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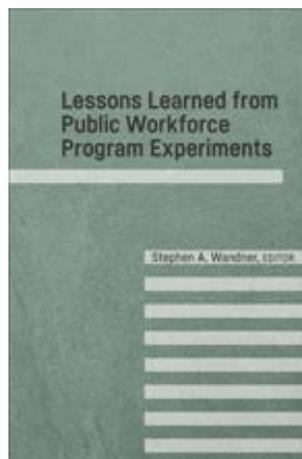
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Chapter 5

Incentive Experiments in Unemployment Insurance

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Unemployment insurance was established to provide partial temporary income replacement during periods of active job search by involuntarily unemployed labor force members. The program has achieved that objective faithfully since 1937. However, economic theory suggests that paying unemployment insurance (UI) benefits may prolong joblessness, and econometric research has found evidence that UI work disincentives do exist. This led to a series of randomized controlled trials to identify ways to overcome work disincentives while still paying UI. The experiments have assessed interventions on both sides of the job market. Job seeker trials have tested cash reemployment incentives in various ways: by monitoring active work search, by trying new types of job search assistance, by checking UI benefit eligibility, and by targeting assistance based on worker characteristics. Employer trials have tested hiring incentive payments, self-employment assistance, and ways to encourage work sharing. This chapter reviews the experimental evidence and considers it in the current context of the federal-state UI system.

POLICY BACKGROUND

Policies to support labor markets in the United States are mostly initiatives of the federal government. Historically, states have been reluctant to independently pursue public employment policy for fear of competitively disadvantaging resident industries with added costs.

Federal requirements and funding have allowed the states to address labor market problems with a diminished risk of job loss from interstate competition for jobs.

The Wagner-Peyser Act of 1933 established the U.S. Employment Service (ES), and the Social Security Act of 1935 established the federal-state UI system. These New Deal programs are at the core of federal employment policy, and they have evolved over time, as was described in the previous chapter. Since the 1980s, the states have truly served as laboratories of democracy, testing promising policy improvements by running classical field experiments with randomized controlled trials on large samples of program-eligible persons.

This chapter summarizes the lessons learned from UI experiments conducted in states over the past 35 years. To set the stage for this discussion, the next section briefly reviews the principles and pitfalls of evaluation with experiments that were discussed in greater depth in Chapter 2 of this book. The subsequent sections summarize evidence from experiments in the ES-UI context that have been done to identify ways to promote employment and conserve UI reserves. The concluding section of this chapter offers a summary and some comments on the relevance of lessons from these experiments for the UI system today.

THE APPEAL OF FIELD EXPERIMENTS

Classically designed field experiments involving randomized controlled trials (RCTs) are the gold standard for estimating the impact of changes to public programs. If random assignment is achieved, modeling of behavior and complex econometric methods are not needed to obtain reliable program impact estimates.[1] With large samples randomly assigned to treatment and control groups, observable and unobservable characteristics of the two groups should not differ on average, so any difference in outcomes can be attributed to the program change. Average program impacts can be measured as the simple difference between the means of the samples of program

participants and of control group members on outcomes of interest. Since this process is easy to understand, impact estimates computed in this way can be influential for public policy.[2]

Policy decisions about whether to continue, expand, reduce, or cancel government employment programs require estimates of the net benefits from government spending. Cost-benefit analysis requires measurement of net program impacts, and such evaluations are not without potential problems—even if the evaluation is done under the ideal conditions of a field experiment. The first potential pitfall threatens the *internal validity* of the experiment. Such problems include errors in random assignment and changing experimental conditions. The first of these can lead to lack of balance in characteristics between treatment and control groups. The second means that the same trial was not successfully repeated in all cases. Even with internally valid randomization, problems can result from dropout bias (wherein a customer assigned to an experimental treatment did not in fact receive the service) and substitution bias (wherein a control group member actually receives the treatment) (Heckman et al. 2000).

The second group of challenges in field experiments concerns *external validity*—or the ability to transfer impact estimates from the evaluation context to the real-world policy context. *Time horizon effects* can occur when treatment subjects understand that an experimental service is only temporary rather than permanent. *Learning effects* can take place within a community during the course of an evaluation, causing later enrollees to act differently than those enrolled around the time the experiment begins. *Entry effects* not observed during an evaluation can emerge when an appealing service becomes generally available to a population of potential customers, thereby increasing program take-up and system costs. *Hawthorne effects* are responses to treatments that are due not to the content of service but simply to special attention.[3] *Displacement effects*, which may be the most critical external validity concern, occur when treatment-assigned subjects improve their outcomes at the expense of others in the community who are not part of the evaluation sample.[4]

As Zvi Griliches said, "If the data were perfect, collected from well-designed randomized experiments, there would be hardly room for a separate field of econometrics" (Orr 1999, p. 187). The following review mentions few exceptions to the classical assumptions of experimental design and does not delve into any corrections that might have been done before reporting final program impact estimates. The focus here is on average program effects. That is, it focuses on the effect of treatment upon the treated, assuming good experimental designs were properly implemented.

