefits for a longer time. (The Unemployment Trust Fund is the federal government's reinsurance pool for states that pay out in benefits more than they receive in taxes.) Specifically, it targeted individuals who had a predicted probability of exhausting their unemployment benefits of between 0.25 and 1.

The study had a total enrollment of 1,222: 614 claimants in the treatment group and 608 claimants in the control group. Candidates were recruited by inviting new claimants who were classified as being likely to exhaust benefits to attend a sixty-minute informational session conducted by staff from the Massachusetts Department of Employment and Training and from the Massachusetts Small Business Development Center. Qualifying claimants were provided with information about the Enterprise Project and about the risks and rewards of self-employment. Of the claimants who were invited to attend, 3.5 percent attended the informational session. Of those who attended the informational session, 69 percent submitted a proposal. The plans were screened on the basis of timeliness and completeness, and eligible individuals were randomly assigned into the Enterprise Project. Of those who submitted a proposal, 81 percent were both eligible and randomly assigned.

This project had two key components. First, participants received normal benefits, although they were relabeled as biweekly self-employment allowances instead of UI benefits. While usual claimants could receive benefits for up to thirty weeks when the project was first introduced (later reduced to a maximum of twenty-six weeks), participants in the Enterprise Project were allowed to continue claiming benefits only until week twenty-four. After that, they were required to either stay full time in self-employment without the allowances or else to end their self-employment activity and return to claiming UI and searching for a wage or salary job. The Enterprise Project also developed a loan program through a regional bank to provide access to credit for the participants.

Second, those who qualified and were randomly selected into the project had to attend a one-day (half-day in 1992–93) enterprise seminar followed by an individual counseling session. Then, Enterprise Project participants received six two-hour business-training sessions on the topics of marketing, personal effectiveness and selling, cash flow, financing, legal requirements and insurance, and bookkeeping and taxes. Participants had to write a business plan with the assistance of their business counselors. Additional counseling sessions were optional, but participants averaged 7.5 hours in those sessions. There was a midproject review with the business counselor to evaluate progress toward starting the business. Of the individuals who were randomly assigned to the project, more than 90 percent attended the seminar, at least one counseling session, and at least one biweekly workshop.

An evaluation was done thirty-one months after random assignment. By that time, some participants in the project were self-employed, while others had wage and salary jobs. Enterprise Project participants experienced an increase in self-employment of 5 percentage points (or 0.8 months) relative to nonparticipants, but increases in their self-employment earnings were inconclusive. In contrast, participation in the project did not affect wage and salary employment but did increase wage and salary earnings. The combined effect on total employment and earnings was thus positive. Thirty months after assignment, participants experienced an increase in total employment of 5 percentage points, an increase in total time employed of nearly two months, and an increase in earnings over a 30-month period of nearly $6,000. The accompanying cost-benefit analysis indicated a net gain to participants of $11,000 and a total net benefit to society of $13,000, with the latter being larger because of the savings from the reduction in UI claims.

The project evolved over time. Some of the specific demonstration sites were closed, while others had opened in different locations. The business assistance services were for a time provided in-house, but then later contracted out. The enterprise seminar was shortened from 8 to 4.5 hours in 1991 and then lengthened again to 5.5 hours in 1992–93. More importantly, the duration for which the unemployed could claim benefits in Massachusetts changed during the project, falling from thirty to twenty-six weeks. This reduction was offset by the introduction of additional benefit weeks by the federal government in November 1991 due to the early 1990s recession. All of these changing project parameters complicate making generalizations from the Massachusetts Enterprise Project.

Source: Benus et al. (1995).

discontinue UI payments, or to go back to UI after the twenty-fourth week since the initial claim.[5]

While the Washington State and Massachusetts studies are valuable, they are somewhat dated; circumstances for the self-employed—including both the role of the Small Business Administration (SBA) in training and the credit conditions for the self-employed—have changed since these studies were conducted. Neither of those states is still operating an SEA program. In addition, both studies showed that SEA programs indeed increased the likelihood of positive self-employment outcomes relative to a control group: the SEED pilot increased rates of self-employment by 12 percentage points and annual earnings from self-employment by $1,600, and the Massachusetts pilot increased rates of self-employment two and a half years later by 5 percentage points and annual earnings by $1,200. However, only the Massachusetts study showed that the benefits of the program exceeded the costs, as the SEED program reduced wage and salaried employment by roughly the same amount as it increased self-employment (Benus, Johnson, and Wood 1994; Benus et al. 1995). The Massachusetts program was well-designed, and is explained in detail in box 1. However, the program also experienced changes in the location of participants over time, as well as changes in state and federal UI laws during the analysis period, which may have confounded the results of the program.

More recently, the Growing America Through Entrepreneurship (GATE) Project was introduced in seven sites in Maine, Minnesota, and Pennsylvania between 2003 and 2005. Like its predecessors in Washington State and Massachusetts, individuals who expressed interest and attended an orientation were randomly assigned into treatment and control groups. However, eligible participants were not restricted to UI claimants. GATE recruited participants through an outreach campaign that included brochures, flyers, and posters at the One-Stop Career Centers and other government offices, along with a mass media campaign that included a Web site, mass market advertising, and media events. This process attracted 4,198 applicants, who were divided evenly into a treatment group and a control group. Of the applicants, 1,817 were unemployed, 539 were not in the labor force, and the rest were employed (including some who were already self-employed). Like the SEED and Enterprise Project, GATE also focused on entrepreneurship training. Treatment group members were first invited to an individual assessment session with a business counselor, and 90 percent attended. They were then offered an array of training courses: developing a business plan, finance, marketing, hiring staff, growth strategies, and customer relations. Additionally, the program provided an opportunity for participants to meet one on one with a business counselor throughout the period the training sessions were offered. Of the treatment group members, 76 percent used the business counseling session, the training courses, or both. The average treatment group member received thirteen hours of GATE services, mostly in the training courses. The providers of these services were selected through a locally run competitive process, and the winners consisted of Small Business Development Centers (part of the SBA) and nine nonprofit community-based organizations. Other than paying for these services, GATE did not provide any monetary support or loans to program participants.

Comparisons between the treatment group and the control group suggest that GATE significantly increased the likelihood of self-employment by 6 percentage points in the short run. The effects were bigger for UI claimants than for the other employment groups, with UI claimants in the treatment group 7.5 percentage points more likely to be employed (self-employed or working for someone else) within six months of the first training. Furthermore, the average cumulative earnings gain for UI claimants in the treatment group was $3,100 over the four years after the program began. Notably, for UI claimants—but not for the other groups—the benefits of the program exceeded the costs (Michaelides and Benus 2012).

Evidence from the Massachusetts SEA program strongly suggests that receipt of unemployment benefits combined with enterprise training can help the unemployed transition into productive employment, and can do so cost-effectively. The more-recent evidence from GATE also suggests that well-structured entrepreneurial training can facilitate the transition back to employment.

