An Evaluation of the Federal Supplemental Compensation Program

Unemployment Insurance Service
Occasional Paper 86-3

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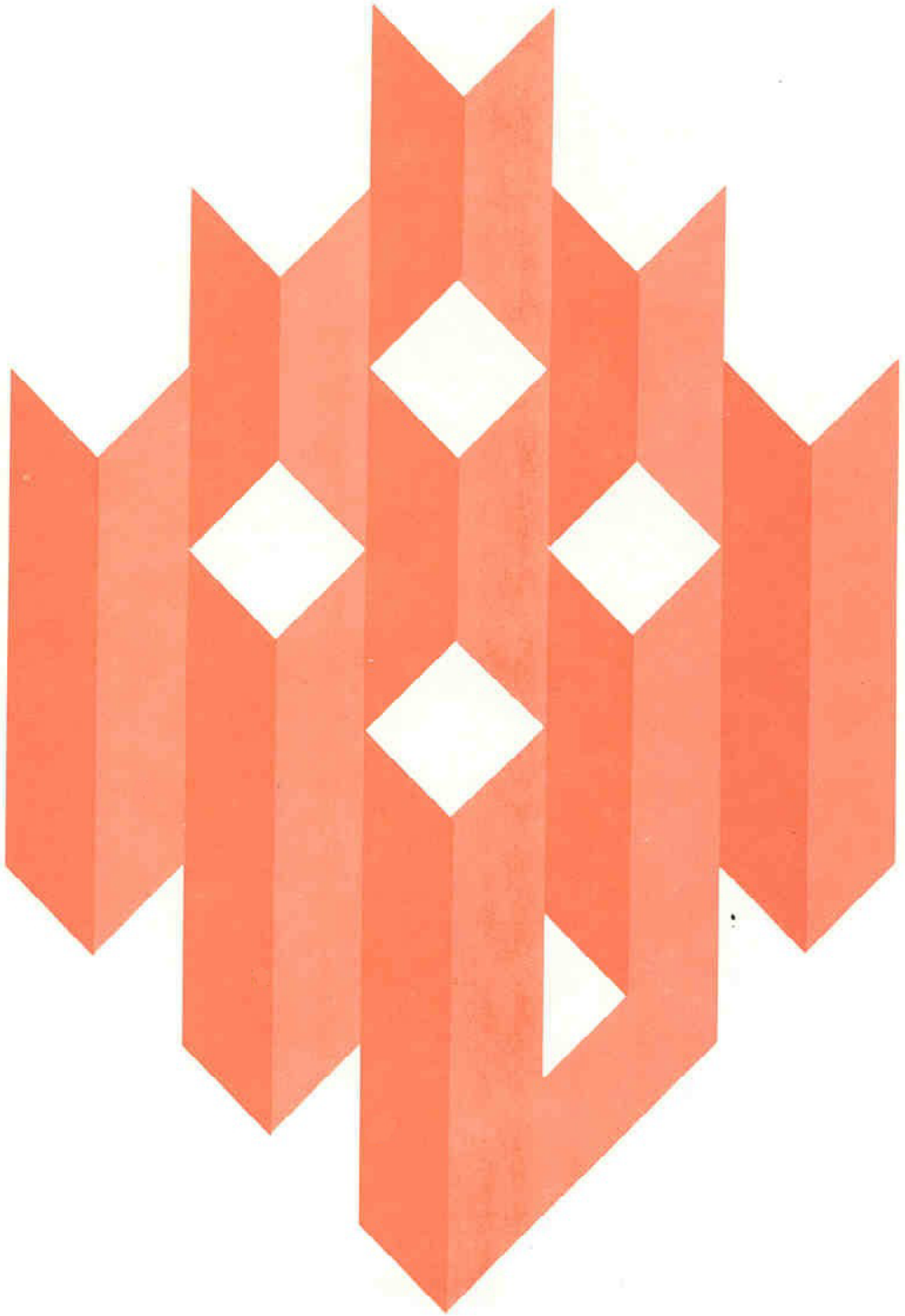

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U.S. Department of Labor
William E. Brock, Secretary

Employment and Training Administration
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Unemployment Insurance Service
1986

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AN EVALUATION OF THE FEDERAL SUPPLEMENTAL COMPENSATION PROGRAM

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Walter Corson
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EXECUTIVE SUMMARY

In August 1982, Congress enacted a temporary program, Federal Supplemental Compensation (FSC), to extend the number of weeks for which unemployment compensation was available to UC recipients. The FSC program began paying benefits in September 1982 and continued to accept and pay initial claims through March 1985. After that point, ongoing claims were paid until existing entitlements were exhausted in June 1985. A substantial amount of total benefits (over $9.3-billion) were provided. This program was the latest in a series of temporary extended benefits programs implemented during most of the major recessions that had occurred since the early 1960s. Like these previous programs, the purpose of FSC was to extend the duration of UC benefits during recessionary periods because of the protracted durations of unemployment spells. The program was also intended to compensate partially for the negative effects of a set of planned changes in the permanent Extended Benefits (EB) program that were scheduled to be implemented in October 1982. These changes in EB raised the level of insured-unemployment rates at which EB became available in states and tightened individual eligibility requirements, thus reducing the availability of these extended benefits to regular UI exhaustees.

The structure of the FSC program, as well as the rationale for its enactment, also differed from previous extended benefits programs in several important ways:

- Potential UC benefit durations during the FSC period (i.e., potential durations of regular UI, EB, and FSC combined) were considerably shorter than those provided during the 1974-75 recession, the most recent period for which special UC extensions were enacted.

- The duration of FSC benefits varied by state; they were longer in states with higher insured-unemployment rates and shorter in states with lower insured-unemployment rates. Some differences in maximum duration by state were introduced in the extensions of the mid-seventies (the FSB program) but the degree of variation was less than in the FSC program.

- Benefit durations varied over time within states as the insured-unemployment rate changed. As initially enacted, these changes in duration affected all FSC recipients, and not only those who were newly applying for benefits. The maximum-duration changes were also initially permitted to occur quite frequently.

- The FSC program established qualifying-wage and work-test requirements that were generally more stringent than those for regular UI. These eligibility requirements, which had recently been introduced into the EB

program, differed from those of previous extended benefits programs, which, until the latter stages of the FSB program, applied the same rules as were used for regular UI.

- Not only was FSC a temporary program (as were previous special extended benefits programs), but its structure and the time period over which it was available were also altered a number of times during the program's existence. Substantially more changes in program structure were made than had been the case in previous recessionary periods.

The design of the FSC program differed from the design of previous programs for several reasons. First, many individuals felt that the extensions in the mid-1970s had been too long, and that future extended-benefits durations should be shortened, which did in fact occur during the FSC period. Second, the flexibility in maximum benefit durations (in terms of their variation by state and the insured-unemployment rate) was designed to concentrate benefits in areas and time periods that exhibited high unemployment rates. Third, the stringency of the individual eligibility requirements was designed to target extended benefits toward the set of regular UI exhaustees who exhibited the greatest attachment to the labor force. Finally, the numerous changes in the structure of the program occurred, in part, because of a policy decision to concentrate extended benefits in the heart of the recession by enacting a program that was to expire in approximately 6 months. However, the program was eventually extended to a duration of over 33 months.

The FSC Program

The FSC program consisted of four distinct phases. The first, FSC-I, lasted from September 1982 to early January 1983 and provided 6 to 10 weeks of extended benefits. At that point, the program was revised by increasing the maximum potential duration to 8 to 16 weeks of benefits. This FSC-II program ended on March 30, 1983, the end date of the originally enacted FSC program. At that time, a further six-month extension, FSC-III, was enacted. This phase provided benefits of 8 to 14 weeks to new claimants, and it also provided additional weeks of benefits (from 6 to 10 weeks) for individuals who had been collecting but who had exhausted FSC-I or FSC-II benefits. During FSC-III, the states experienced many changes in potential duration in response to changes in the insured-unemployment rate.

