

Testimony Before The Joint Economic Committee  
“Improving Government Assistance to the Unemployed”

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I am pleased to be testifying before you today on the important question of improving government assistance to the unemployed. I will focus my remarks today on the Administration’s intriguing proposal to establish a one-time only Personal Re-employment Account for current UI recipients who are identified by the individual states as likely to remain unemployed until they exhaust benefits, as well as for recent (targeted?) exhaustees who have not yet found re-employment.

The proposal is a complex one. At its core is a two-part plan:

**A reemployment bonus element.** An “expected exhaustee” who finds a job within 13 weeks (and has used no special training or job search resources) will receive an immediate cash bonus of \$1600 and a delayed bonus of \$1400 if she retains the job for 6 months.

**A training and job search subsidy.** Whether or not the individual qualifies for this bonus by the 13<sup>th</sup> week, she is eligible to purchase \$3000 worth of special training or job search resources reimbursed by the government. These expenditures could be made on either or both public and private resources.

**The connection.** The two plans are linked by the requirement that, for those who find a job by the 13<sup>th</sup> week and qualify for the cash bonus, all training expenditures will be deducted from their bonuses.

To begin let me express my whole-hearted support for the basic objective of the plan, providing additional support to UI exhaustees, who are disproportionately permanently displaced workers. One of the major design flaws in our current UI system is the uniform benefit treatment of temporary job separations, in which the worker has an expectation of recall to the same firm, and permanent job separations, in which she doesn't. The expected losses for long tenured workers who suffer *permanent* job separations are sharply higher, and are only partially offset by employer-provided severance pay; a large fraction of the workforce, approximately 75 percent, has no severance pay coverage.

Before discussing the design of the personal reemployment accounts, I would like to note a puzzling aspect of the plan, its one-shot structure. At the current rate of unemployment the proposed budget allocation would be depleted in one year if the resources are fully exploited by potential exhaustees. This raises obvious questions about the exact point of the program. Is this program meant to be a quick fix for current displaced workers, or is it a model for a more continuous program? Certainly as a demonstration project for long run reform of the UI program, the proposal begs for random sampling, control groups, etc. The structural information generated by a star-burst of funds will be limited.

The one-shot attribute does reduce the problems likely to arise in a more permanent program. Depending on how the money is allocated across States, the States may have an incentive under the program to increase the number of unemployment deemed likely to exhaust benefits. Certainly political interest in how the exhaustee selection is made will intensify—designees receive a \$3000

endowment, the bulk of the unemployed nothing. The short time interval also limits any strategic gaming possibilities by employers, who might be tempted to exploit the program.

So how might the plan “play out”? There has been substantial experimentation on the impact of reemployment bonuses on return to work, with estimates from the major experiments agreeing on the sign of the effect—reemployment bonuses do appear to encourage more rapid return to work—but varying substantially in magnitude. With the exception of the first Illinois experiment, the demonstrations provide little promise that the bonuses will “pay for themselves,” reducing benefit payouts by more than the bonuses themselves will cost. Still shorter is shorter.

The novel twist on the reemployment bonus concept is the link with job training. Although government-sponsored training programs have a discouraging record of helping only the trainers, the training/cash trade-off available in the proposed legislation raises the possibility of private choice of training activities. Clearly workers who expect to find a job by the 13<sup>th</sup> week have an incentive to treat the training money as their own, and can be given wide discretion on how that money is used. It would even be possible to permit the worker to use the account for migration and resettlement costs, with the much higher expected product that these activities offer, without undue concern that the funds will simply be used for a vacation.

For those who do not expect to find a job by the 13<sup>th</sup> week, and for all workers who remain unemployed after the 13<sup>th</sup> week, whatever their prior

expectations, workers have no such incentive and it would be necessary to limit their choices. Paying Uncle Harry for job advice would no longer be acceptable, and job searches to Florida in winter would have to be strictly monitored.

The incentive problem in job training choices is somewhat deeper than that because the cash payments come in two parts, conditioned on success in getting and maintaining the job. Even if she expects to be reemployed by the 13<sup>th</sup> week, the prudent unemployed worker may prefer to pay Uncle Harry the full \$3000 now, and skip the wait and the contingencies. She is not likely to value the resources dollar for dollar, and the range of choice in training expenditures must be correspondingly constrained.

Recalling that the target populations for this program are UI recipients who are likely to exhaust benefits and recent exhaustees, it is reasonable to assume that most do not expect to find work in 13 weeks, so that very few will view themselves as custodians of their own money, to keep or to use on training or job search. Substantial limitations or monitoring of resource use may be necessary despite the reemployment bonus element.

Again I am delighted to see programs being proposed that might help long tenured, permanently displaced workers secure more stable incomes. I view the current proposal as an ingenious attempt to free unemployed workers with especially serious labor market problems from the limitations of governmentally supplied job services. I heartily endorse this objective.

My concern is that the reemployment bonus aspect of the plan is not sufficient to insure worker prudence in training and job search decisions, but this is no more than a personal conjecture. I would prefer that we spend half as much money on a controlled experiment that would permit us to identify more precisely the impact of such a plan on the fortunes of unemployed displaced workers. If my concerns are unfounded, the plan could become a regular feature of the UI system, especially during cyclical troughs.

I thank you for giving me a chance to express my views on this important issue today.