However, it is important to gather additional evidence on SEA programs for several reasons. First, the existing evidence is rather slim, as some of it comes from programs from the late 1980s and early 1990s, and some comes from programs that offered self-employment assistance to both the employed and the unemployed. It also would be useful to investigate whether SEA programs work in today's postrecession labor market environment. One key question that a new pilot program could seek to answer involves the issue of cause and effect: Do SEA programs induce an increase in self-employment, or are states where self-employment is already high (or easier to enter into) also the states more likely to adopt these programs? New pilot programs could also draw on the earlier studies to establish a protocol for what specific conditions allow an SEA program to succeed.

The new pilot programs would include the best elements from the state SEA programs that have been described. Some of the key elements include the following:

1. Participants would be limited to those most likely to exhaust benefits (above 0.25 probability of exhaustion, based on the predictions from the Worker Profiling and Reemployment Services system).

TABLE 2.

## Total Costs of Self-Employment Assistance Pilot

| Cost | Low Cost | High Cost | Blended Cost (2 states low/3 states high) |
|---|---|---|---|
| Number of Participants | 12,000 (6,000 randomized) | 12,000 (6,000 randomized) | 4,800 (2,400 randomized) low/7,200 (3,600 randomized) high |
| Operational Cost | $272/participant | $435/participant | $272 low/$435 high |
| Training and Counseling | $462/participant | $1,422/participant | $462 low/$1,422 high |
| Evaluation | $1.5 million/state, times 5 states | $1.5 million/state, times 5 states | $1.5 million/state, times 5 states |
| **Total** | **$11.9 million** | **$18.6 million** | **$16 million** |

2. Those who qualify would receive written information on the program and potential advantages and disadvantages of self-employment and on the time and date of an in-person informational seminar. However, to increase the pool of possible participants, attendance at the first seminar would not be required.

3. Individuals would self-select into the program on the basis of completing a timely and complete application to the program that would include a business proposal. The individuals completing the proposals would then be randomly assigned into or out of the program.

4. The job search requirement for SEA participants would be waived.

5. Biweekly UI benefits would be provided for up to twenty weeks.

6. The program would provide entrepreneurship training, including six biweekly sessions on developing business plans, accounting and QuickBooks, human resources issues, and information on taxes and regulations. Entrepreneurial training could be outsourced or provided by local SBA offices.

7. The program would provide individual business advice to help with business plans and a midterm assessment of progress.

8. The program would provide assistance with banking and accessing small business loans from local financial institutions or the SBA.

To offer states a financial incentive to adopt SEA programs for state UI claimants, I propose introducing federal grants totaling $16 million for five states. Table 2 provides a sketch of the total costs. The first row offers an estimated take-up of 12,000 participants in five states, of which half (6,000) would be randomly selected into the program. Because the specific states are not known in advance, the number of participants is estimated by taking the total UI claimants of 2.4 million and dividing by 50 states, or 48,000 UI claimants on average per state. Of these, 5 percent can apply to SEA programs, which results in 2,400 UI claimants. Thus, the total number of participants across the five states would be 12,000.

The operational costs include the administrative costs of outreach, intake, and program management. The low-cost scenario for operational and training and counseling costs in the first column comes from the Washington State SEED program and has been adjusted using the Consumer Price Index to year 2014 dollars. The high-cost scenario comes from the Massachusetts Enterprise Project and is again adjusted to year 2014 dollars. The blended cost assumption in the third column assumes that two states will be low cost and that they will rely on coordination with the SBA local offices to offer training. This was the case in Washington State and, more recently, in New York (Wandner 2010). On the other hand, if the states are unable to collaborate with SBA offices, they may have to contract out as Massachusetts did, which would raise the costs for training and counseling. In recent years the U.S. Department of Labor and the federal SBA offices have coordinated efforts to support the new and expanded SEA programs. Thus, the basis for future support from local SBA offices appears likely.

One can make a plausible case that the benefits of such pilot programs are likely to exceed the costs. First, the costs of the program will to some extent be offset by the combination of requiring that claimants would have to be at higher risk of exhausting their benefits to enter the program, and the requirement that UI benefits could only be received up until week twenty for participants. Consider the total of $16 million

for the blended cost program for the 6,000 individuals who would be randomized into the program. The average WBA was $314 in the twelve months leading up to June 2014 (U.S. Congressional Research Service 2014). Thus, if unemployment benefits were reduced by 51,000 weeks in aggregate, it would save enough money to cover the cost of the program. Over the 6,000 (or half of the 12,000) participants, this would require reducing the length of unemployment benefits by about 8.5 weeks, on average.

An average reduction of this size is not completely out of bounds, but is likely to be optimistic. However, several other factors should also be taken into consideration. First, along with a reduction in unemployment benefits, there would also be a reduction in public expenditures for certain other income support programs such as the Supplemental Nutrition Assistance Program (SNAP, or food stamps) and Medicaid. Second, a faster return from unemployment would lead to higher tax revenues. Third, the benefits to households of a faster return to employment should also be counted, including both the financial benefits and the avoidance of the costs of mental and physical health problems. Finally, learning from the study how to improve the structure of UI—and possibly expand similar programs in the future—has a positive value, too.

# Chapter 4. Proposal: Bridge-to-Work Programs

The second proposal is to conduct five federally funded pilot programs for states to adopt BTW programs, which allow workers to continue receiving unemployment benefits for a limited time after taking certain provisional jobs. Specifically, such programs have two key components: First, the unemployed can continue claiming benefits while returning to work during a trial period. Second, these programs provide an array of other supporting services, often including stipends for child care and transportation to UI claimants during an employment trial period, support to employers for training costs, an employment bonus for those who hire the UI claimant permanently, workers' compensation coverage, and other elements. As noted in the introduction, longer periods of unemployment make it harder for workers to become reemployed, either because employers believe the long-term unemployed have lost their skills or because they take long unemployment as a signal that these workers are not good potential employees. Thus, providing additional financial support to get workers back to work sooner rather than later—even if only for a trial period—is likely to be helpful to the unemployed and their families.