The final phase of FSC (FSC-IV) was enacted shortly after the end of FSC-III. It lasted for 18 months and provided benefits of 8 to 14 weeks. Additional weeks of benefits were also provided to FSC-III recipients who had not collected during earlier program phases. The insured-unemployment rate used to change the potential benefit duration was altered during this phase to reduce the likelihood of a change and the speed with which a change could occur. Most importantly, individual

entitlements were not changed in response to a change in a state's potential duration. Finally, FSC-IV was modified shortly before its end date of March 1985, to permit individuals who were collecting benefits at that point to continue after March until benefit exhaustion. Consequently, some ongoing claims were paid through June 1985.

Research Focus and Methodology

This evaluation of the FSC program examines the extent to which the initial design of the program translated into actual, desired outcomes. The purpose of the evaluation is to provide a solid foundation for making judgments and recommendations for future deliberations over extended benefits policies. For this reason, the analysis focuses on four broad policy issues that not only are important in developing any extended benefits policy, but also highlight the features of FSC that distinguish it from previous extended benefits programs. The first issue concerns whether benefits should be extended automatically when unemployment rates rise, as in the EB program, or whether it is better to maintain benefit extensions, particularly those that supplement EB, as discretionary policies. Second, the degree to which the duration of extended benefits is sensitive to local labor-market conditions is an important issue. Until the FSC program, all extended benefits programs used threshold triggers: if the insured-unemployment rate was over a certain limit, unemployed individuals received a longer entitlement. The FSC program moved towards a more continuous triggering mechanism by defining several trigger ranges and specifying different extension periods for each. The third issue, which relates to the first two issues, concerns both the point at which extended benefits programs should trigger on or off and the duration of extended benefits for individual recipients. These issues of timing and duration affect both the macroeconomic effectiveness of an extended benefits program and the microeconomic equity of the program. A final issue concerns the degree to which uniform individual eligibility criteria are applied in all states, as opposed to applying the same criteria that are used in the UI program of each state. Uniform criteria (FSC instituted uniform minimum qualifying requirements and uniform work-test requirements) promote equity among states but may create administrative costs.

Our approach to evaluating the FSC program was to examine each of these broad policy questions from three perspectives: (1) the macroeconomic perspective, (2) the microeconomic perspective of individual recipients, and (3) the administrative perspective. The macroeconomic analysis relied on quarterly state-level data collected by the Unemployment Insurance Service. The microeconomic analysis used individual-level data on UC claimants in 13 states. These data came from the Continuous Wage and Benefit History data system. The administrative analysis was based on information collected during visits to five states and on discussions with federal unemployment insurance personnel conducted as part of this project. The findings from each of these analyses were drawn together by examining the implications of alternative extended benefit policies to obtain our conclusions and recommendations for future extended benefits policy.

Summary of Results

Our analysis of the macroeconomic role of FSC led to the following primary findings:

- FSC played two roles in the recession of the 1980s: as in previous recessions, it expanded UC benefits concomitantly with higher unemployment rates; and it filled in some of the "holes" left by legislated changes in the EB program, which reduced the availability of EB.

- FSC was implemented late in the business cycle, and it continued for some time after the economy had recovered. A substantial fraction of total benefits were also paid in this "post-recession" period.

- The counter-cyclical impact of FSC occurred later in the business cycle than did the temporary extended benefits (FSB) program in the mid-1970s, and its counter-cyclical stimulus was substantially less.

- Once implemented, FSC (in combination with the reduced EB program) provided extended benefits comparable to historical levels, and it appeared to have lowered overall UC exhaustion rates to approximately nonrecessionary levels, suggesting that extended benefits durations may have been about "right" during this time period.

- An analysis of the distribution of FSC benefits indicated that the FSC program did not appear to target benefits more effectively toward areas and time periods that exhibited high unemployment than did the regular UI program. The high degree to which the FSC maximum potential durations were sensitive to the insured-unemployment rate both among states and across time within states did not provide a satisfactory targeting mechanism. In contrast, the EB program appeared to be more efficient at targeting benefits, particularly in the absence of the national trigger.

- The likely reason that FSC benefits were not directed more toward areas of high unemployment was because a minimum level of benefits was provided in all states throughout the FSC program. In contrast, under the EB program, a state's IUR must be above a defined threshold before any extended benefits are paid. Simulations of alternative program structures supported this conclusion.

- The application of the uniform minimum qualifying-wage restrictions appeared to disqualify approximately 4.0 percent of FSC initial claims on the basis of insufficient wage credits. The disqualifications were concentrated, as expected, in states whose regular UI qualifying requirements were the least stringent relative to the FSC requirements. Aggregate data on nonmonetary determinations and denial rates did not show higher rates for FSC than UI, as we expected given that FSC work-test requirements were generally more stringent than those applied under regular UI.

Our analysis of the microeconomic impacts of FSC led to the following primary findings:

- FSC recipients were quite similar demographically to regular UI recipients who did not collect any extended benefits. Few demographic differences were observed among the various FSC phases. This situation contrasted with the situation in the mid-1970s, when extended benefits recipients were more likely to be members of groups that are often thought to exhibit a relatively weak attachment to the labor force than are other groups of the unemployed.

- This difference from the previous recession appeared to arise, in part, from the fact that the recent recession was concentrated more in durable manufacturing than was previously the case. Consequently, FSC recipients were concentrated more in durable manufacturing than were regular UI recipients. Among FSC recipients, those who collected the longest were more likely to be in durable manufacturing than were those who collected for relatively shorter periods.

- FSC recipients collected an average of 37.3 weeks of UC benefits and $4,763. These UC benefits were an important income source for recipients. FSC benefits alone reduced the percentage of recipient households with incomes below the poverty threshold from 17.9 to 13.6 percent.

- As expected, FSC recipients had considerably lower rates of re-employment than did either regular UI or EB recipients who did not collect FSC. For example, six quarters after the beginning of the benefit year, the re-employment rate among FSC recipients was two-thirds the rate for regular UI recipients. Among those who were employed, the earnings of FSC recipients were also lower relative to pre-UI earnings than was the case for these other groups.

- The take-up rate for extended benefits among regular UI exhaustees was less than one would expect purely on the basis of their re-employment or the qualifying-wage restrictions. Moreover, this take-up rate was lower for FSC than for EB, although the FSC rate increased over time, suggesting that a temporary program such as FSC will have a lower take-up rate than would a permanent program such as EB.

- Our analysis of the potential work disincentive effects of FSC suggested two reasons that the work disincentive effects of FSC might be smaller than those of other extended benefits programs. First, the fact that the maximum potential duration for an individual could vary, rather than being fixed when extended benefits receipt began, introduced uncertainty that might have caused some individuals to accelerate their search for work. Second, the explicitly temporary nature of the FSC program and the repeated legislative changes might also have caused uncertainty among individuals about their maximum entitlement, thereby generating a similar effect. Empirical estimates of FSC disincentive effects were developed for individuals who received FSC (but no other extended benefits) and were compared with estimates of the disincentive effects developed previously for EB and FSB. While the comparisons must be interpreted cautiously, it does seem clear that the expectations that FSC would have smaller disincentive effects than did other programs were not born out.

Our analysis of the administrative impacts of FSC led to the following primary findings:

- The temporary nature of FSC led to a short, chaotic implementation period characterized by inefficient planning, which in some cases affected the implementation of latter program phases as well. In addition, the diversion of staff to implement FSC created delays in other planned activities, particularly in the data-processing area.

- The lack of coordination in the sequencing of EB and FSC created administrative costs and confusion among claimants, as recipients were switched from EB to FSC and, in some cases, back to EB.

- The sensitivity of the individual entitlements of ongoing claimants to changes in labor-market conditions created major administrative problems. It increased costs substantially and reductions in entitlements, in

particular, led to large numbers of claimant inquiries and complaints. State staff concurred that the elimination of reductions in entitlement in FSC-IV made this FSC phase substantially easier to operate than the previous phases.

- A number of other features of FSC also created administrative problems. These included basing the additional benefits provided at the start of a new FSC phase to recipients of previous FSC phases on the number of weeks of FSC previously collected, requirements to notify all potential eligibles about FSC (including individuals who had exhausted prior to the FSC start date), and basing interstate claimant entitlements on the lesser of the potential duration in either the agent or liable state. In contrast, the implementation of the uniform qualifying-wage requirements did not lead to major problems. The stringent FSC work test was thought to be expensive to administer, but it did not create other problems.

