

POLICY BRIEF 2015-02

Strengthening Reemployment in the Unemployment Insurance System

MARCH 2015



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Strengthening Reemployment in the Unemployment Insurance System

Helping unemployed workers find reemployment has long been a policy challenge in the United States, and the urgency of the problem tends to increase during and after economic downturns. During the recent Great Recession, unemployment shot up to 10 percent and remained above 8 percent for more than three years. The unemployment rate has since fallen, but this fall masks elevated and troubling rates of long-term unemployment. Immediately after the Great Recession, the average duration of unemployment reached forty weeks, compared to about twenty weeks after past recessions. 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.

Unemployment imposes enormous costs on individuals, their families, and the economy as a whole. Longer spells of unemployment magnify these effects. During the Great Recession and its aftermath, for example, many long-term unemployed workers saw their family incomes fall by 40 percent. They were twice as likely to experience poverty as were workers unemployed for shorter periods, and almost four times as likely to experience poverty as were workers who had never been unemployed. Concentrated long-term unemployment also threatens mental health and strains communities.

The longer an individual is out of work, the more difficult it is for her to find new employment. During the time an individual is not working, her skills may erode. Furthermore, research has shown that employers considering applicants with the same qualifications but differing durations of ongoing unemployment are less likely to call back and offer an interview to applicants who have been out of work longer. These forces combine to create a vicious cycle, raising the possibility that the long-term unemployed from the Great Recession will face persistent obstacles in the labor market.

In a new Hamilton Project discussion paper, Adriana Kugler of Georgetown University proposes piloting three targeted programs in the unemployment insurance (UI) system to address obstacles to reemployment. 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.

The Challenge

The unemployment insurance (UI) system is a fundamental part of America's social safety net. It provides temporary support for individuals who find themselves out of work through no fault of

their own. 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. Although specific eligibility requirements vary by state, to be eligible for benefits individuals nationwide must have paid into the system through their employer and must have worked a minimum number of hours and earned a minimum amount in the past year or so.

One of the main challenges of the UI system is balancing the two goals of providing out-of-work participants with sufficient income and encouraging the same participants to return to work. The current system aims to accomplish the latter goal with two types of requirements. First, the work-search requirement means that individuals must prove that they are actively searching for work. UI recipients must register in government centers that offer employment services, called One-Stop Career Centers, and may have to keep a record of work-search contacts or provide evidence of having applied to a certain number of jobs each week.

Second, the UI system promotes reemployment by imposing 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 suitable job is offered to an unemployed individual, she must be able to immediately accept the job and to work the days and hours it requires. In many states, the term "suitable work" implies work that has conditions and pay commensurate with the person's education and experience. However, in several states it means work that pays progressively less after several weeks of unemployment.

Kugler points out that these requirements can paradoxically 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 for the individual to satisfy the availability and work-search requirements. Similarly, many state UI systems discourage the unemployed from starting their own businesses, because anyone working to start a business could have a difficult time satisfying the earnings, work-search, and availability requirements.

Furthermore, 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. 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 workers to satisfy this requirement, especially if the part-time schedule is irregular or needs to be balanced with family obligations. The availability requirement means that the worker needs to work out both child care and transportation beforehand—or else she is not eligible for UI benefits.

Workers thus may be forced to choose between opportunities to get back into the workforce and the security that unemployment benefits provide. Congress tried to address some of these problems through the American Recovery and Reinvestment Act of 2009 (more popularly known as the fiscal stimulus). Through this bill, states were offered extra funding in exchange for expanding eligibility

to two out of four specified groups, including part-time workers who had previously been denied benefits. These changes provide an important first step, but further targeted reforms can build on the UI system to eliminate additional hurdles to reemployment and provide valuable evidence about which programs are most effective in helping unemployed workers become reemployed as quickly as possible. Kugler offers a multipronged approach, tailoring each prong to a different group of workers. Workers in each group face different obstacles, both in the UI system and in the labor market, and so require different forms of support.

