

Book Review

Reemployment Bonuses in the Unemployment Insurance System: Evidence from Three Field Experiments, Robins, Philip K., & Spiegelman, Robert G. eds. (W.E. Upjohn Institute for Employment Research, 2001, 271 pp., \$25.00)

reviewed by Vijay Kapoor†

Reemployment Bonuses in the Unemployment Insurance System: Evidence from Three Field Experiments examines the timely issue of structuring unemployment insurance (hereinafter “UI”) systems so that unemployed individuals will return to desirable jobs. Specifically, the book evaluates experiments conducted in the mid-to-late 1980’s in three states (Illinois, Pennsylvania, and Washington) that sought to find the impact of receiving cash bonuses (hereinafter “reemployment bonuses”) on the duration of unemployment and the quality of the job upon reemployment.¹ Based on their evaluation of these three experiments, the authors conclude that the bonus experiments did reduce the length of time people remained unemployed, but that the cost of paying bonuses usually exceeded the benefits that came with reducing payments out of the UI systems.²

The book begins with an excellent introduction to the competing schools of thought on the purposes and structures of UI. Many economists believe that “UI has contributed to increased unemployment by reducing

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1. The structures of the three experiments were similar. Each offered a cash bonus (bonus amount) to a qualified participant if he or she found work within a specified time (qualification period) and kept this job for a specified time (reemployment period). Although the bonus amount and qualification period differed among the three experiments, each study set the reemployment period at four months. The authors present a summary of the structure on page thirty-six of their work. Note also that federal and state employees, not the authors, conducted the experiments as trial programs within their UI programs.

2. REEMPLOYMENT BONUSES at 2.

the incentive to become reemployed”³ because of the moral hazard problem it creates. Since UI insures individuals against the financial hardships caused by unemployment, the economists’ argument goes, individuals do not properly protect themselves.⁴ The counter to the economists’ argument is that society as a whole would be better off if the person used the time he or she collected UI to look for and obtain a “better” job than he or she had before unemployment.

Chapter 2 presents preliminary information about the three experiments, such as eligibility to participate, bonus and qualification period structures, characteristics of the three participating states, and the processes through which participants actually went. The editors go to considerable lengths in this chapter to establish that the experiments avoided many statistical pitfalls. In doing so, however, they bury the details of the three experiments in the middle of the chapter, making it difficult for readers to find.

Chapter 3 discusses the varying levels and different characteristics of participants who partially qualified for bonuses, actually received bonuses, and collected these bonuses when qualified (what the authors dub “bonus take-up”⁵). Of particular interest, the authors note that bonus take-up rates were surprisingly low, ranging from 18%-33%,⁶ which meant that only a small group of people who qualified for the bonuses actually went through the simple process to collect them.

Chapter 4 estimates how a reemployment bonus affects the number of weeks a person collects UI, the dollars of UI collected, and the percentage of individuals who exhausted their benefits. This chapter’s findings suggest that a cash bonus resulted in roughly a half-week reduction in benefits.⁷ The chapter also takes a look at whether the UI bonus affected subgroups (such as gender, race, and age) differently, but interestingly found no statistically significant difference.⁸

Chapter 5 focuses on the reemployment bonus’ impact on employment and wages, finding “modest” increases in both.⁹ Chapter 6 thoroughly examines the potential problems and consequences a reemployment bonus program might encounter in the real world, noting particularly the adverse potential effects on unemployed persons not covered by UI. The authors very clearly present the difficulties that policymakers could encounter if they simply were to apply the experiments’ data to a social program.

3. *Id.* at 5.

4. *Id.*

5. *Id.* at 78.

6. *Id.* at 83.

7. *Id.* at 142.

8. *Id.* at 143.

9. *Id.* at 171.