Conclusions and Recommendations

Our analysis of the FSC program experience leads to several recommendations about the four extended benefits policy issues listed previously--that is, (1) whether extended benefits programs should be permanent or temporary, (2) the degree to which such programs should be sensitive to local labor-market conditions, (3) when such programs should be triggered on and off, and what their potential duration should be, and (4) the degree to which individual eligibility criteria should be uniform among states.

In terms of the first issue, our analysis of the FSC experience indicates that the temporary nature of the program probably contributed importantly to the administrative difficulties experienced by states. This was the case both because the lead time for implementing the initial FSC phase was quite short and because the program was revised quite frequently thereafter. Although future temporary programs would not necessarily be implemented as quickly as FSC nor be changed as often, the probability that this scenario would occur is undoubtedly higher for temporary relative to permanent programs. In addition, our comparison of the EB and FSC participation rates among regular UI exhaustees indicated that these rates were lower for FSC than for EB, and that this was probably the case due to the temporary nature of FSC. Equity considerations would suggest that the higher participation rate of a permanent program is more desirable, although program costs are higher. Finally, the fact that FSC was implemented late in the recession and continued beyond the recessionary period might be attributable to its temporary nature, although this would not necessarily be the case in future program. In fact, during the 1974-75 recession, the FSB program was instituted early in the recession. It did, however, continue well beyond the heart of the recession. These consider-

ations suggest that a permanent program is probably better than a temporary program particularly for the first level of extensions beyond regular UI.

Our strongest findings pertain to the second policy issue. The high degree to which individual FSC entitlements were sensitive to changes in labor-market conditions created major administrative problems for the states, although these administrative problems subsided once the changes in potential duration were applied to new claimants. In addition to these administrative problems, our aggregate-level analysis suggested that the many changes in FSC potential duration did not provide benefits that were targeted toward areas that exhibited high unemployment any more effectively than under the regular UI program. Our simulations suggested that this finding was due primarily to the fact that FSC provided some benefits in all states regardless of the IUR. Moreover, variations in maximum duration above the minimum level were in two-week increments that, until FSC-IV, could change every four weeks. Our findings suggest that for future programs this degree of sensitivity is unnecessary for targeting benefits effectively. Thus, our findings suggest that future extended benefits plans should be structured in a manner whereby they contain an unemployment-rate threshold below which no benefits are provided and provide increasing increments in duration above that level. However, the number of increments should be small, they should change relatively infrequently, and the changes should affect only new claimants.

Our analysis of FSC also provides some insight into the issue of timing and duration. Clearly, an extended benefits program should be available earlier in the recessionary period and should end or be phased down in scope more quickly than was the case with FSC. Our simulations of alternative plans that triggered "on" and "off" automatically indicated that a permanent program would probably have been better coordinated with the business cycle than was FSC. Our comparison of benefit amounts during the 1981-82 recession with previous experience also suggested that, once FSC was implemented, extended benefits payment amounts, while less than those available in the mid-1970s, were similar in magnitude to historic experience. Moreover, the impact of FSC on total exhaustion rates appeared to lower that rate to the level typically experienced during nonrecessionary periods. These findings led us to conclude that the benefit duration of FSC was about "right," given the severity of the recession. However, our distributional findings suggested that it might have been better to provide somewhat longer benefit durations in high unemployment areas and shorter durations in low unemployment areas.

In terms of the degree to which individual eligibility requirements were uniform, we found that the two uniform requirements which were instituted--minimum qualifying requirements and the stringent work test--did not create major administrative problems, although the work test was relatively expensive to administer. Hence, the equity advantages of using uniform requirements suggest that such requirements are reasonable.

CHAPTER I

INTRODUCTION

In August 1982, Congress enacted a temporary program, Federal Supplemental Compensation (FSC), to extend the number of weeks for which unemployment compensation was available to UC recipients.[1] The FSC program began paying benefits in September 1982 and continued to accept and pay initial claims through March 1985. After that point, ongoing claims were paid until existing entitlements were exhausted in June 1985. This program was the latest in a series of temporary extended-benefits programs implemented during most of the major recessions that had occurred since the early 1960s. Like these previous programs, the purpose of FSC was to extend the duration of UC benefits during recessionary periods because of the protracted durations of unemployment spells. The program was also intended to compensate partially for the negative effects of a set of planned changes in the permanent Extended Benefits (EB) program that were scheduled to be implemented in October 1982.[2] These changes in EB raised the level of insured-unemployment rates at which EB became available in states and tightened individual eligibility requirements, thus reducing the availability of these extended benefits to regular UI exhaustees.

The structure of the FSC program, as well as the rationale for its enactment, also differed from previous extended benefits programs in several important ways:

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[1] In this report, we generally refer to unemployment compensation as UC and to regular state unemployment insurance as UI.

[2] The permanent extended-benefits program enacted in 1970 is referred to in this report as either the Extended Benefits program or EB.

- Potential UC benefit durations during the FSC period (i.e., potential durations of regular UI, EB, and FSC combined) were considerably shorter than those provided during the 1974-75 recession, the most recent period for which special UC extensions were enacted.

- The duration of FSC benefits varied by state; they were longer in states with higher insured-unemployment rates and shorter in states with lower insured-unemployment rates. Some differences in maximum duration by state were introduced in the extensions of the mid-seventies (the FSB program), but the degree of variation was less than in the FSC program.

- Benefit durations varied over time within states as the insured-unemployment rate changed. As initially enacted, these changes in duration affected all FSC recipients, and not only those who were newly applying for benefits. The maximum-duration changes were also initially permitted to occur quite frequently.

- The FSC program established qualifying-wage and work-test requirements that were generally more stringent than those for regular UI. These eligibility requirements, which had recently been introduced into the EB program, differed from those of previous extended benefits programs, which, until the latter stages of the FSB program, applied the same rules as were used for regular UI.

- Not only was FSC a temporary program (as were previous special extended benefits programs), but its structure and the time period over which it was available were also altered a number of times during the program's existence. Substantially more changes in program structure were made than had been the case in previous recessionary periods.

The design of the FSC program differed from the design of previous programs in a number of respects. First, many individuals felt that the extensions in the mid-1970s had been too long, and that future extended-benefits durations should be shortened, which did in fact occur during the FSC period. Second, the flexibility in maximum benefit durations (in terms of their variation by state and the insured-unemployment rate) was designed to concentrate benefits in areas and time periods that exhibited high

unemployment rates. Third, the stringency of the individual eligibility requirements was designed to target extended benefits toward the set of regular UI exhaustees who exhibited the greatest attachment to the labor force. Finally, the numerous changes in the structure of the program occurred, in part, because of a policy decision to concentrate extended benefits in the heart of the recession by enacting a program that was to expire in approximately 6 months. However, the program was eventually extended to a duration of over 33 months.

This report provides an evaluation of the FSC program that examines the extent to which the initial design of the program translated into actual, desired outcomes. The purpose of the evaluation is to provide a solid foundation for making judgments and recommendations for future deliberations over extended benefits policies. The report describes and analyzes experiences under the program with respect to its macroeconomic impacts, its microeconomic impacts on recipients, and its impacts on program administration. The implications of alternative extended benefits policies are also examined. In the remainder of this chapter, we provide a more complete description of FSC and the various changes made throughout the life of the program, as well as further discussion on important policy questions and our analytic approach.

A. THE FSC PROGRAM[1]

The Federal Supplemental Compensation (FSC) program was enacted in August 1982 as part of the Tax Equity and Fiscal Responsibility Act of

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[1] Regulations for the FSC program are found in USDOL, Employment and Training Administration, GAL 2-83, 2-83 Change 1, 2-83 Change 2, 2-83 Change 3, and UIPL 7-84.