In the past few years, a number of states have implemented a version of BTW programs, sometimes called back-to-work programs, under various names, such as Georgia Works and North Carolina Back-to-Work. The programs were not carried out through randomized controlled trials and have not been evaluated. Despite these limitations, it is useful to consider how the BTW programs introduced during the Great Recession differed from each other, and how the elements of these programs differ from the current proposal. Appendix table 2 presents a side-by-side comparison of the programs introduced in various states since 2009. Seven states (Georgia, Missouri, New Hampshire, North Carolina, Texas, Utah, and Pennsylvania) introduced variants of BTW programs. Here are some of the key features and differences in these programs:

- Each state paid benefits during a defined work experience period, the length of which varied.
- Each state established the federal rate of $7.25 as the minimum hourly wage, except for Georgia, which relied on its state minimum wage of $5.15.
- The states all established a maximum number of weeks for such a job, ranging from six weeks in Missouri, New Hampshire, and North Carolina to twenty-four weeks in Texas. Texas and Utah established minimums of thirty and thirty-five hours per week, respectively, while all other states established a maximum of twenty-four hours per week.
- Only three states (Georgia, New Hampshire, and North Carolina) required workers to be covered by workers' compensation, thus protecting workers against the costs of a potential on-the-job injury; workers' compensation costs were paid by the state.
- The Georgia, Missouri, North Carolina, and Pennsylvania programs were geared toward training. Thus, these four programs paid a stipend to the employer to cover training costs, ranging from $100 in North Carolina to up to 80 percent of training costs in Pennsylvania. Only Georgia and Missouri, however, provided a certificate of completion of the training program.
- Only three of the programs provided any protection against employment displacement of other workers as a result of the program, but this protection was fairly lax. Both Georgia and New Hampshire required employers to have an available job opening. Georgia specifically required employers to have a vacancy registered with the Georgia Department of Labor. Missouri required participating employers to verify with state administrators that the position being filled was not in an occupation with a history of recent layoffs.
- The programs in Texas and Utah also provided a $2,000 retention bonus for employers who officially hire the UI claimant after the work experience period. The Utah and Texas programs required that the person be retained for at least three and four months, respectively.

These versions of BTW programs have received two main criticisms: First, there is a lack of protection of workers in these jobs, including the absence of workers' compensation and the absence of a requirement to pay minimum wages in some states. Second, workers are being used in these programs to fill temporary positions that are not expected to be maintained or

that could be used to replace existing workers. The proposal here is constructed to address these concerns and to build on the preexisting programs. The pilot program would consist of the following elements:

1. UI claimants would continue to collect benefits for up to twelve weeks if they are placed by employment services (e.g., through a One-Stop Career Center) into or find through their own efforts a short-term, employment-based experience that meets the criteria described below.

2. The claimants would be exempted from work-search and eligibility requirements during the employment experience.

3. Participation would be limited to claimants projected to be likely to exhaust their UI benefits (with a probability of more than 0.5, as determined by the Worker Profiling and Reemployment Services algorithm). Those with a high probability to exhaust benefits would then be randomly selected into or out of the BTW program. The targeted nature of this program reflects that UI claimants who are more likely to exhaust benefits are also more likely to receive intensive services to help them locate jobs, and that bonuses are more likely to be effective for this group (O'Leary, Decker, and Wandner 2005). Claimants also have to be in their first eight weeks of benefits to participate, as the purpose of the program is to encourage people to move back into the workforce quickly.

4. The qualifying job experience requires at least thirty hours of work per week. However, the weekly hours and receipt of benefits must together satisfy an effective hourly pay of the binding minimum wage, state or federal, whichever is higher. If this requirement is not met, the employer must pay the difference, and if the participant works more than forty hours a week, the employer must pay the overtime rate for these hours.

5. Workers' compensation costs would be paid by the program. These costs vary widely by state and type of occupation but would be relatively low for a twelve-week period. According to the Bureau of Labor Statistics, the average cost of workers' compensation per hour worked is 45 cents, or over twelve weeks of full-time work, $216 (Bureau of Labor Statistics 2014).

6. The employer must satisfy the following additional three conditions: First, there has to be a job opening at the company. Second, the job opening cannot replace an existing position or recently closed position with the same job description. And third, the worker cannot take the position of anyone on layoff, strike, or lockout. The employer would be asked to show evidence of a job announcement, to verify the total number of employees with the same title, month to month over the past year, and to verify the titles of workers who have been recently laid off or who are on strike. These conditions would discourage the displacement of existing workers and the possibility of continual employer churning of BTW workers.

7. A flat stipend of $100 per week for transportation would be added to the UI benefit check or deposit. Average transportation costs in metropolitan statistical areas with more than 1 million people range from $10,158 to $15,273, according to the H+T Affordability Index (Center for Neighborhood Technology 2012). Thus, the $100 transportation stipend would cover half of the costs of transportation in the least expensive large city. This assistance is designed as a flat stipend rather than a variable amount to avoid having to add administrative burdens to verify the actual costs of transportation.

8. A stipend of $150 per week would be added to the UI benefit check or deposit for claimants with children under the age of sixteen to help cover child care. Again, this policy would be a flat stipend rather than a variable one based on the actual number of children to avoid adding administrative burdens to verify the number of dependents.

A BTW program structured in this way has the overall goal of leading workers to a career path with more-stable jobs and higher earnings.

TABLE 3.

## Total Costs of Bridge-to-Work Pilot

| Number of Participants | 120,000 (60,000 randomized) |
|---|---|
| Operational Cost | $300/participant |
| Workers' Comp Cost | $216/participant |
| Transportation Stipend | $100/participant/week (6 weeks) |
| Child-Care Stipend | $150/participant/week with dependents (6 weeks) |
| Retention Bonus | $1,500/participant retained (one-half retained) |
| Evaluation | $1.5 million/state, times 5 states |
| **Total** | **$173.5 million** |

9. If the worker is retained for at least twelve weeks, a bonus will be paid. Two options will be implemented: one where the employer receives a $1,500 bonus, and the other where the worker receives a $1,500 bonus. The amount of the bonus is based on earlier reemployment bonus evaluations in Illinois of the 1980s (Woodbury and Spiegelman 1987), which found that a $500 bonus for either workers or employers reduced the number of weeks of claims. The $500 in 1980 dollars, after adjusting with the Consumer Price Index, is roughly equivalent to $1,500 in today's dollars. To prevent employers from abusing the twelve-week threshold by terminating the participant immediately after this period, employer bonuses would not be paid until twenty-six more weeks had elapsed, and employers that terminated the worker in the interim would need to file an appeal justifying their decision.

A BTW program structured in this way has the overall goal of leading workers to a career path with more-stable jobs and higher earnings. The closest of the earlier initiatives to what is currently proposed is the Utah program. However, unlike the program proposed here, the Utah program does not provide stipends to cover transportation and child-care costs, does not seek to ensure the nondisplacement of previous workers, and does not provide workers' compensation insurance coverage against the risk of on-the-job injury. All of these may serve to increase the program's effectiveness.

There is no systematic evidence on the costs and benefits of BTW programs. However, it is possible to gain some insight from a study about a program aimed at welfare recipients in Detroit in the second half of the 1990s (Autor and Houseman 2010). Based on workers being randomly assigned to employment services (ES) contractors that differed in their likelihood of placing workers directly with employers or placing them with temporary help (temp) agencies, the study found that direct-hire placements increased a recipient's chances of future full-time employment and increased earnings, even in the medium term (seven quarters after the short-term employment experience). On the other hand, the study also found that welfare recipients placed with temp agencies were not helped at all in these terms and may have fared worse than not going through ES at all. About half of the benefit from direct-hire placement was from staying employed with the original-placement employer. The other half was from the stepping-stone effect, allowing movement from the original placements into other employment opportunities.