THEORY AND EVIDENCE ON INCENTIVES

Economic theory suggests several reasons why paying UI to unemployed workers might prolong joblessness. Feldstein (1974) argued that moral hazard caused by paying UI leads beneficiaries to exaggerate the involuntary nature of their joblessness so as to prolong unemployment. In a labor-leisure model of choice, UI benefits lower the opportunity cost of deferring reemployment to consume more leisure (O'Leary 1998). In a search model of unemployment, UI raises the reservation wage for accepting a new job, thereby reducing the probability that an acceptable offer arrives in any period (Ehrenberg and Oaxaca 1976). Decker (1997) reviews the econometric literature on UI work disincentives and reports the range of published estimates to be between 0.3 and 1.5 weeks' longer duration of UI receipt for a 10 percentage point increase in the UI replacement rate.

REEMPLOYMENT BONUS EXPERIMENTS

A series of field experiments were conducted to evaluate positive reemployment incentives in UI. Between 1984 and 1989, four reemployment bonus experiments targeted at UI recipients were conducted

in the United States. These experiments provided various levels of lump-sum payments to UI recipients who took new, full-time jobs within 6 to 12 weeks of their benefit application and held those jobs for at least three to four months.

The aim was to measure the behavioral response of UI recipients to changes in the timing of benefit payments. The main outcome of interest was to speed return to work in a way that would benefit employees, employers, and the government, and would be cost effective. UI claimants would be better off if they returned to work sooner and found jobs that were similar and paid similar wages to the jobs that they would take in the absence of a bonus offer. Employers would be better off if they had lower UI payroll taxes. The government would be better off if the cost of the bonus were offset by a decrease in UI benefit payments to unemployed workers and an increase in income and other tax contributions by workers during their longer period of employment.

Illinois UI Incentive Experiment

The first bonus experiment was conducted in Illinois during 1984–1985 by the Upjohn Institute and sponsored by the Illinois Department of Employment Security. The design provided a $500 bonus—equal to about four weeks of UI benefits—for reemployment within 11 weeks of applying for benefits if the job was held for four months. The bonus offer was estimated to reduce UI receipt by 1.15 weeks (Woodbury and Spiegelman 1987). Participants suffered no decline in job quality, as reemployment wages did not differ from the prior job, but the estimated cost savings led to a large benefit-cost ratio of 2.32.

New Jersey UI Reemployment Experiment

The U.S. Department of Labor sponsored a New Jersey UI experiment in 1985–1986 that included a reemployment bonus, among

other features. The initial bonus offer was one half of the claimant's remaining entitlement at the time of the offer, and it remained constant for the first two full weeks. After that, the bonus offer declined by 10 percent of the original amount each week, falling to zero by the end of the eleventh full week of the bonus offer. Initial bonus offers in New Jersey averaged $1,644, or about nine times the UI weekly benefit amount (Corson et al. 1989). The bonus was estimated to shorten UI durations by about half a week and generated only modest savings in UI.

Pennsylvania and Washington Reemployment Bonus Experiments

In 1987, the Pennsylvania and Washington experiments were designed to test varying bonus offers and search periods. The resulting designs included four treatment groups in Pennsylvania and six in Washington. Each treatment specified a bonus level (high and low in Pennsylvania; high, medium, and low in Washington) and a qualification period or duration of the bonus offer (short and long in both states). The reemployment period of four months was the same for all treatments. Impact estimates on weeks of UI benefits received ranged from −0.04 to −0.84, with a mean effect across the 10 treatments in Pennsylvania and Washington of −0.51 weeks (Decker and O'Leary 1995). The mean estimated savings to the UI program came to $25 per offer.

Targeting Reemployment Bonuses

O'Leary, Decker, and Wandner (2005) investigated whether targeting reemployment bonus offers to unemployment insurance (UI) claimants identified as most likely to exhaust benefits would reduce benefit payments.[5] They showed that targeting bonus offers with profiling models similar to those in state Worker Profiling and Reemployment Services (WPRS) systems can improve cost effectiveness.[6]

However, estimated average benefit payments do not steadily decline, as the eligibility screen for targeting is gradually tightened by the probability of UI exhaustion. They find that narrow targeting is not optimal. The best candidate to emerge is a low bonus amount with a long qualification period, targeted to the half of profiled claimants most likely to exhaust their UI benefit entitlement.

