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THE WRONG WAY TO GET THE JOB DONE

Personal reemployment accounts are not the answer
for unemployed workers

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President Bush's economic plan includes \$3.6 billion for two years for Personal Reemployment Accounts, through which unemployed workers who are "likely to exhaust their benefits" would be eligible to receive up to \$3,000 for job search expenses like child care, transportation, job training, and moving. The proposal has been introduced by congressional Republicans as part of House Resolution 444, the Back to Work Incentive Act.

Those who find a job within 13 weeks and retain it for six months can keep any unused portion of the account as a "reemployment bonus." Individuals would receive 60% of the funds when they got a job and, if they retained it, the remaining 40% six months later. However, workers would lose the 40% if they quit, were fired, or were laid off for no fault of their own.

Once individuals access the account, they forfeit their right to all but the core services provided under the Workforce Investment Act (WIA) for a full year. In other words, they can use a computer in a One-Stop Career Center administered by the current Workforce Development System, but they have no access to the WIA's more meaningful training and support services.

In a strong economy that is generating enough jobs to provide a sound chance of employment for unemployed workers, Personal Reemployment Accounts might provide a useful supplement to unemployment insurance and job training programs. But as a primary response to joblessness during a period of sustained or rising unemployment, PRAs are seriously flawed.

PRAs fail to address the problems the unemployed are actually facing

The PRAs are a response to a problem that doesn't exist. The concept assumes there are plenty of jobs but that

unemployed workers are so comfortable getting \$250 a week in unemployment insurance benefits that they aren't in a hurry to get back to work. By offering a reemployment bonus – the prospect of keeping some part of the \$3,000 PRA if a worker finds a job quickly – H.R. 444 is intended to speed his or her return to work.

But the problem isn't lazy workers or unemployment benefits that are too generous. The problem is a failure of job creation, and PRAs will be no help. Since the recession began in March 2001, the economy has lost 2.5 million private sector jobs. As Alan Greenspan has recognized, the economy is simply not producing enough jobs to reduce unemployment.

In December 2002, the last month for which official government statistics are available, there were only 2.6 million job vacancies in the United States, a decline of 260,000 over the year before. More than 8.4 million unemployed workers were competing for those jobs – three unemployed workers for every job opening. No matter how hard job seekers try, it is literally impossible for two out of three of them to find work, and no reemployment bonus can help them find a job faster. Rewarding the one-third lucky enough to find a job is a perverse use of scarce resources. The job *finders* don't need the bonus. Those who remain unemployed, and especially those who exhaust their benefits, need the money much more.

PRAs are an ineffective way to stimulate the economy and create jobs

To create jobs now, Congress needs to enact a stimulus program that increases consumer demand immediately. PRAs are too slow and uncertain to be an effective stimulus. Because it would take many months after enactment for first the U.S. Department of Labor and then each of the states to write the rules and regulations to implement PRAs (and for the career centers to hire and train administrative staff to handle the new accounts), PRAs will not stimulate the economy now, when a stimulus is most needed. In fact, the Congressional Budget Office estimates that, because of the time needed to set up the accounts, the PRA program outlays to the states would not begin until 2004. Even when they are implemented, PRAs will be less effective than unemployment insurance as a stimulus, since the workers who find jobs quickly and receive a reemployment bonus will have salaries that make them more likely to save the bonus rather than spend it.

On the other hand, each dollar spent on unemployment benefits almost immediately creates more than two dollars of economic growth. According to Mark Zandi of Economy.com, one of the nation's foremost econometric forecasters, unemployment insurance benefits give the biggest bang for the stimulus buck of all proposed interventions.

During the last recession Congress provided 26 weeks of federal unemployment insurance benefits for workers who exhausted their state benefits; workers in high unemployment states received an additional seven weeks. Under the Bush Administration, workers who've exhausted their state benefits have received just 13 weeks of extended benefits. The \$3.6 billion in proposed spending for PRAs should instead be spent on cash payments to unemployed workers in the form of unemployment insurance benefits. Such funding would not only provide assistance to individuals struggling to make ends meet, it would give a much-needed boost to the nation's economy.

The maximum PRA (\$3,000) is inadequate

Although the maximum benefit of \$3,000 may seem like a large sum to an unemployed worker facing a pile of unpaid bills, the maximum value of services that workers can receive under the current system is more than four

times that amount. (Services workers can currently receive under the Workforce Investment Act can be worth as much as \$10,000, and workers in some states can receive Individual Training Accounts valued as high as \$14,000.) But once individuals have accessed their PRA, they are no longer eligible for the more expensive training and employment services provided under the current system.

The maximum funding level is inadequate

The \$3.6 billion budgeted for PRAs would assist just 1.2 million workers (assuming that each received the full amount), or only about one-sixth of the 7 million workers who exhausted all of their unemployment insurance benefits over the last two years. These workers are the very ones to whom PRAs are targeted, but \$3.6 billion would have provided only \$500 to each of them, not \$3,000.