Of course, the welfare recipients in this study (Autor and Houseman 2010) are not an ideal comparison group for the population of unemployed workers. The range of skill levels is probably not the same. Unemployed workers in most cases have worked more recently than have welfare recipients. In addition, various aspects of the program that was studied do not match our proposal. Importantly, the economic climate of the study—the late 1990s—is quite different from today's climate. Furthermore, although both direct hires and the temp agencies in the study had to tell the placement agency that they expected the job to last for at least six months, this outcome was not verified and many of the commitments may have lasted for less than six months. In contrast, this proposal would verify employment lasts at least twelve weeks.

Table 3 offers a rough estimate of costs of a BTW program. The number of participants is estimated by taking the total UI claimants of 2.4 million and dividing by 50 states, or 48,000 UI claimants on average per state. Of these about half will be above the 0.5 probability threshold of most likely to exhaust benefits, or 24,000 UI claimants. Thus, the total number of participants in all five states would be 120,000. The operational costs in the second row include the administrative costs of outreach, intake, verification, and program management.

As with the SEA pilot, the benefits of a BTW pilot are likely to exceed the costs. Again, the program allows these benefits to be available only for twelve weeks. It also focuses on workers who were predicted to be more likely than not to exhaust the time limit on their unemployment benefits. With these thoughts in mind, we can put the total cost of $173.5 million in perspective. As noted earlier, the average WBA was $314 in the twelve months leading up to June 2014 (U.S. Congressional Research Service 2014). Thus, if unemployment benefits were reduced by about 541,000 total weeks in aggregate, it would save enough money to cover the cost of the program. Over the 60,000 participants randomized into the BTW program, this would require reducing the length of unemployment benefits by about nine weeks, on average.

If an average reduction of this size seems a little too large for plausibility, remember that (as in the discussion of the previous proposal) several other factors would also need to be taken into account in a full cost-benefit analysis: (1) There would be a reduction in public expenditures for other income support programs such as SNAP and Medicaid. (2) There would be higher tax revenues from people returning to work more quickly. (3) Households would have benefits, including financial benefits and reduced health problems. And (4) knowledge would be gained in how to better design UI programs to reemploy people. Taking these factors together, it seems plausible that the pilot programs could be revenue-neutral for government in a broad sense, and could provide positive social value beyond the issue of government revenues and spending.

# Chapter 5. Proposal: Under-Employment Assistance

The third proposal is to conduct five federally funded pilots involving UEA: that is, the provision of unemployment benefits to those who take a part-time job. In this proposal, states that have not already adopted UEA would be encouraged to adopt and evaluate it, while states that want to increase their UEA would be encouraged to increase it and evaluate it.

Part-time employment is an important part of the labor market. One in five workers today has part-time employment. Moreover, the share of part-time employment is much higher for some groups: 45 percent of young workers ages sixteen to twenty-four and 25 percent of employed women are part-timers, according to the Bureau of Labor Statistics (2015a). Moreover, while the prevalence of part-time jobs rose during the Great Recession, as often occurs during downturns, part-time employment is substantial even during good economic times. Part-time employment is also more common in certain sectors and occupations. Industries such as retail, education, health, and leisure and hospitality all have above-average shares of part-time employment. In terms of occupations, service and sales jobs often are for part-time employment. At least some unemployed workers—especially in certain sectors or occupations—might be better off taking a part-time job, or even more than one part-time job, rather than having to show evidence of continually searching for full-time work.

Since the late 1990s and early 2000s, a number of states have started to allow part-time workers to claim partial unemployment benefits. Prior to the passage of the ARRA of 2009, fifteen states had already made this change. ARRA in February 2009 introduced a $7 billion fund, mentioned earlier in this paper, to provide states with an incentive to loosen some of the eligibility restrictions for benefits. One of the four measures that qualified states for these ARRA funds was the adoption of rules allowing workers to qualify for benefits even if employed part-time, and exempting workers from having to seek full-time work if they were employed part-time. Following the disbursement of ARRA funding, fourteen more states made these eligibility changes.

The twenty-nine states that allow part-timers to claim partial UI benefits apply the following formula to determine these benefits:

Partial UI Benefits = WBA – (Weekly Salary – Disregard).

States vary widely in what they consider to be partial unemployment, and sometimes adjust the WBA for workers in these programs. Maine, for example, adds just $5 to the WBA while Oklahoma adds $100. Other states add a fraction of the WBA (which is tied to the earnings of a worker's last job), with some adding one fourth, such as Kentucky, and the most generous, such as Michigan and Washington State, adding one half. Such upward adjustments can be viewed as a way of

TABLE 4.

## Partial Unemployment and Earnings Disregarded for Determination of Weekly Benefit Amount (WBA)

| State | Definition of Partial Unemployment: Week of Less than Full-time Work if Earnings Less Than . . . | Earnings Disregarded in Computing WBA for Partial Disregard |
|---|---|---|
| Maine | WBA + $5 | $25, excluding wages received by members of the National Guard or organized labor, or pay and allowances from working as a volunteer emergency medical services worker. |
| Michigan | 1.5 × WBA | 0.5 × WBA, but earnings cannot exceed 1.5 × WBA. Earnings above 0.5 × WBA are reduced dollar for dollar from WBA. |
| Oklahoma | WBA + $100 | $100. |
| Washington | 1.5 × WBA + $5 | 0.25 × wages over $5. |

Source: Information in this table comes from Employment and Training Administration (2014, chap. 3).

encouraging the unemployed to take part-time work—but such positive incentives are also partly offset by the rest of the formula. Table 4 shows comparisons of four states in different regions of the country, including Maine, Michigan, Oklahoma, and Washington.

States subtract income earned from part-time work from the unemployment benefits that would otherwise be paid, while using a disregard for a certain amount not to be deducted out of the usual benefits. The disregard is minimal in many cases: for example, in Alabama and Maine it is $15 and $25, respectively. In other states it is much higher, as much as 55 percent of earned wages in Minnesota and 50 percent in Idaho, Illinois, Michigan, and Wyoming. In most states, however, the disregard is somewhere in the middle, between 20 percent and 30 percent of the WBA. In many states those moving to part-time jobs may earn too much to quality for any partial unemployment benefits, as the effective earnings threshold can be under $200 per week. Indeed, if the person takes a part-time job, it may be difficult for her to accumulate enough earnings to qualify again for future UI benefits. Furthermore, if the earnings from a typical part-time job effectively replace UI benefits dollar for dollar, and require travel and scheduling expenses (such as finding child care), many UI claimants would rationally choose not to take the job and continue taking benefits instead. Thus, the way the UI system is designed in many states will tend to discourage many from taking part-time work, at least until they are on the verge of exhausting the period of UI benefits.