Interpreting Results from the Bonus Experiments

The relatively weak response to the bonus offers in New Jersey, Pennsylvania, and Washington led to a reexamination of the very large Illinois results. It was discovered that within the designed Illinois experiment, a second experiment had unintentionally taken place. In 1984, as Illinois was recovering from a major recession, the availability of Federal Supplemental Compensation (FSC) was terminated. This resulted in about half of the claimants studied having 38 weeks of UI benefit eligibility, with the remainder being eligible for only 26 weeks of regular UI benefits. It turns out that the mean bonus response of -1.15 weeks in Illinois was made up of a response of -1.78 weeks for those eligible for FSC and -0.54 weeks for those not eligible (Davidson and Woodbury 1991). The mean response of -0.54 for the non-FSC sample in Illinois is close to the responses observed in New Jersey, Pennsylvania, and Washington, where the entitled durations of benefits were comparable.

Analysis of treatment impacts by characteristics of participants, industries, and labor markets showed that the reemployment bonus had a remarkably even impact on various subgroups of workers, whether delineated by gender, age, race, industrial sector of employment, level of local unemployment, or level of the weekly benefit amount. The effects of bonus offers did not differ significantly across these important distinctions, suggesting that the bonus offer could be an equitable way to improve program efficiency.

Two potential behavioral effects might reduce cost effectiveness for an operational program (Meyer 1995). First, an actual bonus pro-

gram could have a displacement effect. Displacement occurs if UI claimants who are offered a bonus increase their rate of reemployment at the expense of other job seekers not offered a bonus. Second, there is also the risk that an operational bonus offer program could induce an *entry effect*. That is, the availability of a reemployment bonus might result in a larger proportion of unemployed job seekers entering the UI system.

If entry and displacement effects are large, actual program cost effectiveness will be smaller. However, targeting offers of a low bonus amount coupled with a long qualification period to only those most likely to exhaust UI could reduce both these risks. Targeting would introduce uncertainty that a bonus offer would be forthcoming upon filing a UI claim, which should reduce the chance of a large entry effect. Also, targeting should reduce any potential for displacement, since a smaller proportion of claimants would receive the bonus offer.[7]

THE UI WORK TEST AND JOB SEARCH ASSISTANCE EXPERIMENTS

Unemployment insurance provides temporary partial wage replacement to the involuntarily unemployed. Proper administration of this objective assures that UI is social insurance and not a dole. Eligibility rules require that UI beneficiaries are strongly attached to the labor force and temporarily jobless through no fault of their own. To initially qualify for UI, a claimant must satisfy both monetary and nonmonetary eligibility requirements. Monetary eligibility for UI is determined by base period earnings.[8] Nonmonetary eligibility rules specify that the job separation must be involuntary. These rules prohibit quits and discharge for causes justifiable by an employer, such as unexplained absences or misconduct. To maintain continuing UI eligibility, beneficiaries also must be able, available, and actively seeking full-time work. Assessment of compliance with the UI work

test is normally administered by the ES, which works in cooperation with state UI agencies. An influential audit of UI payment accuracy done for the U.S. Department of Labor reported that a large number of overpayments in the UI system were due to failure to satisfy work search requirements (Burgess and Kingston 1987). This important study spawned a series of evaluations of the UI work test and associated job search requirements.

The UI work test normally involves beneficiaries certifying on their biweekly continued claim form that they have actively searched for work. Most states require beneficiaries to name two or three specific employers contacted about work in the past two weeks. Job search assistance (JSA) comprises a bundle of services available from the public labor exchange, which may include résumé preparation assistance, job finding clubs, provision of labor market information, development of a job search plan, and orientation to self-service resources like job vacancy listings, résumé preparation, word processor competency testing, and telephones for contacting employers. Evaluations of the UI work test and JSA have overlapped.

Four specific evaluations of JSA have been particularly influential in shaping public labor exchange policy. All four were done as field experiments involving random assignment. Among other offerings of the public employment service, job referrals and placements have not applied an experimental design because of the unethical design requirement of withholding from the control group basic services having universal entitlement. Consequently, JSA evaluations have focused on UI claimants and have usually involved providing additional services.