Unemployment is expected to remain high for the rest of 2003. Even before flagging consumer confidence created a new drag on the economy, Alan Greenspan testified that the Federal Reserve expected the unemployment rate to remain between 5.7% and 6.0% for the rest of the year. Unemployment benefit exhaustions are expected to average more than 300,000 a month through 2003. If, as expected, 3.5-4.0 million workers exhaust all of their benefits this year, the \$1.6 billion requested by the President for PRAs in 2003 will amount to only \$400-458 per worker whose benefits have run out. And unlike unemployment insurance, every eligible worker is not entitled to receive PRA benefits, and so no one is assured of getting anything, even if he or she meets the “likely to exhaust” profile, and even if Congress appropriates the full amount.

PRAs will reduce flexibility for workers and states

The Bush Administration has promoted the PRA program as a strategy to increase flexibility in the Workforce Development System for both states and unemployed workers. In recent testimony before the House Education and Workforce Committee, Secretary of Labor Elaine Chao said that PRAs would “empower individuals by giving them more flexibility, personal choice, and control over their job search and career.” Unfortunately, PRAs would yield just the opposite result: decreased options and flexibility for states and unemployed workers.

Individual workers will not have more options. Rather, those who are profiled as likely to exhaust their benefits will be forced to choose between the PRA and current services they could receive under the Workforce Investment Act, including reemployment services and job training that might be worth as much as \$10,000. If they choose a PRA, they will be prohibited from using WIA services for a full year.

States that are currently permitted to set their own maximum amount for an Individual Training Account would be forced to cap PRAs at \$3,000, regardless of local circumstances such as high training or child care costs. The states’ only flexibility would be in setting a figure lower than \$3,000 at which to cap the PRAs and in setting the criteria for determining which employees are likely to exhaust their unemployment insurance benefits. Rather than maximizing state flexibility by permitting – but not requiring – the use of PRAs, H.R. 444 mandates that states adopt them for profiled workers.

PRAs will discourage unemployed workers from seeking needed training and employment services

States will determine which workers are likely to exhaust their benefits and thereby be eligible for personal reemployment accounts. Some of the criteria that states will use include local unemployment rates, level of

education, length of unemployment in past jobs, and employment by the worker in a declining industry. Many of the workers likely to qualify – people without a high school education, those who have lost a long-term job in a declining industry, and those from areas with high-unemployment rates – are also likely to be those most in need of training to secure and retain their next job. Unfortunately, the system would actually *discourage* participants from spending their personal reemployment account on training, since money spent on training comes out of their bonus. In other words, there is an incentive to spend as little of the personal reemployment account as possible in order to receive the maximum reemployment bonus.

PRAs are not the answer for the nation's long-term unemployed

As of February 2003, nearly 22% of unemployed workers (1.83 million workers) were “long-term unemployed,” meaning that they had been unemployed and looking for a job for more than six months. In this jobless recovery, unemployed workers will still be seeking work long after the recession ends. And unlike similar periods of economic downturn, the makeup of the nation's long-term unemployed cuts across nearly all parts of the labor market, including professional and college-educated workers. From 2000 to 2002, college graduates have experienced a 202% increase in long-term unemployment, while professional workers have experienced a 233% increase, the largest of any single occupational group.

At the same time, hundreds of thousands of workers are exhausting both their state and federal unemployment benefits. In January 2003 alone, 387,651 workers ran out of regular state unemployment benefits. An estimated one million workers who had not yet secured a job ran out of federal benefits in 2002, and recent research predicts that an additional 920,000 workers will lose federal benefits from January to May of 2003 without securing a job. Again, with more than three unemployed workers for every available job, it's not surprising that individuals are having a tough time finding work.

Personal Reemployment Accounts offer almost no help for the long-term unemployed. Research has shown that PRAs have little or no impact in areas with high levels of long-term unemployment. And studies have found that those who've been displaced from declining sectors, like manufacturing and other blue-collar industries, received minimal benefit from the program compared with those with more professional or marketable skills.

Conclusion

In a robust economy, one where there are nearly as many jobs as there are unemployed workers, PRAs might be a good idea if they were adequately funded and provided as a *supplement* to other job search services. But in an economy with three job seekers for every job opening, using PRAs as a partial replacement for the current Workforce Development System or the unemployment insurance program is a bad idea. Under the guise of increased “flexibility,” “personal choice,” and “control” for employees, the Administration is seeking to spend already scarce resources on a PRA proposal that will not effectively help unemployed workers, stimulate the economy, or create jobs but that will decrease flexibility for states and workers.

Even worse, research indicates that – even in better economic times – PRAs would be minimally effective as an overall program to help unemployed workers. The Upjohn Institute, which designed and implemented the first demonstration project on worker responses to reemployment bonus programs in Illinois, Pennsylvania, and Washington, reported that the programs were “only marginally cost-effective from the perspective of the Unem-

ployment Insurance Trust Fund and the overall budget.” And, Upjohn said, “the evidence appears conclusive that bonuses are not the panacea originally envisioned.”

Given the current labor market and sputtering economy, the Bush Administration should be focusing on strengthening the unemployment insurance and workforce development systems, not experimenting with the lives of the nation’s unemployed.

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