A New Approach

Kugler proposes three pilot programs. The first program, Self-Employment Assistance (SEA), focuses on unemployed individuals who are interested in starting their own businesses. The second program, Bridge-to-Work (BTW), supports unemployed individuals who have the opportunity to take short-term jobs. Finally, Under-Employment Assistance (UEA) aims to help workers who take a part-time job while they continue to search for full-time employment.

Kugler suggests that the federal government provide funds to five states on the basis of a competitive proposal to implement each of these three programs. To select states for participation, 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. The programs Kugler proposes would build on evidence from previous iterations of the pilots, and would offer the opportunity to gather more evidence on how to help the unemployed find jobs.

Self-Employment Assistance

SEA programs provide financial and technical assistance to unemployed individuals who would like to go into business for themselves. In the initial stages of setting up a new business, workers may not have the funds to support themselves, and may not have time to look for other jobs while focusing on this new business. In SEA programs workers receive full unemployment benefits and a waiver for the work-search requirement during a limited period. SEA programs also provide specialized training on relevant skills.

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, and this share has remained fairly constant over the past decades. While self-employment is not for everyone, it seems to be a solution for about one in ten workers. Federal law currently limits SEA participation to 5 percent of the regular UI recipients.

Seven states currently have SEA programs, while other states have had to discontinue programs due to lack of staff and resources. Evidence from existing and past SEA programs shows that the programs can increase self-employment. Comparing states that introduced SEA in the past few years with states that did not, Kugler finds that the programs increase self-employment by 1 percentage point, or about 11 percent from the base level. Rigorous evaluations of a recent program, the Growing America Through Entrepreneurship (GATE)

Project, found that it increased the likelihood of being employed (self-employed or working for someone else) by 7.5 percentage points for UI claimants and increased earnings by \$3,100 over four years. Kugler's analysis also demonstrates that well-designed SEA programs can be cost-effective. The GATE Project and an earlier program in Massachusetts measured benefits (in higher wages and lower UI payments) that exceeded the costs. However, both of these earlier programs took place in the labor markets of the late 1980s and early 1990s, and additional evidence is needed to determine the effectiveness of SEA programs in today's post-recession economy.

In order to maximize the potential benefits of an SEA program, Kugler proposes that participation be limited to the UI recipients that are most likely to exhaust benefits, which are those with a predicted probability above 25 percent. (The Worker Profiling and Reemployment Services system uses individual information on claimants, such as previous work history, age, industry of employment, and other factors, to statistically predict the duration of unemployment.) Building on the features of past programs, Kugler also suggests the following key elements be included in each pilot:

1. **UI Benefits:** SEA participants could receive UI benefits for up to twenty weeks, and they would not have to meet the work-search requirements.
2. **Recruitment of Participants:** UI recipients who qualify would receive written information about the program, the potential advantages and disadvantages of self-employment, and the time, date, and location of an optional in-person informational seminar.
3. **Application to SEA:** Individuals would self-select into the program on the basis of completing a timely application to the program that includes a business proposal. Based on take-up from previous programs, Kugler estimates there would be about 12,000 applicants across the five states, half of whom (or 6,000) would be randomly selected into the program.
4. **Entrepreneurship Training:** Participants could attend six biweekly training sessions on topics such as developing business plans, accounting and QuickBooks, human resources issues, and information on taxes and regulations. Entrepreneurial training could be outsourced or provided by local Small Business Administration offices.
5. **Technical Assistance:** In addition to providing individual advising on business plans and midterm assessments, the program would also help participants with banking and obtaining small business loans from local financial institutions or the Small Business Administration.

Bridge-to-Work Programs

Just as SEA programs extend UI support to unemployed individuals as they start their own businesses, BTW programs extend support to unemployed individuals who take short-term jobs where they can prove themselves and gain on-the-job skills. BTW programs also sometimes provide stipends for child care and transportation for employees, and incentives to employers for training or hiring participants.

As a result of authorization under the American Recovery and Reinvestment Act, seven states have introduced BTW-type programs since 2009. These programs have not been subjected to rigorous evaluations like the SEA programs have been, but reactions to these programs can still provide guidance in designing new ones. The two primary criticisms of recent BTW programs are the lack of protections for participants—including workers' compensation and the guarantee of a minimum wage—and the use of participants to fill temporary positions that replace existing workers or that the employer has no intention of maintaining.