Charleston Claimant Placement and Work Test Experiment

The first field experiment of the UI work test was done in 1983 in Charleston, South Carolina (Corson, Long, and Nicholson 1985). Three treatments represented successively larger bundles of services. The control group was given the customary work test, which involved

informing claimants that ES registration was required but involved no systematic monitoring of this requirement. The three treatments involved the following: 1) a strengthened work test, requiring ES registration before a second UI benefit check was paid; 2) added to the first treatment were enhanced placement services, a personal placement interview, a job referral or an outreach attempt to a prospective employer, and training in using the job vacancy listings; 3) in addition to the second treatment, there were special workshops on job search and labor market information.

Impacts of the three treatments on UI weeks were −0.51, −0.61, and −0.76, respectively. Subgroup effects were largest for men (−1.0 weeks) and workers in the construction industry (−4.0 weeks). The biggest marginal benefit came from the first treatment, which relinked ES with UI. Given the low cost per ES participant, all treatments were highly cost effective. The third treatment, which involved the largest number of components, had an average cost per participant of only $17.58 in 1983 dollars.

Washington Alternative Work Search Experiment

An experiment in Tacoma, Washington, conducted between July 1986 and August 1987 tested three differences from the standard work search requirement of three employer contacts per week: 1) elimination of the reporting requirement, 2) individualized stronger work search requirements plus a group eligibility review, and 3) Treatment 2 plus required workshops and additional individual counseling and assistance.

Removing the work test increased UI benefit durations by 3.34 weeks. Treatment 2 did not have a statistically significant effect, but Treatment 3 shortened UI durations by −0.47 weeks (Johnson and Klepinger 1994). An analysis of the timing of responses to the treatments suggested that beneficiaries were more likely to stop UI receipt just before a scheduled intervention, rather than after the service was provided. Such a response might be termed an "invitation effect."

This result raised the question of whether the response was due to the value of the services or the time burden of participation.

Lachowska, Meral, and Woodbury (2015) examined long-term evidence from the Tacoma experiment by merging Washington UI program administrative data from nine additional years after the original one-year follow-up period. They focused on the treatment that removed the work test, and they estimated that nearly all the costs were borne by the UI system in the year of the experimental program change. Long-term effects averaged out to zero, but subgroup analysis by job separation reason yielded an important result for those permanently separated from jobs. For this group, the 10-year follow-up suggested that the standard UI work search requirement yielded significantly faster reemployment and greater long-term employment stability. Those excused from the work test got reemployed about 1.40 calendar quarters later and had job tenure of about 1.65 quarters shorter than the comparison group.

Maryland UI Work Search Experiment

Enrollment in the Maryland UI Work Search Experiment was conducted in six public labor-exchange offices around the state during 1994 (Klepinger et al. 1998). The control group faced the standard work search requirement of reporting two employer contacts per week. The four treatments had the following requirements: 1) reporting of four weekly employer contacts, which did not have to be verified; 2) two weekly employer contacts, which did not have to be reported; 3) reporting of two weekly employer contacts, plus attending a four-day job search workshop; and 4) reporting of two weekly employer contacts—claimants were told contacts would be verified. The treatment impacts on weeks of UI benefits were as follows: −0.7, 0.4, −0.6, and −0.09. Notably, the impact of the fourth treatment occurred during the first spell of joblessness. Similarly, the first treatment generated the bulk of its response during the first spell of joblessness in the benefit year. The effects of Treatments 1, 3, and

4 were not associated with lower reemployment earnings. However, eliminating the work search reporting requirement, as in Treatment 2, raises reemployment earnings by a statistically significant 4 percent.

A second control group facing the standard work test was also tracked, but claimants assigned to this group were told that their behavior was being tracked as part of an experiment. This was done to permit testing for the presence of a Hawthorne effect. This is relevant in ensuring external validity of the evaluation. If part of the treatment response to a new work test is simply due to added attention on the work test, then such an effect could quickly dissipate after actual implementation. Impact estimates computed as a contrast between the participant group and each of the two control groups were virtually identical, suggesting the absence of any Hawthorne effect.[9]

Michigan Reemployment and Eligibility Assessment Nudge

Reemployment and Eligibility Assessments (REAs) involve repeated validation of all aspects of UI eligibility during the benefit year and providing additional reemployment services. In Chapter 4 of this book, Jacob Benus explains the policy development and evaluation results for the REA. The most recent REA evaluation involved random trials in Nevada (Michaelides et al. 2012). The Nevada trials provided evidence that for the REA, both the work test and the reemployment services were separately effective, which is valuable evidence in the face of the Tacoma results.