The fact that twenty-nine states have introduced such measures suggests that many states view the cost-benefit trade-off of UEA as beneficial. Unfortunately, no evaluation exists of the impact of partial benefits on work search or on transitions into future employment.

The pilot proposes the introduction of under-employment benefits in four states in which they have not been introduced, and the relaxation of benefits disregards in a state that already offers lower disregards. There are twenty-two states (counting the District of Columbia as a state for these purposes) that have not yet enacted a provision to allow part-timers to receive UI benefits. The proposal would introduce the following measures:

1. Adjust the requirement that those receiving unemployment benefits who find part-time work must continue to search for full-time work. In two of the states without existing partial benefits, the work search requirement would be completely waived, and in the other two states the required number of job search contacts would be reduced. In the state with partial benefits the work search requirement would be waived.
2. Adjust the fractional disregard of part-time earnings. In two of the four states the disregard would be set at a high level of 50 percent, while in the other two states it would be set at a low level of 20 percent. For the state that already has a low disregard level the treatment will involve introducing a high disregard of 50 percent for a group of randomly assigned part-timers.
3. Half of the entire pool of UI claimants in a state would be randomly selected into the treatment with the disregard and the work search exception.
4. UI claimants would search for work; if the job happens to be part-time (according to the definition of 1.5 times the WBA), participants would qualify for partial benefits.
5. Claimants would be able to claim partial benefits up to twenty-four weeks.

The measures would be introduced such that the span of adjustments would cover the four states that did not initially allow for partial benefits. In other words, of the two states that abolished work search requirements, one would have a high disregard and one would have a low disregard. For the two states that only reduced work search requirements, again one would have a high disregard and one would have a low disregard.

Table 5 provides a rough estimate of the costs of the program. The number of participants is estimated by taking the total UI claimants of 2.4 million and assuming that they have the same propensity to become part-time workers as the one fifth of the rest of the population that currently does part-time work; thus 480,000 of those who are receiving unemployment benefits nationally would be interested in part-time work. If we look at programs in five of the fifty states, we divide 480,000 by ten and get 48,000 possible participants in the program, of which half, or 24,000, will be randomly chosen. The administrative costs in the second row would cover verifying employment and earnings for these workers and checking work-search requirements for those for whom the requirements are relaxed. Since four of the states would have not allowed partial benefits at all, and presumably the workers who are deterred from taking part-time employment by the lack of partial benefits would continue to collect their full benefits while searching for a full-time job, the implementation of partial benefits for part-time employment actually is likely to save money during the operation of the pilot (although the higher disregard in the fifth state would come with some costs). To be conservative, however, I assume that savings from this aspect of the pilot are, on net, zero. Finally, an evaluation allowing for the various treatments would require additional resources of $2 million per evaluation per state. Under these assumptions, the total cost of the pilot programs would be $17.2 million.

TABLE 5.

## Total Costs of Under-Employment Assistance Pilot

| Number of Participants | 48,000 (24,000 randomized) |
|---|---|
| Operational Cost | $300/claimant |
| Evaluation | $2 million/state, times 5 states |
| **Total** | **$17.2 million** |

As with the previous two proposals, it is useful to sketch out a scenario of offsets and benefits that might accompany these costs over the longer term. The total cost is estimated to be $17.2 million. As cited earlier, the average WBA was $314 in the twelve months leading up to June 2014 (U.S. Congressional Research Service 2014). Thus, if this program led to 55,000 total fewer weeks of unemployment benefits being paid in aggregate, the savings would cover the costs. Among the 24,000 randomly assigned participants, it would require an average reduction of only 2.3 full-benefit-equivalent weeks to cover the program costs. Given that partial benefits can be claimed only up to week twenty-four, this would all but guarantee coverage of the costs, as most states allow up to twenty-six weeks of normal benefits.

Moreover, as noted in the discussion of the earlier programs, a reduction in long-term unemployment would lead to other offsets and benefits as well: savings from lower spending on other government income support programs, more taxes paid by those who are reemployed sooner, financial and health benefits to households that do not experience long-term unemployment, and the benefit of knowing more about how to design UI programs.

# Chapter 6. Questions and Concerns

In discussing and presenting these proposals, the following questions commonly arise. I provide some answers that should help to put a proposal of three state-level pilot programs into a broader public policy context.

***If all three of these pilot programs were enacted, worked as hoped, and then were scaled up to cover the entire country, what is the potential employment gain? At what cost per job?***

As a basis for cost estimates of the pilot programs, this paper has started with the approximate figure that there are 2.4 million recipients of UI benefits. What share of this group might be affected by these pilot programs? Given the legal limit that no more than 5 percent can participate in SEA, this program could potentially reach 120,000 workers. The BTW program could potentially cover one half of recipients—1.2 million people—who are at highest risk of exhausting their benefits. If one fifth of those receiving unemployment benefits take part-time work—the same as the share of the working population as a whole—then 480,000 of UI claimants are potential part-timers. Adding these together, the total potential pool of individuals covered would be 1.8 million, although there would surely be a degree of overlap between the different groups, so the total UI claimants benefitting from these reforms would be somewhat smaller.

The programs have been designed to be approximately budget-neutral by focusing on those who are predicted to be most likely to exhaust their unemployment benefits but are still relatively early in receiving benefits, thus generating potential savings in terms of fewer weeks of benefits having to be paid out. Suppose that there are costs of $300 per claimant that are not covered by direct financial offsets of fewer payments (although they might be counterbalanced in a broader social sense by the benefits of getting people back into the workforce sooner). On this assumption, rolling out these three pilots nationwide would lead to new costs net of financial offsets of $540 million.

The potential benefits from the SEA program would be to increase the likelihood of any employment within six months by about 7.5 percentage points, if relying on the GATE results. This would then imply that 9,000 additional individuals would be employed as a result of the program (120,000 x 0.075 = 9,000). The BTW component of the proposal could increase the probability of employment by up to 15 percentage points based on the Autor and Houseman (2010) estimates of direct hires; this could increase employment by 180,000 (1.2 million x 0.15 = 180,000). Finally, the UEA component has never been evaluated, but if exposure to part-time employment has a similar effect of encouraging retention into full-time jobs or if they serve as a stepping-stone similar to the welfare-to-work placements studied by Autor and Houseman (2010), then an additional 72,000 individuals would gain employment (480,000 x 0.15 = 72,000). This would bring the total increase in the number employed by up to 261,000.