A study of a welfare-to-work program in Detroit in the second half of the 1990s provides some evidence on the effectiveness of job placement programs. Welfare recipients who were directly placed with employers (rather than with temporary help agencies) had higher employment and earnings even seven months after they were placed. About half the benefit was from workers staying with the original employer, while the other half was from workers who were able to use the first placement as a stepping-stone to different jobs. UI recipients generally have experience in the job market that is more recent than that of welfare recipients, and so may fare even better, but differences in the economic climate may also impact the performance of the proposed programs.

Kugler's proposal builds on and improves existing programs. As before, the pilot programs would limit eligibility to UI claimants with the highest predicted likelihood of exhausting their benefits (above 50 percent probability). Furthermore, only UI claimants in their first eight weeks of benefits could participate, since the purpose of the program is to encourage people to move back into the workforce quickly. The pilot programs would have the following features:

1. **UI Benefits:** Program participants would continue to collect twelve weeks of benefits after finding a short-term employment-based experience that meets the qualifying experiences criteria described below. The work-search and other eligibility requirements would be waived during this period.
2. **Qualifying Experiences:** The position must be at least thirty hours per week, and the effective hourly pay must satisfy the minimum wage. If the hourly pay requirement is not met, the employer must pay the difference; if the participant works more than forty hours in one week, the employer must pay for overtime.
3. **Stipends for Workers:** Program participants would receive \$100 per week for transportation and, if they have children under age sixteen, \$150 per week for child care. These flat stipends eliminate the administrative costs of verifying actual costs of transportation or child care.
4. **Antidisplacement and Antichurning Provisions:** Employers must show that (1) there is a job opening at the company, (2) the job opening does not replace an existing position or recently closed position with the same job description, and (3) the new hire does not take the position of anyone on layoff, strike, or lockout.
5. **Workers' Compensation:** Workers' compensation would be paid by the program.
6. **Bonus for Retention:** If the worker is retained for at least twelve weeks, the program would pay either the employer or

Roadmap

- The federal government will provide grants to states on a competitive basis to implement three different pilot programs to expand and change their unemployment insurance (UI) systems. Each of these pilot programs will operate in five states. Funding will include money for evaluation of the programs' impacts.
- The first program, Self-Employment Assistance, will require states to provide unemployment benefits for up to twenty weeks and to waive the work-search requirement for UI recipients who are starting their own businesses. The program will also include six biweekly training sessions on relevant skills, individual advising on business plans, and assistance in banking and finance. States can partner with local Small Business Administration offices to provide these services. This program will cost less than \$20 million.
- The second program, Bridge-to-Work, will require states to provide unemployment benefits for up to twelve weeks and to waive the work-search requirement for UI recipients who accept certain short-term job placements. Eligible placements must include at least thirty hours a week of work, with the employer paying at least minimum wage. Employers will not be allowed to use Bridge-to-Work participants to replace current workers. The program will provide \$100 per week for transportation and \$150 per week for child care to the worker, and will pay workers' compensation for the employer. Finally, the program will give twelve-week retention bonuses of \$1,500 to either the employer or the employee, testing which incentive is more effective. This program will cost about \$174 million.
- The third program, Under-Employment Assistance, will require states to provide partial unemployment benefits and to relax the work-search requirement for UI recipients who accept part-time jobs. States that do not currently give benefits to part-time workers will test different work-search requirements and ways of taking part-time wages into account, and one state that already provides benefits will experiment with a more generous benefit formula. This program will cost about \$17 million.

the employee \$1,500. Program administrators will study the two options to determine which incentive is more effective. 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; employers that terminated the worker in the interim would need to file an appeal justifying their decision.

7. **Individual Eligibility:** Kugler estimates that roughly 120,000 unemployed workers in the five pilot states would be eligible for the BTW program, of which half (60,000) would be randomly selected for participation.

Learn More about This Proposal

This policy brief is based on The Hamilton Project discussion paper “Strengthening Reemployment in the Unemployment Insurance System,” authored by

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Under-Employment Assistance

The third component of Kugler’s proposal promotes part-time employment as a way for the unemployed to reenter the workforce. UEA allows workers who accept part-time jobs to continue receiving partial unemployment benefits while meeting lower work-search requirements.