Michigan received a U.S. Department of Labor grant to deliver REA services in five workforce areas in 2015. The Michigan REA started on January 29, 2015, but only about half of REA-assigned beneficiaries were completing REA. The W.E. Upjohn Institute for Employment Research worked with Mathematica and Ideas42 on a small, randomized controlled trial evaluating a low-cost intervention to increase REA participation in the four-county workforce development area overseen by Michigan Works! Southwest, a One-Stop agency administered by the Upjohn Institute. Random assignment began on March 16, 2015, and ended on September 30, 2015.

In the parlance of behavioral economics, the low-cost interventions were "nudges" for participation (Babcock et al. 2012), as was discussed in Chapter 3. The nudges took the form of a series of e-mails providing information and reminders to participate in REA services. The nudges reminded REA beneficiaries about three required REA appointments. A follow-up set of three "persistence" e-mails were also sent to encourage and reinforce job search activity after the third REA visit to a Michigan Works! office. The persistence e-mails provided links to office locations and phone numbers, schedules of local services, and testimonials from previous service recipients.[10]

The study found that "UI claimants who were sent email messages were more likely to start the REA program by scheduling their first session. UI claimants who received email messages were also more likely to complete the REA program. Once individuals attended their first REA session, they were equally likely to complete the program regardless of whether they had received emails or not" (Darling et al. 2016, p. 1).

TARGETED JOB SEARCH ASSISTANCE

Targeting of JSA surfaced as a policy option during the 1990s, following the massive economic restructuring and worker dislocation of the previous decade. The question of whether JSA would be effective for those at risk of long-term unemployment was evaluated in the New Jersey experiment (Corson et al. 1989). This provided essential evidence to support establishment of the WPRS system, which requires JSA early in the UI benefit year for those most likely to exhaust their UI entitlement (Wandner 1994). Two other experiments evaluated the effectiveness of targeted JSA. The first was done around the time of WPRS start-up (Decker et al. 2000). The other was done in the context of the WPRS program operating in Kentucky (Black et al. 2003).

New Jersey UI Reemployment Experiment

The New Jersey UI Reemployment Experiment ran in 1986 and 1987 (Corson et al. 1989). The sampling frame for random assignment targeted the evaluation to dislocated workers claiming UI benefits by requiring applicants to

1)   receive a first UI benefit within five weeks of application,

2)   be at least 25 years old,

3)   have worked for the pre-UI claim employer at least three years,

4)   not be on standby awaiting return to the claimant's previous job with a specific recall date, and

5)   not be a union hiring hall member.

The three treatments were as follows: 1) JSA alone, 2) JSA plus an offer of job training,[11] and 3) JSA plus the cash reemployment bonus described above. During the benefit year, weeks of UI benefit receipt declined by −0.47, −0.48, and −0.97 for the three treatments, respectively. All of these impact estimates carried statistical significance. The cumulative impacts on weeks of UI benefit receipt over the six years after the initial benefit claim were −0.76, −0.93, and −1.72 for the three treatments, and the estimated impact from the third treatment was statistically significant (Corson and Haimson 1996). The New Jersey UI Reemployment Experiment demonstrated that JSA targeted to claimants likely to be long-term unemployed had the same cost-effective impact as that found for other groups of UI claimants—about half a week shorter UI receipt.

D.C. and Florida Job Search Assistance Experiment

In 1993, President Clinton signed Public Law 103-152, which required states to establish and use a WPRS system to identify UI claimants most likely to exhaust their regular benefits and provide

them with early reemployment services. Under WPRS, UI recipients who are expecting recall or members of a union hall are dropped, because they are not expected to undertake an active independent job search. Then, remaining UI recipients are ranked by their likelihood of exhausting UI benefits. Referrals are then made to early reemployment services in the order of the profiling score until the capacity of local agencies to serve them is exhausted.

The targeted JSA experiment done in Florida and Washington, D.C., in 1995 and 1996 applied what became a standard two-step practice in nearly all states for WPRS: 1) exclude job-attached and union hiring hall members, then 2) evaluate the probability of exhausting UI entitlement and target those with the highest probabilities for the evaluation. From this profiled sample frame, randomization was done to the control group and the three treatments: 1) structured job search assistance orientation, testing, job search workshop, and a one-on-one assessment interview; 2) individualized job search assistance (IJSA) orientation, one-on-one assessment interview, and an individual employability plan; and 3) IJSA+, which is Treatment 2 plus the possibility of job skill training (Decker et al. 2000).