Of course, these calculations are very rough, and should be treated more as rough magnitudes than actual numbers. However, a drop of that magnitude in the number of unemployed would equal about two tenths of 1 percentage point in the national unemployment rate. With costs of $540 million, the cost per newly employed person would be close to $2,000. This would be a great success by the standards of what it usually costs to create jobs.[6]

In addition, there would be substantial other benefits. Reemployed workers would also experience earnings gains, on average. The evaluation of the Massachusetts SEA program found earnings gains of $6,000 per year in 1990 dollars (Benus et al. 1995), which would be about $11,000 in today's dollars. We have no reliable estimates of earnings gains from the BTW and UEA programs, but perhaps the closest evidence comes from the Autor and Houseman (2010) analysis of welfare-to-work job placements into direct jobs, which found earnings gains of about $500 per quarter, or nearly $2,000 per year. These newly employed workers would also contribute in taxes and likely need less assistance from other government programs, such as SNAP benefits. Moreover, they could experience improvements in physical and mental health.

***Instead of these kinds of pilot proposals, why not focus on proposals to increase the financing of the UI system?***

The financing of the UI system would indeed benefit from some reconsideration. For example, the federal government requires that the taxable wage base for UI can be no smaller than the first $7,000 of taxable income—a level first set in 1983. The amount of UI taxes collected is limited by the taxable wage base and the tax rates used in different states. Although some states use higher tax bases, the median taxable

wage base in 2012 was only $12,000. Increasing the tax base to $17,500 would return the taxable wage base to its 1983 level in real terms. Increasing the tax base differentially for those with higher earnings would also reduce the highly regressive nature of the current tax.

The taxes collected could be used to shore up state-level unemployment trust funds so that the federal government does not have to lend them the difference. However, these measures have been good ideas for the past thirty years and still have not passed through the political process, whereas reemployment programs have been tried several times, with some demonstrated success. The results of these programs may well provide such a lower hurdle to justify their expansion.

### *How do these proposals fit with the goal of increasing access to UI coverage and benefits for low-income households?*

As noted earlier, compared with higher-income households, low-income households are more likely to experience unemployment, but less likely to qualify for unemployment benefits when unemployment occurs. The proposals here—especially UEA, which would increase access to the UI system to those who work part-time and may seek part-time employment—would in all likelihood disproportionately benefit those with low incomes.

Other reforms, like those introduced by the UI modernization efforts of the ARRA, are worth pursuing further. For example, those with low incomes will disproportionately gain from steps to improve the ability of individuals to qualify for UI even if they have quit their job—as long as they have compelling reasons for having done so. Currently, only thirty-two states allow domestic violence, twenty-six allow spousal relocation, and twenty-four allow illness and disability as sufficient reasons to quit a job and still qualify for UI benefits. Moreover, the monetary requirements to qualify for UI remain strict. Allowing those with lower earnings to qualify for at least some unemployment benefits would be a useful step, too. Also, the BTW pilot program in particular emphasized the possible gains from alleviating some of the burden of child care and transportation, a burden that receives little attention but prevents many of the low-income unemployed from qualifying for UI benefits.

### *Why is there such a disconnect between the UI and workforce development systems?*

When thinking about how to help the unemployed connect with jobs, there are sound reasons for focusing on the share of the unemployed who are receiving unemployment benefits: First, they are already involved in a verifiable job search. Second, it is often easier to connect them than other unemployed workers to ES and training programs. Finally, a policy program to reduce long-term unemployment can be paid for, at least in part, by the reduced need to pay UI benefits.

Unfortunately, in many states the UI system is not well-connected with ES programs. The federal UI and ES programs were both created in the 1930s. Indeed, the federal agency for ES was created in 1933, two years before the federal-state UI system was enacted. During the 1940s and 1950s, UI and ES staff colocated in the offices for state employment security agencies, and placed an emphasis on collecting taxes, establishing eligibility for benefits, and distributing those benefits.

But over time the programs grew apart. First, the focus of the UI system has traditionally been more on checking the eligibility requirements to qualify for continued claims and less on efforts to aid UI claimants get back to work. Second, the ES system was intended to serve all job seekers, not just the unemployed. Over time it has focused on a wider range of issues, including employment of veterans, the disabled, and younger and older workers. Third, in the past two decades the trend toward automated filing of UI claims has allowed the UI system to save on administrative costs by moving its staff to centralized call centers and adjudication offices (Ridley and Tracy 2004). Unfortunately, this makes it less likely that UI claimants come into contact with the ES staff and thus benefit from in-person advice on a job search.

There have been efforts in the past two decades to reintegrate UI, ES, and other government programs related to the workforce. The Workforce Investment Act of 1998 sought to reform federal job training programs and to create a coordinated and comprehensive workforce investment system.[7] Under that law, ES grew in importance as the associated agencies were tasked with the responsibility of providing job search assistance, labor market information, and information about job opportunities. The ES agencies also managed the Worker Profiling and Reemployment Services, established in 1993. This diagnostic tool was given to initial UI claimants and sought to identify those who were most likely to exhaust their unemployment benefits without finding a job. The idea was that such people could benefit from more-intensive services. The 1998 law also fostered much more collaboration between different government labor force programs, creating a network of some three thousand One-Stop Career Centers across the country to provide a full range of assistance for job seekers under one roof. Aside from core employment services of job search assistance and information on openings, the One-Stops were meant to be clearinghouses for intensive services, such as specialized skills assessments, résumé preparation workshops, training in soft skills, and other education and training funded by other sources.

Despite these efforts, there was a widely perceived need for yet another reorganization that would seek to integrate UI, ES, and other government workforce programs. The Workforce Innovation and Opportunity Act, enacted on July 22, 2014, is set to supersede the Workforce Investment Act and will seek (again) to integrate these different programs more fully.

However, the problem of integrating and coordinating the government agencies with responsibility for UI, ES, training, and other services pales beside the problem of limited resources. Only one in twenty people who go through the UI system (i.e., those who file unemployment claims) receives intensive services such as career assessments, interview training, or educational or vocational programs. The unemployed who do receive more-intensive services may get assigned to classroom training, although intensive job search assistance (e.g., customizing someone's plan of which types of jobs to apply for) is typically found to be much more cost-effective than classroom training (Meyer 1995). Furthermore, ES funding declined by almost half in real terms between 1984 and the eve of the Great Recession (O'Leary and Eberts 2008). In 2013 ES received funding of $664 million, which is less than the amount California spent in UI benefits during the worst single month of the recession (U.S. Department of Labor 2012) Yet the workforce system has approximately 20 million users across the country, of whom only 2.4 million are UI claimants.

Greater coordination between UI and other employment-related services is an important goal, but those other employment-related services need additional funding if they are to provide additional services. The findings of pilot programs of the sort described here can offer justification for that additional funding.

### *What are the reemployment eligibility assessments and reemployment services programs? How do they fit into the picture?*

Reemployment eligibility assessments (REA) and reemployment services (RES) programs introduced over the past decade have been additional attempts to restrengthen the link between the UI and the workforce development system. The programs were an initiative the U.S. Department of Labor started in twenty-one states in 2005.