Part-time employment is an important part of the labor market, even in good economic times. Today, one in five workers is a part-timer, as compared with one in six before the recession. 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.

Although twenty-nine states currently allow part-time workers to claim some benefits, the system in many of these states still discourages part-time work. To determine a part-time worker’s partial benefit, each state uses a formula that adjusts down the full UI benefit by subtracting a portion of weekly earnings. The exact formula varies by state, but those moving to part-time jobs in many states may earn too much to qualify for any partial unemployment benefits, as the effective earnings threshold can be under \$200 per week. Furthermore, taking a part-time job often requires transportation and child-care expenses, and so the decrease in benefits in addition to these costs might make rejecting the job and continuing benefits a more rational choice. Finally, if an individual takes a part-time job, it might be difficult for her to accumulate enough earnings to qualify again for future UI benefits.

Kugler’s proposed pilot would fund implementation of UEA in four states that have not adopted it. The pilot would also fund expansion of the program in one state that has adopted it already. UEA in each state would vary in certain ways in order to facilitate evaluation of the program. Specifically, states would be required to make the following changes to their UI programs:

1. **Work-Search Requirement:** In two of the states, the work-search requirement would be completely waived, and in the other two states the required number of job search contacts would be reduced.
2. **Formula for Partial Benefits:** In two of the states, 50 percent of earnings from a part-time job would be disregarded in calculating partial benefits, while in the other two states only 20 percent would be disregarded. The state that already has UEA would be required to raise its disregard level to 50 percent.

(States with a UEA disregard level above 50 percent would not be eligible to participate.)

3. **Individual Eligibility:** Half of the UI claimant pool in each of the participating states would be selected randomly to receive partial benefits, which would last up to twenty-four weeks. Kugler determines that approximately 48,000 unemployed workers would be eligible in the participating states, half of whom would qualify for part-time benefits under the randomization.

Benefits and Costs

All three of Kugler’s proposed programs are designed to hold program costs down and would be roughly budget-neutral over all levels of government combined; they could save money for state governments, when a reduced need for UI benefits is taken into account. Furthermore, Kugler argues that their benefits are very likely to exceed costs in a broader social sense when all the benefits of lower levels of long-term unemployment are taken into account. First, any increase in employment not only will reduce UI payments, but also will lower spending in other income support programs, such as the Supplemental Nutrition Assistance Program (SNAP, or food stamps) program and Medicaid, and increase tax revenues. Second, the program is likely to generate social benefits by improving the financial, physical, and mental health of workers and their families. Finally, the pilot format will allow policy-makers to learn how to improve the structure of UI.

Kugler estimates that the up-front costs of the SEA pilot would range from \$12 million to \$19 million, including evaluation costs. She notes the program would pay for itself if participants spent an average of 8.5 fewer weeks receiving benefits. Due to the larger scale of the BTW pilot, she projects that its up-front costs (including evaluation) would be approximately \$174 million. As with SEA, the program would pay for itself if participants spent an average of 8.5 fewer weeks receiving benefits; this excludes any gains from reduced spending on other forms of government assistance or greater tax revenues from faster return to employment. The UEA pilot, on the other hand, would cost \$17 million to operate and evaluate, but these costs would be more than paid for through reduced direct benefit payments to claimants. Thus UEA is projected to have a positive effect on government budgets when administrative costs are disregarded.

Conclusion

The proposals outlined above address some of the features of the UI system that discourage unemployed workers from pursuing job opportunities that may be a good fit for them. By making targeted changes to benefits and providing other forms of support, Kugler aims to remove hurdles and instead create roads toward employment using few additional resources. These proposals also help integrate the UI system with employment services, harnessing opportunities for coordination between the two. As Kugler points out, these changes hold the possibility of reducing the national unemployment rate by precious tenths of a percent, with each tenth of a percent of the national workforce of 140 million representing about 140,000 people.

Questions and Concerns

1. 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 indeed would 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.

These are also good ideas, and the money 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.

2. 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.

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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