1982. Beginning on September 12, 1982, and through a then-scheduled end date of March 31, 1983, the program extended benefits to individuals who had exhausted all rights to benefits under the regular UI and EB programs. To be eligible, individuals must have established their benefit year on or after June 1, 1981, or have been entitled to receive EB on or after June 1, 1982. The qualifying-wage and suitable-work provisions used to determine FSC eligibility were the same as those used in the EB program, which generally were more stringent than those used in the regular state UI programs.[1]

The number of weeks payable to a recipient under the initial program (FSC-I) was 50 percent of the regular UI entitlement up to a maximum that ranged from 6 to 10 weeks, depending on the level of the insured-unemployment rate and the EB status of the recipient's state. The maximum was 10 weeks for states that were in an EB period on or after June 1, 1982, 8 weeks for states with an insured-unemployment rate equal to or greater than 3.5 percent, and 6 weeks for all others. State maximum FSC entitlements could change as often as every four weeks if the insured-unemployment rate varied sufficiently. When a state's maximum changed, the maximum number of weeks payable to all eligible recipients also changed.

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[1] To qualify for FSC benefits, individuals must have had 20 weeks of full-time work in the base period, or its equivalent. Disqualifications during regular UI for voluntary leaves, misconduct, or the refusal of suitable work must have been for the duration of the unemployment spell in order for the claimant to be eligible for FSC. The work-test provisions required the individual to engage in a systematic and sustained effort to obtain work, to provide tangible evidence of such an effort, and to accept any job offer made in writing for which wages exceeded the weekly FSC benefit amount or the minimum wage offered by the state Job Service.

Congress modified the program a number of times during its existence, as summarized in Table I.1. This first modification went into effect on January 9, 1983. This new version of the FSC program (FSC-II) augmented claimants' entitlements, enabling them to collect 65 percent of their regular UI entitlement for up to 8 to 16 weeks of FSC benefits.[1] The redetermination of entitlements applied to individuals who had exhausted their previous FSC entitlements, as well as to active and future claimants. FSC exhaustees were allowed to return to the program to collect any additional benefits provided to them under this further extension, up to the relevant maximum.

At this time, Congress also modified the regulations pertaining to interstate claims--claims made by individuals who worked in one state and subsequently filed a claim in another state (the agent state). Originally, the FSC entitlements for these claimants were based on the regulations and status of the state in which the individual had been employed (the liable state). The January rule change specified that interstate claims were to receive the lesser of the entitlements calculated using the liable and agent states' statuses. Thus, changes in either state's maximum potential duration could alter the entitlement of an interstate claimant.

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[1] The base number of FSC-II weeks was eight. "Intermediate unemployment" states (i.e., those with insured-unemployment rates of between 3.5 and 4.5 percent and no EB) had a maximum of ten weeks. States with an insured-unemployment rate of between 4.5 and 6.0 percent, or those that had begun an EB period after January 9, 1983, had a maximum of 12 weeks of FSC benefits. States in which an EB period began before January 9, 1983, and which had an insured-unemployment rate below 6.0 percent were authorized to pay up to 14 weeks. The full 16 weeks of FSC benefits were reserved for "higher unemployment" states--those in which the insured-unemployment rate exceeded 6.0 percent.

TABLE I.1

A SUMMARY OF FSC LEGISLATION

Regulations	FSC Phase and Dates of Rule Changes				
	FSC-I 9/12/82 - 1/8/83	FSC-II 1/9/83 - 3/31/83	FSC-III 4/1/83 - 9/30/83	18-Day Extension 10/1/83 - 10/18/83	FSC-IV[a] 10/19/83 - 3/31/85
Eligibility	Individuals who had exhausted their UI and EB entitlements, whose benefit years ended on or after 6/1/82, or who were eligible for EB on or after 6/1/82.	Same as FSC-I. FSC-I exhaustees could return to collect any additional FSC benefits.	Same as FSC-I. Individuals who began collecting during FSC-I or FSC-II were eligible to collect FSC-III benefits.	Same as FSC-III	Individuals who had exhausted their UI and EB entitlements and whose first FSC payment was on or after 4/1/83. Individuals who had collected FSC-I or FSC-II benefits were excluded.
Benefit Entitlements	FSC entitlements were 50% of the regular UI entitlement up to a state's FSC maximum, which ranged between 6 and 10 weeks, depending on the level of the EB trigger rate and the EB status of the state. When a state's FSC status changed, all FSC entitlements changed.	FSC entitlements were increased to 65% of UI entitlements, up to the state maximum. Maximum FSC entitlements also increased to a range of 8 to 16 weeks.	New FSC claimants received an entitlement of 55% of their UI entitlement, up to the maximum of between 8 and 14 weeks. Claimants whose first FSC payment was prior to 4/1/83 received additional benefits depending on their state's FSC-III maximum, the number of weeks of FSC previously collected, and an additional benefit maximum of 6 to 10 weeks.	Same as FSC-III	FSC entitlements were set at 55% of the UI entitlement, up to a maximum ranging from 8 to 14 weeks. Individuals' entitlement accounts were fixed at the time of their first FSC payment and could not vary as they had in earlier versions of the FSC program. FSC-IV beneficiaries received an additional entitlement that depended on their state's maximum and whether or not they had exhausted FSC-III.

TABLE I.1 (continued)

Regulations	FSC Phase and Dates of Rule Changes				
	FSC-I 9/12/82 - 1/8/83	FSC-II 1/9/83 - 3/31/83	FSC-III 4/1/83 - 9/30/83	18-Day Extension 10/1/83 - 10/18/83	FSC-IV[a] 10/19/83 - 3/31/85
Other	The qualifying-wage and suitable-work provisions were the same as those used in the EB program. A state's FSC status could change once every four weeks.	Interstate claims were given the lesser of the FSC entitlements calculated using the FSC statuses of the agent state or the liable state. (The agent state is the state in which the claim is filed. The liable state is the state in which the claimant worked.)	Effective 8/7/83, a state's maximum FSC durations were prohibited from falling below a level that was 4 weeks shorter than the maximum which had prevailed on 3/27/83. If the maximum as of 7/24/83 was less than that, the 8/7/83 maximum was frozen at the 7/24/83 level.		A state's FSC status could change no more than once every 13 weeks and then only by 2 weeks. A special long-term IUR indicator determined a state's FSC status.

[a] Some ongoing claims were paid in April, May, and June of 1985.

Shortly before the program was scheduled to expire in March 1983, Congress extended the life of the program to September 30, 1983. Several changes in the program were also made. After April 1, 1983, the entitlement was 55 percent of the regular UI entitlement up to a maximum of 8 to 14 weeks.[1] These FSC maximum entitlements were based only on the insured-unemployment rate of a state; a state's EB status was no longer a criterion. Individuals who began collecting FSC after April 1, 1983, received entitlements based on this formula. Individuals who had collected benefits prior to April 1, 1983, were also provided with FSC-III benefits. Their entitlement was based on the new state maximum, the number of weeks collected prior to April, and a maximum number of additional benefits that ranged from 6 to 10 weeks.[2] Although these previous claimants could not receive more than the new legislative maximum after April 1, 1983, the total amount of FSC benefits provided to these claimants (FSC-I, FSC-II, and FSC-III) could exceed the state's FSC-III maximum.

Throughout the FSC-III period, the unemployment rate fell rapidly, causing a decline in the maximum durations of many states. In July, Congress was made aware that these frequent changes in FSC durations and

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[1] States in a "6 percent period" (a period in which the insured-unemployment rate equalled or exceeded 6.0 percent) could pay up to 14 weeks of FSC. The maximum was 12 weeks in states in a "5 percent period," 10 weeks in states in a "4 percent period," and 8 weeks for all other states.

[2] The FSC-III benefits paid to individuals whose first FSC claim was prior to April 1, 1983, were calculated as the lesser of (1) the maximum FSC-III potential duration or (2) that maximum plus an "additional" entitlement minus the number of weeks of FSC paid before April 1, 1983. The "additional" entitlement, like the regular FSC-III maximum, varied with the state's insured-unemployment rate. The "additional" entitlement was 10 weeks in states with rates equal to or greater than 6.0 percent; 8 weeks in states with rates between 4.0 and 6.0; and 6 weeks in all other states.

the concomitant individual entitlement redeterminations made it expensive to administer the program. Thus, Congress amended the FSC regulations so that after July 24, 1983, a state's maximum FSC duration could not fall below a level that was more than 4 weeks shorter than the level that prevailed on March 27, 1983. In those states in which the maximum FSC duration on July 24, 1983, was less than 4 weeks shorter than the March 27th level, FSC maximum durations were frozen at their July 24th level, effective on August 7, 1983.