The statistically significant impacts on weeks of UI compensation in the benefit year in Washington, D.C., were −1.13, −0.47, and −0.61, and in Florida they were −0.41, −0.59, and −0.52. There was no evidence of any pre/post wage change, but earnings did rise slightly in the District of Columbia. Structured JSA emerged as the most cost-effective intervention examined.

Kentucky Targeted Reemployment Services

An independent assessment of WPRS in Kentucky based on an experimental design was done by economists at the Center for Business and Economic Research at the University of Kentucky (Black et al. 2003). Kentucky divides the predicted UI exhaustion distribution into 20 ranges. Depending on the level of UI claims, weekly office capacity is reached within one of the 20 groups. Randomization is

done on the group margin at capacity—called the tie group. Based on data from 1994 to 1996, the impact estimates for WPRS in Kentucky were −2.2 weeks of UI, −$143 in UI benefits, and a $1,054 increase in earnings during the UI benefit year. The difference in these estimates from the national WPRS evaluation was most likely due to the fact that Black et al. essentially confined their contrasts within profiling tie groups, thereby achieving a closer counterfactual. The authors noted that the reduced duration was mainly due to no-shows for the profiling services, but it may be the case that these UI beneficiaries simply returned to work earlier.

The extraordinary foresight of the Kentucky Department of Employment Services to include randomization in assignment to WPRS should be a model for all state and local employment-service delivery agencies. In setting up WPRS administrative rules, the Kentucky agency realized the value of evaluation research and used that orientation to help resolve the resource allocation problem. When resources are limited, randomization in program assignment can always be viewed as an equitable mechanism. It has the added benefit of providing for strong evaluation evidence.

EMPLOYER INCENTIVES

Most public employment programs focus on the supply side of the labor market. Evaluations have also been done of interventions to increase labor demand. This section reviews field experiments done to induce hiring, self-employment, or job retention.

Illinois UI Hiring Incentive Experiment

Another experiment tested an intervention that amounted to a wage subsidy that was not restricted to economically disadvantaged workers but may have stigmatized job seekers. Woodbury and Spiegelman (1987) report that for the Illinois Reemployment Bonus

Experiment, cash bonuses paid directly to persons who gain reemployment have a powerful effect in reducing the duration of unemployment, whereas if a cash payment for hiring a job seeker is made to employers, the effect is almost nil. Employers may be reluctant to hire workers who present a voucher for payment from the state because it signals that the worker may have "hidden" characteristics that hinder their finding employment without a state subsidy.

Most programs for the unemployed are either income-support or labor-supply enhancing; the wage subsidy is a labor-demand stimulus. But apparently regardless of the form of delivery of the subsidy to employers, it has a stigmatizing effect on workers. An obvious alternative is the wage supplement, which is paid directly to workers. This type of program has even been recommended to help welfare recipients (who might face the most severe stigma) gain reemployment.[12]

Dayton Wage Subsidy Experiment

Not specifically in the context of UI, but germane to stimulating employer hiring, a targeted wage subsidy was operated as a field experiment with random trials in 1980–1981 by the U.S. Department of Labor in Dayton, Ohio. The evaluation involved two treatments: 1) a hiring tax credit and 2) a lump-sum cash subsidy payment, plus a control group of otherwise similar employers. Burtless (1985, p. 106) writes that "the results show conclusively that workers known to be eligible for targeted wage subsidies were significantly less likely to find jobs than were otherwise identical workers whose eligibility for subsidies was not advertised." Burtless (1985, p. 105) speculates that "the vouchers had a stigmatizing effect and provided a screening device with which employers discriminated against economically disadvantaged workers."

Self-Employment Experiments

Self-employment programs for unemployed persons have been operating in Europe since 1979.[13] Seventeen countries belong-

ing to the Organisation for Economic Co-operation and Development have programs patterned after either the French model, which grants a lump sum payment, or the British model, which provides a series of periodic support payments during the start-up phase of self-employment.[14] The British model amounts to a waiver of the work search requirements for continued receipt of periodic UI payments. American experiments tested the French model in Washington State and the British model in Massachusetts (Benus et al. 1995).

The Massachusetts self-employment experiment ran from 1990 to 1993 and provided UI payments every two weeks for up to 30 weeks. The treatment group increased self-employment, reduced the length of unemployment, increased earnings, and increased recipients' total time in employment—including self-employment plus wage and salary employment. The treatment was cost effective for project participants, society as a whole, and the government sector as well. Total earnings of the average project participant increased by $5,940 over the amount earned by the average control-group member over the three-year follow-up period.