The REAs required UI claimants to attend in-person interviews to review UI eligibility, receive labor market information, develop a work-search plan, and be referred to in-depth reemployment services or training when needed. The Minnesota and North Dakota REA initiatives were evaluated using randomized controlled experiments. The Minnesota study showed the REA program had a significant reduction in the number of weeks claimed and the likelihood of overpayment and exhaustion of benefits, but the North Dakota study did not (Benus et al. 2008). In 2008, REA programs in Florida, Idaho, Illinois, and Nevada were evaluated, with all of the state programs except for those in Illinois showing positive impacts. Nevada, in particular, had especially large effects (Poe-Yamagata et al. 2011). A follow-up in Nevada showed that the combination of REAs with reemployment services was effective not just in reducing UI claim duration by three weeks, but also in increasing employment probabilities by 6–8 percentage points and in boosting subsequent earnings by 18 percent (Michaelides et al. 2012).

Since 2009 the Department of Labor has provided grants of $356 million to expand REA/RES programs in forty-four states. This includes REA/RES programs for the long-term unemployed that were introduced through the Middle Class Tax Relief and Job Creation Act of 2012. A previous analysis found that these programs increased the probability of employment for the long-term unemployed by 6 percent (Farooq and Kugler 2015).

These experiences with REA/RES are encouraging. However, even with the positive evidence from several studies, these programs are often underfunded. Too few individuals are served by these programs. Also, as the programs have been extended, not enough resources have been made available to provide the in-depth reemployment services that made the Minnesota and Nevada REA/RES programs so successful.

### *The BTW program, with its emphasis on getting the unemployed back into the workforce even with temporary jobs, sounds a little like Germany's experience using mini-jobs in the aftermath of its 2003 labor market reforms. Are these programs similar?*

The BTW programs adopted by U.S. states and proposed here differ in a number of ways from the mini-jobs in Germany introduced following the Hartz labor market reform in 2003. The main differences with Germany's mini-jobs are these: (1) Mini-jobs do not impose minimum wage requirements. (2) Mini-jobs restrict hours worked during a week to fifteen hours. (3) Mini-jobs allow both employer direct-hires and hires through temp agencies. (4) Mini-jobs reduce payroll taxes for those earning up to 400 euros per month. Finally, (5) mini-jobs do not have a limit in terms of the number of weeks for which an employer is able to employ a worker under this scheme. The Hartz reform has increased the number of individuals in these mini-jobs to 7 million (roughly one in six German workers), with 5 million relying solely on mini-jobs. An evaluation of the Hartz reform found a limited effect on additional employment in the short term but a larger impact on single men's secondary job holding (Caliendo and Wrohlich 2006). In fact, another study concluded that mini-jobs may be replacing standard forms of employment and that these jobs do not lead to standard full-time employment (Kalina and Voss-Dahm 2005). The BTW program proposed here would address many of the deficiencies of the mini-jobs reform in Germany as well as deficiencies in previous state programs introduced in the United States.

# Chapter 7. Conclusion

The three proposals for pilot projects presented in this paper focus on helping the unemployed transition to employment sooner rather than later. The three proposals would remove hurdles and instead create roads toward employment using few additional resources from the system. The SEA program allows for the unemployed to transition into self-employment by removing work search requirements for this group and by providing entrepreneurship training to UI claimants. The BTW program also removes work search requirements for those placed in work experience directly with an employer, thus providing them the opportunity to learn on the job and providing retention bonuses for those who stay in these jobs. Finally, the UEA program relaxes work search requirements for those employed in part-time jobs and allows them to receive more-generous partial benefits while learning on the job. All three programs are designed to hold costs down, so that they may be roughly budget-neutral when a reduced need for UI benefits is taken into account, and are very likely to have benefits exceed costs in a broader social sense when all the benefits of lower levels of long-term unemployment are taken into account.

The three proposals in this paper can be viewed as part of a process of changing how we think about the UI system. Here are some of the key lessons to take away.

- Many of the requirements for receiving UI benefits are potentially counterproductive. They either make it difficult for the unemployed person to qualify for UI benefits or create hurdles that make it difficult for her to reengage with the labor market. Experimenting with ways of loosening these requirements makes sense on many dimensions.
- Just altering the financial benefits and the requirements of the UI system is unlikely to be a sufficient answer to these problems. There is also a need for targeted provision of other kinds of support, which might include entrepreneurship training, support for child care or transportation costs, subsidies for retraining, and other services.
- Only 30 percent of the unemployed receive unemployment benefits; this low fraction is in part due to the barriers of qualifying for benefits and in part due to the exhaustion of benefits for those unable to return to employment. The pilot programs proposed here all aim at this 30 percent, but they also aim to expand this share by relaxing requirements that currently disqualify so many from benefits. Another goal is to gain information about the configurations of income support and employment-related services that can help all unemployed people return to work more quickly.
- Redesigns of the structure of UI and ES hold the possibility of reducing the national unemployment rate by tenths of a percent, with each tenth of a percent of the national workforce of 140 million representing about 140,000 people.
- Finally, in the past two decades or so the UI system has moved away from the ES system. Some of the underlying reasons involved increased automation for UI, along with separate sources of funding and a lack of coordination across the administrations of the various programs. It is time for a conscious policy push in the other direction, so that the UI system can be integrated into a national reemployment system.

# Chapter 8. Appendix

APPENDIX TABLE 1.

## Impact of Self-Employment Assistance on Self-Employment

| | Linear Model | Probit Model |
|---|---|---|
| SEA program operating | 0.0126** | 0.0102** |
| | (2.38) | (2.37) |
| State Effects | Yes | Yes |
| Time Effects | Yes | Yes |
| Regional Effects | Yes | Yes |
| *N* | 180,026 | 180,026 |

Source: This table uses data from the March Current Population Survey from 1996 to 2012.

Note: The table reports results from a linear regression and a probit of an indicator for self-employment on an indicator of whether an SEA program was operating in a state in a given year as well as controls for years of education, age, number of children, sex, and marital status, and indicator variables for race, ethnicity, and country of birth. The average self-employment probability in this sample is 0.0912. Thus, an effect of 0.0102 in the model represents an increase in self-employment of 11 percent in those states that adopted SEA programs. T-statistics are in parentheses.

APPENDIX TABLE 2.