As the program neared its scheduled end date of September 30, 1983, alternative extensions were introduced in Congress by the Administration and several Congressmen. Nevertheless, because no decision was made as of September 30th, the FSC program ended. However, because it was expected that a further extension would eventually be enacted, an 18-day extension of FSC-III was passed early in October, while deliberations continued over the future status of the program.

On October 21, 1983, when legislation was finally enacted, the program was extended for 18 months, until March 1985. Only individuals whose first FSC payment was after March 31, 1983, could qualify for these FSC-IV benefits. The regulations concerning the maximum potential durations were not altered from FSC-III. Thus, new FSC recipients could collect up to 8 to 14 weeks of benefits depending on the unemployment rate. FSC-III exhaustees received the lesser of three-fourths of the state's maximum, or 5 additional weeks. Individuals who began collecting FSC during the FSC-III period but had not exhausted their entitlements qualified for the lesser of (1) three-fourths of the state's maximum or (2)

4 additional weeks in states with maximums of 12 or 14 weeks, and 2 additional weeks in other states.

FSC-IV deviated in several other important ways from previous versions of the FSC program. First, and most important, individual entitlement accounts were fixed at the time of the initial calculation, and could not change even if the state's maximum FSC duration changed. Second, the FSC maximum durations of states could not change more than once every 13 weeks, and, then, the maximum could change only by 2 weeks. Finally, the likelihood that the FSC status of a state would change was reduced by basing the trigger mechanism on a specially defined long-term insured-unemployment rate. This rate was the average of weekly IURs beginning on January 3, 1982, and ending with the last week of the second calendar quarter ending before the determination was made. Since the period over which this rate was defined was continually lengthened, the chance that a change in the FSC maximum duration would occur was continually reduced during the FSC-IV period.

Shortly before the FSC-IV program was scheduled to end in March 1985, Congress considered further extensions of the program. The final result of these deliberations was that individuals who were already receiving FSC benefits were allowed to continue collecting those benefits until their entitlements ended; however, no new claims could be taken, and individuals who had stopped collecting before exhausting their entitlement could not collect any additional benefits. As a result of this program change, some ongoing claims were paid through June 1985.

B. POLICY QUESTIONS

A number of policy issues must be addressed in order to design an optimal unemployment compensation response to recessionary periods. However, beginning with the enactment of the first UC extended benefits program, policy debates have been waged over the proper nature and focus of such programs, and, as illustrated by the numerous policy changes that have occurred, a consensus about the appropriate policy response has not been reached. Since more is learned about the program design with each new program, this evaluation of the latest of such programs, Federal Supplemental Compensation, can add significantly to our knowledge and help guide future policy deliberations.

To enhance the utility of the evaluation, we have focused on four policy issues that not only are important in developing any extended benefits policy, but also highlight the features of FSC that distinguish it from previous extended benefits programs. The first issue concerns whether benefits should be extended automatically when unemployment rates rise, as in the EB program, or whether it is better to maintain benefit extensions, particularly those that supplement EB, as discretionary policies. The discretionary nature of most of the programs enacted thus far has afforded Congress considerable flexibility in dealing with recessions. If a recession is not deemed to be too serious (such as the 1979 recession) or if Congress has higher priority goals (such as more effective fiscal policies), the funds need not be apportioned to an extended unemployment benefits scheme. Conversely, the enactment of an emergency UI program can involve lengthy debate in Congress, thereby delaying the initiation of the program past the appropriate phase-in time. Likewise, the phaseout of the

program may be delayed. These lags could be avoided by establishing a permanent program, although setting the triggering mechanism appropriately would of course be very important.

Second, the degree of sensitivity to local labor-market conditions is an important issue. Until the FSC program, all extended benefits programs used threshold triggers: if the insured-unemployment rate was over a certain limit, unemployed individuals received a longer entitlement. The FSC program moved towards a more continuous triggering mechanism by defining several trigger ranges and specifying different extension periods for each. These ranges created different extension durations among states, and they also permitted durations to change over time within states as economic conditions changed. One rationale for varying the benefit duration is to allow the government to provide a greater fiscal stimulus in those areas that need it the most. Unemployed individuals in the worst-hit areas are also those who are likely to need the benefits the most, since it will take them longer to find another job. Conversely, varying the potential duration may increase administrative burden. Larger maximum amounts in higher unemployment areas may also slow recovery in those areas, because workers there may have a greater work disincentive and may be less likely to move to find a necessary job.

A third issue, which relates to the first two issues, concerns both the point at which extended benefits programs should trigger on or off and the duration of extended benefits for individual recipients. These issues of timing and duration affect both the macroeconomic effectiveness of an extended benefits program and the microeconomic equity of the program.

From a macroeconomic perspective, one would like the additional benefits to be in the hands of consumers as disposable income falls and to decrease in importance as income rises. On equity grounds, one would like to treat all unemployed individuals similarly, regardless of when they became unemployed. From this microeconomic perspective, one would like UC extensions to be long enough that either the UC exhaustion rate or the replacement rate would be held constant over the recessionary cycle.

A final issue concerns the degree to which uniform individual eligibility criteria are applied in all states, as opposed to applying the same criteria that are used in the UI program of each state. In the FSC program, uniform criteria are applied to (1) qualifying wages (minimum qualifying requirements apply) and (2) work-search requirements and suitable job definitions. The purpose of these requirements is to focus extended benefits on individuals who exhibit a relatively strong labor-force attachment and to promote equity among states in this national program. These requirements mean that unemployed individuals in one state are treated the same as those in other states along these dimensions. However, implementing such requirements may be administratively expensive because states are not accustomed to applying them. Thus, it is important to consider whether the equity gains outweigh whatever administrative costs are incurred.

C. ANALYTICAL APPROACH AND DATA SOURCES

Our approach to evaluating the FSC program was to examine each of these broad policy questions from three perspectives: (1) the macroeconomic perspective, (2) the microeconomic perspective of individual recipients, and (3) the administrative perspective. A data set pertaining

to each area was collected and used for our analysis. The conclusions reached in each area were then drawn together to form the overall evaluation.

1. Macroeconomic Issues

The macroeconomic issues addressed in our evaluation concern the timing of FSC benefits relative to the business cycle, their overall size relative to the size of previous programs, and their distribution relative to the distribution of unemployed individuals among states and time periods. These issues were addressed using a dataset containing information on aggregate labor-market conditions and the types and amounts of UC benefits paid by states over time. These aggregate data are collected routinely by the Unemployment Insurance Service from reports submitted by each state UI agency.

2. Impacts on Recipients

Issues pertaining to impacts on recipients fall into two categories: (1) a description of who received FSC benefits relative to individuals who received other forms of UC (such as UI and EB or extended benefits in other time periods) and (2) the effect of FSC benefits on the claimants' work disincentives. The purpose of the first area of analysis was to characterize FSC recipients, to describe their experience with the program, and to describe their subsequent labor-market experience. The purpose of the second area was to estimate both the overall disincentive effects of FSC and the differential effects of special features of the program, such as the frequent changes in individual FSC benefit durations. For each of these areas of analysis, we used data on a sample

of UC recipients drawn from the Continuous Wage and Benefit History (CWBH) data system. This data set contains data from a subset of states on demographic and economic characteristics and on UC benefit history, as well as some information on post-UC employment and earnings.

3. Administrative Issues

The administrative issues examined pertain to the impact of FSC's special features on the ability of program administrators to provide accurate benefits in a timely and efficient manner. We focused primarily on impacts that derived from the temporary nature of the program and the changes that could occur in individual entitlements. Since a number of the program features that caused administrative problems were altered for the fourth phase of the FSC program, comparisons among phases were used to assess the magnitude of these problems.