The Washington UI Self-Employment and Enterprise Demonstration (SEED) enrolled UI beneficiaries from 1989 to 1990, with business services available for participants through March 1991. The SEED lump sum payment was the remainder of a UI beneficiary's entitlement at the start of self-employment. Only about 4 percent of targeted Washington UI claimants met the initial eligibility requirements of attending an orientation and submitting an application. Compared to the control group, treatments spent about four months more in self-employment, earned more from self-employment, spent about one month less in wage and salary employment, had higher rates of employment, reduced the length of the first unemployment spell, and had higher total UI payments during the benefit year (including the lump sum payment).

The periodic payment model as tested in Massachusetts became a UI policy option for states to provide self-employment assistance (SEA) under the North American Free Trade Agreement in 1993.

In 1998, SEA became a permanent UI feature under the Workforce Investment Act of 1998. Eleven states quickly authorized SEA programs. Currently the program is actively used in Delaware, Mississippi, New Hampshire, New York, and Oregon.

Work Sharing Experiments

Work sharing under UI is commonly known as short-time compensation (STC).[15] Under STC, work reductions are shared among employees by reducing work hours instead of putting some workers on layoff. The STC program partially replaces lost earnings by paying a percentage of the full UI weekly benefit amount equal to the percentage reduction in weekly work hours. The STC program is not widely used. A field experiment was conducted in Iowa and Oregon in 2015 and 2016 to test whether informational efforts could increase employer STC program awareness and program use (Houseman et al. 2017).

In Iowa and in the Portland, Oregon, metropolitan area, researchers constructed stratified samples of all employers and randomly assigned them to treatment and control groups to test informational efforts sent by postal mail. In Oregon outside the Portland metro area, Oregon Worksource Regions were divided into "treatment" and "comparison" regions, and group informational sessions and regionalized advertising efforts were made in addition to mailings.[16]

Use of STC by Iowa employers did not change appreciably after the interventions began. However, the pattern of weekly STC payments in Iowa suggested that employers tried to take advantage of temporary federal payment of STC benefits, and results from employer surveys suggested a statistically significant increase in awareness about STC in the Iowa treatment group.[17] In Oregon, there was also statistically significant evidence that informational efforts had a positive effect on employer awareness about STC. Furthermore, Oregon treatment employers started significantly more STC plans in both trials, with a 58 percent difference in the RCT and a 100 percent difference in the quasi-experimental design (Houseman et al. 2017).

The experiments in Iowa and Oregon showed that informational outreach can increase employer use of STC. Currently, 28 states have STC plans, and in those states, STC is used relatively infrequently compared to regular UI (Balducchi 2015). If STC were available in all states, in recession periods STC could be used as a channel for fiscal policy by supplementing emergency federal extended unemployment benefits.

SUMMARY AND RELEVANCE TO UI TODAY

As social insurance, UI partially replaces lost income for labor force members who are involuntarily separated from their jobs and actively seeking work. The program embodies elements of both private insurance and social assistance. While benefit levels are related to prior earnings, they do not completely replace lost earnings but pay an amount that is directly related to prior wage levels up to a socially determined adequate weekly maximum. The elements most reflecting private insurance principles involve testing initial and continuing eligibility for benefits by work search requirements.

Research in the 1970s recognized the moral hazard risks of work disincentives resulting from paying UI benefits and estimated the effects to be between 0.5 and 1.5 weeks for a 10 percent increase in the wage replacement rate. This work led to a series of UI-related field experiments to identify improved administrative practices and incentives to control system costs and improve beneficiary outcomes. The reemployment bonus experiments in the 1980s estimated that offers would reduce UI durations by an average of 0.5 weeks and be modestly cost effective. Simulations based on the bonus experiments found that a bonus amount smaller than the average, when targeted to the half of UI-eligible beneficiaries who are most likely to exhaust UI, achieved a 0.5-week reduction more cost effectively. Field experiments estimating the effects of strengthening work search requirements estimated UI duration reductions of between 0.5 and 1.0

week. An experiment removing the work test saw durations jump by 3.3 weeks. The UI work test involves connecting the unemployed to job search assistance. Experimental evaluations of targeted job search assistance estimated UI durations to be shortened by between 0.5 and 2.2 weeks.

Field experiments evaluating hiring incentives offered to employers have generally not been found to be cost-effective policy options, mainly because of low employer take-up. However, some smaller UI programs show promise as labor demand policies—particularly when properly targeted. Field experiments that paid UI as self-employment assistance with a work search waiver during the business start-up phase, and targeted to those most likely to exhaust UI, were found to be cost neutral to the UI system and often led to second-order employment effects through hiring. Work sharing, or short-time compensation (STC), which pays employees a fraction of their weekly UI equal to the proportionate reduction in work hours, can help employers control layoff costs and retain talent during business downturns. A recent field experiment suggests that employers will sometimes use STC instead of layoffs when they know how STC works.