## Side-by-Side Comparison of Bridge-to-Work Proposal to State Back-to-Work Programs

| State | | Maximum weeks | Hours per week | Additional Benefit/Stipend | Workers Compensation | Minimum wage amount | Minimum wage — total weekly earnings |
|---|---|---|---|---|---|---|---|
| **Proposal** | Bridge-to-Work | 12 | 30 hours min. | Participants receive regular WBA plus additional funds of up to $100 for transportation and $150 for child care. | States are required to provide workers' compensation, but have flexibility in terms of how it is administered. | $7.25* | $275.50 |
| **Georgia** | Georgia Works | 8 | 24 hours max. | Participants are eligible for up to $240 for the duration of the program to cover training-related expenses | Yes, state provided. | $5.15** | $123.60 |
| **Missouri** | Work Ready | 6 | 24 hours max. | Participants are eligible for up to $300 for the duration of the program to cover training-related expenses | | $7.25 | $174.00 |
| **New Hampshire** | Return to Work | 6 | 24 hours max. | No. | Yes, state provided. | $7.25 | $174.00 |
| **North Carolina** | North Carolina Back-to-Work | 6 | 24 hours max. | $100 weekly stipend to cover training-related expenses. | Yes, state provided. | $7.25 | $174.00 |
| **Texas** | Back-to-Work | 24 | 30 hours min. | UI claimant stops receiving UI benefits. Employers must pay pay the eligible job seekers at least $7.25 per hour for a minimum of 30 hours per week. | | $7.25 | $217.50 |
| **Utah** | Back-to-Work | 12 | 35 hours min. | UI claimant stops receiving UI benefits. Employers must pay the eligible job seekers at least $9.00 per hour for a minimum of 35 hours per week. | | $7.25 | $315.00 |
| **Pennsylvania** | Train to Work - legislation pending | | | Pending legislation offers qualified businesses reimbursement of up to 80% of trainee participants' wages. Employers will also be able to apply for federal and state job creation tax credits. | | $7.25 | N/A |

Note: *The maximum between the federal rate of $7.25 and the state minimum wage.

**Georgia law excludes from coverage any employment that is subject to the federal FLSA when the federal rate is greater than the state rate.

***Higher benefit in Pennsylvania includes dependent allowance.

FLSA = Fair Labor Standards Act; WBA = weekly benefit amount.

| Average WBA | Minimum benefit | Maximum benefit | Certificate | Employment Displacement | Notes |
|---|---|---|---|---|---|
| $298.62 | — | — | While informational training may be provided, this is not considered a formal training program. Therefore, it is not expected that workers will receive a program completion certificate. Rather, workers are expected to receive minimum wage to comply with FLSA. | There are worker displacement protections in this program to ensure participants are not displacing or reducing hours for previous employed workers. | Bridge-to-Work participants must be employed for a minimum of 3 months in order for employers/workers to be eligible for the $2,000 retention bonus. |
| $270.06 | $44 | $330 | Yes; upon completion of training program. | In order to be eligible to participate, employers must have a vacancy registered with the Georgia Department of Labor. | |
| $241.62 | $35 | $320 | Yes; upon completion of training program. | Participating employers must verify with state administrators that the occupation being filled experienced no recent layoffs, a history of layoffs, or potential for new layoffs. | |
| $274.05 | $32 | $427 | | In order to participate in the program, the company must have a job opening. | There is a 5-day processing period before the training program can begin. |
| $290.03 | $43 | $506 | | The program is available to all employers. There is no specific mention that participating firms must have a job opening or that workers will be displaced as a result of bringing on a trainee. | The employer can interview several candidates selected by North Carolina Back-to-Work and can select the candidate for the opportunity. |
| $316.39 | $60 | $415 | | | Back-to-work participants must be employed for a minimum of 120 days in order for employers to be eligible for the $2,000 retention bonus. |
| $315.51 | $24 | $452 | | | Back-to-work participants must be employed for a minimum of 3 months in order for employers to be eligible for the $2,000 retention bonus. |
| $340.56 | $35-$43 | $573 - $581*** | | | This proposed program is modeled after Georgia Works and has a waiver from U.S. Department of Labor to use dislocated worker funds to subsidize wages for program participants. |

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Adriana Kugler is Vice-Provost for Faculty and Full Professor at Georgetown University's McCourt School of Public Policy. She served as Chief Economist of the U.S. Department of Labor in 2011 and 2012 for the Obama Administration. Professor Kugler's research interests include labor markets and policy evaluation in developed and developing countries. Her work evaluating the impact of labor policies and regulations was recognized with the 2007 John T. Dunlop Outstanding Scholar Award from the Labor and Employment Relations Association.

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Professor Kugler's work has been published in top general interest and economic journals and reports, including the World Development Report and the annual reports for the Inter-American Development Bank and the OECD. Her research and policy work has been covered broadly in the media, including in *The Economist*, *The Washington Post*, *The Wall Street Journal*, the *Financial Times*, CNN Money, FoxBusiness, C-SPAN, Nightly Business News, Univision, Telemundo, and NPR. She has served as an expert witness for the Joint Economic Committee of Congress.

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# Endnotes

1. Middle Class Tax Relief and Job Creation Act, Pub. L. No. 112-96 (2012).
2. Workforce Innovation and Opportunity Act, Pub. L. No. 113-128 (2014).
3. The informal sector, or gray economy, is the part of the economy that is neither taxed nor monitored by government.
4. American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5 (2009).
5. The predictions for which claimants would exhaust their benefits are based on a system called Worker Profiling and Reemployment Services, which uses individual information on the claimant such as previous work history, age, industry of employment, and other factors to statistically predict the duration of unemployment.
6. Feyrer and Sacerdote (2011) estimate a cost of approximately $100,000 per created job from ARRA programs, and Chodorow-Reich et al. (2012) estimate a cost of $100,000 for 3.8 person-years of additional employment created from increased Medicaid expenditures in states.
7. Workforce Investment Act, Pub. L. No. 105-220 (1998).

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THE HAMILTON PROJECT

## ADVISORY COUNCIL

# Highlights

Adriana Kugler of Georgetown University proposes that the federal government fund state-level pilots of three unemployment insurance (UI) programs. These programs are designed to help the unemployed transition back to employment sooner, even if they are unable to immediately find full-time salaried job placements.

## The Proposal

**Self-Employment Assistance.** This program would provide financial and technical support to unemployed individuals who would like to start their own businesses. These individuals would be able to receive unemployment benefits for a limited period while trying to get a new business off the ground, and would not have to search for a new job during this period. States would also offer skills training and other related services.

**Bridge-to-Work.** This program would support individuals who might benefit from a short-term job placement that builds on-the-job skills and gives employers a chance to test for fit before making a hiring decision. Participants would continue to receive unemployment benefits and would qualify for stipends for child care and transportation. The program would also pay a bonus if the worker were retained for at least twelve weeks.

**Under-Employment Assistance.** This program would target UI claimants who are offered part-time jobs. Under the current UI system, workers might rationally choose not to take a part-time job and instead continue collecting benefits. This proposal would encourage part-time work by requiring states to lower work requirements and to continue offering partial benefits to part-time workers.

## Benefits

Each of these three programs addresses a set of hurdles that face a particular subset of the unemployed. These obstacles may prevent UI recipients from transitioning back to the labor market as quickly as they can, and thus may lead to a cycle of long-term unemployment and increasing difficulty in finding jobs. Removing these obstacles would help stop long-term unemployment before it starts. As a result, the formerly unemployed can benefit from increased earnings and employment as well as potential improvements to physical and emotional health. Furthermore, the government would spend less for UI and other safety-net programs.

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