The richest source of information on the administrative and operational difficulties encountered by the states in terms of implementing the FSC program came from information gathered in five state visits. In each state, the principal state officials in charge of FSC were interviewed, as were several local office personnel. Based on a common administrative interview guide, administrative problems were identified and described in several areas. The database on individual claimants was also used to provide corroborating evidence in a few specific areas, such as lags in payments that were induced by the occurrence of major program changes.

D. OUTLINE OF THE REPORT

The remainder of this report is divided into five chapters. In Chapter II, we examine aggregate data on the FSC program to explore the

role played by FSC in the recent recession in providing a counter-cyclical stimulus and additional unemployment compensation to UC recipients. The distribution of these benefits over time and by state unemployment-rate level is explored, and comparisons are made with the 1974-75 recession. In the next two chapters, we examine microeconomic data on individual UC recipients. In the first of these chapters, Chapter III, we use these data to describe the FSC population relative to other groups of unemployed individuals, to describe their experiences with the FSC program, and to describe their post-unemployment labor-market activities. We also examine whether the population served by FSC and their labor-market experiences differed by program phase or other special subgroups of the FSC population. In Chapter IV, we then use the microeconomic data to examine the disincentive effects of FSC and to explore whether specific features of FSC (such as its temporary nature or the changing entitlements) affected work disincentives.[1]

In Chapter V, we examine the administrative aspects of the FSC program. Features of FSC that were particularly problematic for state administrators are discussed, and the administrative experience under the FSC-IV program, which altered many of these features, is compared with the administrative experience under the earlier program phases.

A final chapter summarizes the results and explores the implications of alternative program structures, using a set of simulations. Recommendations for future extended benefit programs are also presented.

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[1] An appendix provides a detailed description of the analytic model and the results used for these estimates.

CHAPTER II

FSC BENEFITS AND THEIR MACROECONOMIC IMPACTS

The FSC program began paying benefits in September 1982 and, through March 1985, continued to accept and pay initial claims. Ongoing claims were paid after that point until entitlements existing at that time were exhausted, which occurred in June 1985. Data through March 1985 show that, in providing a substantial amount of FSC benefits ($9.3-billion) to UC recipients during this more than 30-month period, the program closely resembled other temporary programs that had been implemented during major recessions since the early 1960s. However, due to several recent changes in the unemployment compensation (UC) system--most notably, in the regular extended benefits (EB) program--FSC began playing a somewhat different role relative to the 1981-83 recession than had temporary extended benefits programs enacted during previous recessions. Moreover, the timing and the structure of the FSC program also affected its role in terms of providing extended benefits to UC recipients and in providing a counter-cylical stimulus to the economy.

In this chapter, we begin by using national data on total UC benefits paid (including all extensions) to analyze and thus illustrate this changing role. The analysis, which is presented in Section A, entails comparing the performance of the UC system during the 1981-83 recession with its performance during the recession of the mid-1970s (1974-75). In Section B, we then turn to an explicit analysis of the role of FSC in providing a counter-cylical stimulus and additional unemployment compensation to UC recipients in the recent recession. To illustrate this

role, we focus on the similarities and differences between FSC and the Federal Supplemental Benefits (FSB) program--the temporary program implemented during the earlier recession. We also compare the performance of the FSC program with the performance of the EB and regular UI programs during the early and mid-1980s.

In Section C, we examine the distribution of FSC benefits by unemployment-rate level, focusing on the degree to which FSC benefits were effectively concentrated in areas and time periods that exhibited high unemployment. Finally, in Section D, we examine aggregate data on several other aspects of the FSC program--specifically, the use of uniform qualifying-wage requirements and the enhanced work-test requirements.

A. TRENDS IN TOTAL UNEMPLOYMENT COMPENSATION

In this section, we examine trends in total unemployment compensation payments during the 1974-77 and 1981-84 periods.[1] The first two columns of Table II.1 present these quarterly aggregated data. Nominal total payments under all UC programs (in billions of dollars, at an annual rate) are shown in column 1, whereas in column 2 the data are presented in real (1967) dollars by dividing the nominal magnitudes by the consumer price index. Since the real-dollar numbers generally enabled us to

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[1] Choosing a specific set of quarters for an examination poses some difficulties that should explicitly be mentioned. Since unemployment rates and UC benefit payments are typically "lagging" indicators of a recession, focusing only on quarters designated as "recession" (here, 1974.1-1975.1 and 1981.4-1982.4) would miss most of the relevant quarters. However, examining only quarters in which FSC or FSB were actually in effect would obscure issues pertaining to the timing of implementation. Hence, we chose to investigate relatively lengthy periods that included at least 4 quarters prior to program implementation and up to 12 quarters of program experience.

TABLE II.1

UNEMPLOYMENT COMPENSATION AND UNEMPLOYMENT RATES IN THE RECESSIONS OF THE 1970s AND 1980s

1970s				1980s			
Year/ Quarter	(1) Nominal Total UC[a] ($ Billion)	(2) Real Total UC[b] ($ Billion)	(3) Unemployment Rate[c] (Percent)	Year/ Quarter	(1) Nominal Total UC[a] ($ Billion)	(2) Real Total UC[b] ($ Billion)	(3) Unemployment Rate[c] (Percent)
74.1	$7.02	$4.96	5.1%	81.1	$19.08	$7.26	7.4%
74.2	6.30	4.33	5.1	81.2	14.70	5.46	7.4
74.3	5.73	3.83	5.6	81.3	12.91	4.67	7.4
74.4	7.23	4.69	6.5	81.4	14.96	5.33	8.4
75.1	16.26	10.39	8.2	82.1	23.47	8.29	8.8
75.2	17.94	11.24	8.9	82.2	23.76	8.27	9.4
75.3	16.30	10.02	8.5	82.3	23.74	8.11	10.0
75.4	15.86	9.60	8.3	82.4	29.60	10.09	10.6
76.1	18.39	10.99	7.7	83.1	34.63	11.81	10.4
76.2	14.67	8.66	7.6	83.2	30.49	10.27	10.1
76.3	12.40	7.22	7.8	83.3	20.40	6.79	9.4
76.4	12.36	7.12	7.7	83.4	17.59	5.80	8.5
77.1	16.10	9.09	7.5	84.1	20.16	6.58	7.8
77.2	11.80	6.52	7.2	84.2	15.20	4.91	7.5
77.3	9.58	5.23	6.9	84.3	13.17	4.21	7.5
77.4	9.41	5.10	6.5	84.4	14.13	4.48	7.2

NOTE: Dollar figures are annual rates (i.e., they are actual dollars per quarter times four), they are not seasonally adjusted.

a Benefits paid under regular state UI programs, EB, and FSB/FSC.

b Nominal benefits deflated by the Consumer Price Index (1967 = 100).

c National seasonally adjusted total unemployment rate.

undertake a more direct comparison between the two periods, most of our analysis focuses on those data. Finally, the third column of Table II.1 shows the national civilian unemployment rate over the two recessions, so as to place the unemployment compensation figures into some perspective.

The data in Table II.1 clearly illustrate the effects of recessions. In each of the recessions, the unemployment rate rose by more than 3 percentage points from previous levels, peaking at 8.9 percent in 1975.2 and 10.6 percent in 1982.4. The data on both total nominal and total real unemployment compensation payments exhibit a similar trend, although the seasonal nature of such payments (which peak in the first quarter of each year) obscures the relationship to some extent. The inflation-adjusted figures appear to be quite similar during the two recessions--more than $11-billion (in 1967 dollars) was paid out in the highest quarter of each period, and, in both cases, real benefits declined rather rapidly from their highest levels.

However, this apparent similarity masks two rather significant differences between the two periods. First, and most important, the figures for the 1980s seem relatively low given the much higher unemployment rates that were experienced in this later period. For example, total real unemployment benefits per unemployed worker were more than 25 percent lower in 1983.1 than they were in 1975.2. (These were the high-benefit quarters in each period.) Similar discrepancies are visible throughout the two periods--the higher unemployment rates of the 1980s do not seem to be matched by similarly higher real UC benefit payments. A second major difference between the two periods concerns the timing of significant changes in the levels of real benefits. In the recession of

the 1970s, real benefits accelerated almost concurrently with the national unemployment rate. The peak in real benefit payments came at the trough of the recession in 1975.2. In the 1980s, real benefits appear to have peaked slightly later, but then declined very rapidly as the economy improved.