The federal-state UI program is now gradually rebuilding system reserves after the Great Recession. Many states were left with billions in debt from paying regular benefits, even though the federal government fully paid for benefit extensions at unprecedented levels. Some states are retreating from accepted standards of UI adequacy with the expectation that the federal government will once again intervene when a new unemployment crisis emerges.[18] However, after welfare reform, all social policy is now employment policy. Making and maintaining connections to the workforce is the only path to self-sufficiency. Policymakers are looking for improvements to the public employment system that will be cost effective, or at least cost neutral. There is no silver bullet that will fix everything at once. The experiments reviewed in this chapter offer a practical menu of choices to rebuild an employment security system that is a stronger part of the social safety net for all Americans.

Notes

1. Heckman, Lalonde, and Smith (1999) enumerate the assumptions implicit in such a view of random-assignment field experiments as a means for model-free impact estimation.
2. When there is nonrandom assignment to either a program participant group or the comparison group, proper estimation of program impacts requires statistical methods of correction. See O'Leary (2017).
3. A Hawthorne effect is the initial improvement in a process of production caused by the obtrusive observation of that process. The effect was first noticed in the Hawthorne Works plant of the Western Electric Co. in Cicero, Illinois, during studies of workplace behavior in the 1920s and '30s. Production increased not as a result of actual changes in working conditions introduced by the plant's management but because management demonstrated interest in such improvements. A reexamination of the Hawthorne data has called into question whether such an effect actually occurred during the original studies (Jones 1992).
4. This discussion of impact estimation and most of the studies reviewed here focus on partial equilibrium effects of interventions. That is, they assume away external validity issues that include general equilibrium effects such as entry and displacement effects. Some evaluations have directly measured these effects (Davidson and Woodbury 1993).
5. Targeted reemployment bonuses were also tested in a field experiment (Wandner 2012) as part of personal reemployment accounts (PRAs). However, the design of the bonus offers under PRAs was not similar to the earlier experiments, and the bonus take-up was low among UI beneficiaries who accepted a PRA offer. Furthermore, across the seven states where targeted PRAs were tried, only 45 percent of PRA money was paid out in reemployment bonuses. An even larger share of PRA money was paid for supportive services (Kirby et al. 2008).
6. More on WPRS is in the section on targeted job search assistance.
7. Davidson and Woodbury (1993) estimate that a nontargeted bonus offer to all UI claimants could increase unemployment durations among those not eligible for UI by between 0.2 and 0.4 weeks.
8. The UI base period is normally the first four of the previous five completed calendar quarters before the date of claim for benefits. For UI claimants not eligible based on earnings in the standard base period, earnings in an alternate base year—the four most recently completed calendar quarters—are considered for monetary eligibility in 41 states.
9. A 1987 employment service reform in the United Kingdom called "Restart" was evaluated by Dolton and O'Neill (1996, 2002). They

found evidence that, over the short term, required JSA may appear to act as a stick, prodding UC beneficiaries back to work, but over the long term an earlier JSA intervention supports higher success in the labor market and higher earnings—evidence that JSA can have valuable content for job seekers.

10. Only one recipient of a persistence nudge e-mail opted out of the reminder and reinforcement service.

11. Treatment 2 also had a relocation allowance, but it was rarely used.

12. See for example Lerman (1985).

13. Background information on the European experience with and the American experiments in self-employment for unemployed persons can be found in Wandner (1994).

14. The French model is followed in Luxembourg, Norway, Portugal, Spain, and Sweden; the British model in Australia, Belgium, Canada, Denmark, Finland, Greece, Ireland, Italy, Netherlands, and Germany.

15. In Germany, where it is widely used, the program is known as *kurzarbeit*, meaning "short-work."

16. Following Bloom (2000), the minimum detectable effect in the Oregon quasi-experimental design (QED) evaluation will be larger than in the RCT evaluation by a factor approximated by the square root of $[1/(1 - R^2_A)]$, where R^2_A is the coefficient of determination from the regression of the QED treatment indicator on characteristics of employers in the treatment and control samples.

17. The Middle Class Tax Relief and Job Creation Act of 2012 relieved STC employers of UI benefit charges by reimbursing states so employer UI tax rates would not increase (O'Leary, forthcoming).

18. The potential duration of regular UI benefits is no longer at least 26 weeks in all states.

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