Chapter 7 makes a cost-benefit analysis of a reemployment bonus program taking into account effects on society, the government, employers, claimants, and the UI system. While no clear answer appears, the authors estimate positive societal effects due to low administrative costs, but negative effects to the UI system and to the government because bonus costs are greater than the decreases in UI.¹⁰

The final chapter, "Summary and Policy Implications," does an excellent job of concisely tying together the findings of the previous chapters. I strongly suggest that readers read this chapter after the introduction and then work through the book. The author succinctly explains the different findings, critically analyzes the experiments' shortcomings, and briefly explores alternative policies to reemployment bonuses. In contrast to the other chapters where I felt I was wading through information to get the authors' point, this chapter presented the material in an easily accessible manner.

Reemployment Bonuses in the Unemployment Insurance System contributes a great deal to the UI debate. First, its timely examination of the subject brings to the forefront a program that few policymakers confront, but that greatly affects the lives of many citizens. Although the book did not find overwhelming support for either side of the UI debate, it did raise the issues that policymakers need to consider if and when they decide to reform their UI systems. The concluding chapter effectively summarizes the current issues and reform suggestions in a way that the average reader can access.

Second, the book's interpretation of the data sheds a great deal of light onto the UI process itself. The inability of the experiments' administrators to explain why a lot of money was "left on the table"¹¹ because of low take-up rates is a very interesting phenomena. As the authors indicate, collecting the bonuses (which ranged from \$105 to \$1,596)¹² took very little effort relative to the payoff, yet 67% to 82% of those qualified for them did not go through the simple act of filing some paperwork.¹³ Since any rational person would find this in his or her self-interest, this glaring question suggests to me that participants must have lacked the information to follow through.

Whether this lack of information can be attributed to the manner in which the experimenters explained the process to the participants or to the fact that the participants became lost in the UI process remains an open question, although my experiences working at the Unemployment Compensation Project suggest that the latter might have a lot to do with the

10. *Id.* at 244-45.

11. *Id.* at 171.

12. *Id.* at 251.

13. *Id.* at 83.

answer to the question. Many of our clients have a great deal of trouble navigating through the UI process. Filing for unemployment is a new experience for many of them and they often do not have resources available to aid them in understanding the system. Due to a combination of the UI system's bureaucratic nature and the stress of unemployment itself, claimants quickly become frustrated. This problem has become even greater since Pennsylvania has moved to a completely phone-in system, so that claimants must conduct the entire process via telephone.¹⁴

While the book does point out that increasing the bonus by \$1,000 would lead to an increase in take-up rates in Pennsylvania by 8% and Washington by 17%,¹⁵ this still leaves at least half of the qualified individuals not taking-up the bonus. Such a large number of people who would basically throw away at least \$1,000 casts serious doubt on the proposition that a system based on incentives (the carrot or the stick) can work unless people first are informed about the process.

Reemployment Bonuses in the Unemployment Insurance System provides a great starting point for further study of the UI system. Academics studying this area will greatly benefit from the wealth of data the book presents. The authors have thoroughly analyzed these three experiments, leaving the reader with a better understanding of reemployment bonuses as well as an appreciation for the complexity of such an undertaking. Policymakers dealing with UI reform will find the studies very helpful and novices will find that the introduction and conclusion frame the debate very well. Overall, the book succeeds in shedding a great deal of light on the UI system and illuminating the questions that now need to be answered.

14. For an understanding of the problems the change to a phone-in system caused in Pennsylvania, see April Adamson, *Phone-In System for Jobless Still a Mess*, PHILADELPHIA DAILY NEWS, Aug. 30, 2001, at 4; April Adamson, *Phone Line Woes Continue for Jobless*, PHILADELPHIA DAILY NEWS, Feb. 2, 2001, at 6; Rose DeWolf, *New Wrinkle in Jobless Claims: Phones Get Answered, But Checks Don't Come*, PHILADELPHIA DAILY NEWS, Dec. 21, 2001, at 31.

15. REEMPLOYMENT BONUSES at 93.