In order to provide a more systematic examination of these trends, a simple regression equation was fit on the basis of a time trend,[1] the number of unemployed workers,[2] and a set of seasonal dummy variables, so as to explain the level of real unemployment benefits during the period from 1971.1 to 1985.1.[3] The results from that equation are presented in the top half of Table II.2. In general, the regression explains the data quite well. The results imply that each additional million unemployed workers increased total real UC benefits by $1.6-billion, and that, over time, total real UC benefits fell by about $0.11-billion per quarter. Perhaps more interesting than the regression results themselves are the estimated

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[1] The time trend was used in an attempt to control for secular changes in UC (e.g., the impact of inflation on real UC benefits) and to focus the analysis on cyclical trends in UC. Estimates excluding the time trend changed the magnitude of the estimates but not the qualitative results.

[2] This variable is all civilian unemployment as opposed to insured unemployment.

[3] The 1971.1 to 1985.1 period was chosen primarily because it was the period for which data, disaggregated by program, were available from the Unemployment Insurance Service's data base of UI data. A similar analysis covering theh 1949.1 to 1983.1 period (Corson and Nicholson, 1984) that used more aggregate data on UC benefits led to results that were essentially the same as those obtained with the time period reported herein. Similarly, estimates made with a shorter time period (e.g., 1974 to 1985) changed the magnitude of our estimates, but not the qualitative nature of the results. We examined the results over this shorter period because data on the Temporary Compensation extended benefit program of the early 1970s were not included in our data series and EB data were also not complete for the early time period.

TABLE II.2

REGRESSION ON TOTAL REAL UNEMPLOYMENT COMPENSATION:
1971.1-1985.1

Variable	Coefficient	t-statistic
Number Unemployed (millions)	1.596*	12.28
Time	-0.110*	-6.88
Q1	1.868*	4.41
Q2	0.630	1.46
Q3	-0.163	-0.38

R^2: 0.781
Standard Error 1.141
F Statistic: 40.9

Analysis of Residuals

1970s			1980s		
Date	Actual	Residual	Date	Actual	Residual
74.1	4.96	-0.08	81.1	7.26	-0.18
74.2	4.33	0.50	81.2	5.46	-0.60
74.3	3.83	0.26	81.3	4.67	-0.55
74.4	4.69	-0.40	81.4	5.33	-1.42
75.1	10.35	1.01	82.1	8.29	-1.28
75.2	11.24	2.22	82.2	8.27	-1.12
75.3	10.02	2.40	82.3	8.11	-1.40
75.4	9.60	2.26	82.4	10.09	-0.67
76.1	10.99	1.78	83.1	11.81	-0.28
76.2	8.66	0.91	83.2	10.27	0.03
76.3	72.22	0.72	83.3	6.79	-1.65
76.4	7.12	1.26	83.4	5.80	-0.77
77.1	9.09	0.40	84.1	6.58	-0.88
77.2	6.52	0.37	84.2	4.91	-0.64
77.3	5.23	0.57	84.3	4.21	-0.30
77.4	5.10	0.78	84.4	4.48	0.26

NOTE: Total real unemployment compensation includes regular UI payable under state programs, EB, and FSB/FSC. Data are in billions of 1967 dollars. The mean value of the dependent variable over the 57 quarters included in the sample is 6.01.

*Coefficient is significantly different from zero at the .05 level in a two-tailed test.

residuals (i.e., the difference between the actual amount spent and the predicted amount) from the equation, which are shown in the bottom half of Table II.2. Comparing the results for the mid-1970s with those for the early 1980s yields two noteworthy findings. Most prominent is the positive pattern of residuals observed for the early period in contrast to the negative pattern for the later period. Given the number of unemployed workers, total real unemployment compensation seems to have been significantly lower in the early 1980s than it was in the previous major recession. The second, less noticeable pattern in the regression residuals in Table II.2 concerns the timing of major changes in the level of total real payments. Whereas these payments rose sharply just before the cyclical trough in 1975.2, the upturn occurred more slowly relative to the trough (in 1982.4) in the latter period and was of a much smaller magnitude. Hence, these aggregate regression results provide further confirmation of the tendencies found in the raw data--that the performance of the UC system was rather different in the recession of the early 1980s than it had been in the mid-1970s.

B. THE ROLE OF FSC IN THE 1981-1983 RECESSION

To investigate the possible causes of the changes in this pattern of total real compensation and, specifically, to evaluate the role of the FSC program, we began by examining data on the FSC program from its inception in 1982.3 through 1985.1. These data, reported in Table II.3, show the unemployment rate, nominal FSC benefits, weeks paid, and first and final payments. An inspection of these data leads to several observations.

First, although the more recent recession began in 1981 (as shown in Table II.1, the unemployment rate began rising substantially in 1981.4),

TABLE II.3

SELECTED FSC DATA BY QUARTER AND FSC PHASE

Year/Quarter/ Phase[a]	Unemployment Rate[b] (Percent)	Total Dollars of Benefits Paid[c] (Millions)	Total Weeks Compensated (Thousands)	First Payments (Thousands)	Final Payments (Thousands)
82.3	10.0%	$ 60	542	367	0
82.4	10.6	1,168	10,089	1,249	682
Total FSC-I	--	1,228	10,631	1,616	682
83.1	10.4	1,287	10,670	873	959
Total FSC-II	--	1,287	10,670	873	959
83.2	10.1	1,889	15,000	1,012	911
83.3	9.4	1,197	9,666	993	942
Total FSC-III	--	3,086	24,666	2,005	1,853
83.4	8.5	1,070	8,669	666	769
84.1	7.8	795	6,552	620	538
84.2	7.5	552	4,620	501	320
84.3	7.5	469	3,972	430	269
84.4	7.2	438	3,618	401	251
85.1	7.2	410	3,425	403	225
Total FSC-IV[d]	--	3,734	30,856	3,028	2,372
Total FSC	--	$76,823	9,335	7,522	5,866

SOURCE: Data are from state reports ETA-5159, FSC, supplied by the Unemployment Insurance Service.

[a] Since the data were aggregated by quarter, data for the last week of FSC-I (the first week of 1983) were classified under FSC-II, and data for the 18-day extension in October 1983 were classified under the FSC-IV phase.

[b] The unemployment rate is the national seasonally adjusted total unemployment rate.

[c] Benefits are in nominal terms.

[c] Data from weekly issues of USDOL News indicate that 1.3 million weeks of FSC claims were paid in the second quarter of 1985.

the FSC program was not enacted until September 1982, and, consequently, the first quarter in which a substantial amount of FSC benefits was paid was 1982.4. As reported in Table II.3, a relatively constant amount continued to be paid throughout FSC-I, II, and III and the first quarter of FSC-IV, while unemployment rates remained high. The only exception was an increase in the first quarter of FSC-III, reflecting the payment of additional weeks of benefits to individuals who had exhausted benefits during FSC-I or FSC-II.

Second, after the first quarter of FSC-IV (1983.4), the rate of payments dropped substantially, to a rate that was about one-third as much as the earlier amount. This reduction corresponded with a substantial drop in the unemployment rate. Further, the benefits paid in this latter period, in which the economy was relatively healthy, represented a substantial fraction of all FSC benefits (40 percent of the total FSC dollars were paid under the FSC-IV program, with about 30 percent of the total FSC dollars paid after 1983).

Third, the data on first and final payments show that over the entire FSC period there were about 77 percent as many final payments as there were first payments. These data suggest that the "FSC exhaustion rate" was about 77 percent, although the fact that an individual could have multiple final FSC payments means that this "exhaustion rate" measure should be viewed with caution.[1] Nevertheless, if we use this estimate, we

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[1] The multiple final payments occurred because of the repeated extensions. However, since the "exhaustion rate" for FSC-IV was of a similar magnitude and since individual entitlements under FSC-IV were not recomputed when a state's maximum duration changed, 77 percent may be a satisfactory estimate of the overall FSC exhaustion rate.

can compute an overall UC exhaustion rate by multiplying the regular UI exhaustion rate by 77 percent.[1] Since the regular UI exhaustion rate wasabout 35 to 40 percent[2] during most of the FSC period,[3] FSC appears to have reduced the overall UC exhaustion rate to 27 to 31 percent for those eligible for FSC. This rate is comparable to the UI exhaustion rate that has historically been observed in nonrecessionary periods.[4] Thus, if we were to judge the adequacy of the duration of FSC by its ability to reduce the exhaustion rate to normal, nonrecessionary levels, we would conclude that this special extended benefits program was of about the "right" duration.[5]

To examine these observations on FSC further and to tie them to our findings in the previous section on the pattern of total unemployment compensation during the 1970s and 1980s, we expanded the regression analysis reported earlier, as follows. We disaggregated the total compensation data into three series that contained benefits provided through the major programs: (1) regular UI, (2) EB, and (3) the temporary programs, FSB and FSC. We then ran a set of regressions on each of these

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[1] This procedure ignores the role of EB, but EB was available only in a few states during the latter FSC time period.

[2] This rate was computed on a quarterly basis by using total regular UI final payments divided by first payments lagged two quarters.

[3] The regular UI exhaustion rate was higher in 1982.4 and 1983.1, when it was 47 to 49 percent.

[4] The quarterly exhaustion rate averaged 27.4 percent over the 1965 to 1974 period as reported in Nicholson (1981). Except for the early 1970s, this period was generally a nonrecessionary one.

[5] For a discussion on this measure of the adequacy of extended benefits, see Corson and Nicholson (1982).

series over the period from 1971.1 to 1985.1 by using the same set of independent variables that were described in connection with Table II.2.[1] Again, our analysis focused on the residuals from these regressions (which are reported in Table II.4), together with the residuals from the total real compensation regressions that were reported previously. In order to identify major deviations from expected values, residuals that were greater (in absolute value) than one standard error of the regression are identified by asterisks in the table.

For the recession of the mid-1970s, all of the data series exhibit a similar pattern of large positive residuals starting sometime around the trough of the recession in 1975.2. Benefit payments under regular UI increased significantly (i.e., more rapidly than might be predicted by the number of unemployed workers) in 1975.1. This cohort of recipients then showed up two to three quarters later in the EB and FSB series. Hence, the positive residuals observed in the total real compensation series during the 1970s can be explained by a marked degree of cyclical sensitivity in all of the major UC programs. Specifically, the FSB program acted to supplement regular benefit payment activities under UI and EB and probably lengthened the period over which recession-induced benefits were paid well into 1976, as the economy slowly recovered.

The results for the 1980s tell a rather different story. In general, the period from 1981.1 to 1985.1 can be divided into three subperiods. The first subperiod (81.1 to 82.3) was the recessionary period

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[1] For this analysis, benefits paid under FSB and FSC were combined into a single time series variable (e.g., "emergency benefits") that took the value of zero during the quarters in which neither FSB nor FSC was in effect.

TABLE II.4

RESIDUALS FROM REGRESSIONS ON VARIOUS PROGRAM COMPONENTS
OF TOTAL REAL UNEMPLOYMENT COMPENSATION BENEFITS
(in billions of 1967 dollars)

Date	Total UC Compensation	Regular UI	EB	FSB/C
1970s				
74.1	-$0.08	-$0.04	-$0.04	$0.00
74.2	0.50	0.33	0.16	0.01
74.3	0.26	0.19	0.07	0.00
74.4	-0.40	0.19	-0.16	-0.43
75.1	1.01	1.65*	-0.19	-0.45
75.2	2.22*	1.29*	0.33	-0.03
75.3	2.40*	0.83*	0.94*	0.63*
75.4	2.26*	0.14	0.95*	1.17*
76.1	2.63*	0.22	0.88*	1.53*
76.2	1.78*	-0.08	0.60*	1.26*
76.3	0.91	-0.23	0.54*	0.60*
76.4	0.72	-0.19	0.49*	0.42
77.1	1.26*	0.07	0.63*	0.56
77.2	0.40	-0.38	0.47*	0.29
77.3	0.37	-0.13	0.32	0.18
77.4	0.57	0.08	0.54*	-0.05
1980s				
81.1	-0.18	-0.19	0.55	-0.54
81.2	-0.60	-0.22	0.14	-0.52
81.3	-0.55	0.02	-0.18	-0.39
81.4	-1.42*	-0.05	-0.55*	-0.82*
82.1	-1.28*	0.18	-0.45	-1.01*
82.2	-1.12	0.14	-0.00	-1.26*
82.3	-1.40*	0.03	-0.16	-1.27*
82.4	-0.67	-0.03	-0.50*	-0.14
83.1	-0.28	-0.24	-0.23	0.19
83.2	0.03	-0.90*	-0.15	1.08*
83.3	-1.65*	-1.36*	-0.77*	0.48
83.4	-0.77	-0.85*	-0.54*	0.62*
84.1	-0.88	-1.03*	-0.33	0.48
84.2	-0.64	-0.64	-0.31	0.31
84.3	-0.30	-0.46	-0.21	0.37
84.4	0.26	0.07	-0.11	0.30
85.1	-0.24	-0.36	-0.11	0.23

*Residual exceeds (in absolute value) one standard error of the regression.

prior to the implementation of FSC at the end of the third quarter of 1982. During this period, the negative residual for total real unemployment compensation payments can largely be explained by the negative residual in temporary extended benefits (FSC) payments (see the summary of residuals for the three periods, in Table II.5). That is, the delay in implementing FSC until late in the recession clearly had an impact on overall real benefit payments. The changes in the EB program that were implemented in 1981 also explain part of the negative residuals during this period--particularly in 1981.4 and 1982.1.[1]

Following the initiation of FSC in September 1982, the scenario illustrated by the regression residuals changes somewhat. In the second subperiod (82.4 to 84.1), the unemployment rate remained high. During this time, the FSC residuals turned positive, but they never reached the magnitude of the FSB residuals in the 1970s. Given the unemployment rates that prevailed during this period, the anti-recessionary impact of FSC does not appear to have been as large as the impact of the earlier FSB program. Perhaps more interesting, the residuals for both regular UI and EB turned strongly negative in 1983. In other words, regular UI and EB paid lower benefit amounts during this time than had historically been the case. This shortfall in regular UI payments has been noted previously (see Burtless, 1983, and Burtless and Vroman, 1984), and it appears to have arisen because fewer unemployed individuals began to collect regular UI

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[1] These changes included the elimination of the national trigger for EB, as well as modifications in the way "suitable work" was defined under EB availability-for-work regulations. For an analysis of the impact of these changes on the EB caseload, see Corson and Nicholson (1985).

TABLE II.5

SUMMARY OF RESIDUALS FROM REGRESSIONS ON VARIOUS PROGRAM COMPONENTS OF TOTAL REAL UNEMPLOYMENT COMPENSATION BENEFITS FOR SELECTED TIME PERIODS
(in billions of 1967 dollars)

Time Period	Total Compensation	Regular UI	EB	FSC
81.1 - 82.3	-$6.55	-$0.09	-$0.65	-$5.81
82.4 - 84.1	-4.22	-4.41	-2.52	2.71
84.2 - 85.1	-0.92	-1.39	-0.74	1.21
Total	-$11.69	-$5.89	-$3.91	-$1.89

than had historically been the case.[1] The pattern for EB derives, in part, from the UI shortfall (since there were fewer potential EB recipients) and, in part, from the EB changes that were implemented.[2] Indeed, given these reductions in regular UI and EB payments, it is somewhat surprising that the FSC residuals remained positive at all, since these other changes probably reduced the potential caseload for that program markedly.

Continuing our analysis of this second subperiod (see Table II.5), we should note that the negative EB residual is about equal to the FSC residual, clearly indicating the role of FSC in compensating for the reductions in EB that occurred at this time. In fact, total extended benefits compensation (EB and FSC) was comparable to historical experience, and the overall shortfall in total unemployment compensation was almost completely attributable to regular UI. Furthermore, the small overall residual for extended benefits (EB and FSC) suggests that, in the aggregate, extended benefits durations may have been about right during this period, if we view this comparison with the overall experience of the 1970s and 1980s as an appropriate measure of the adequacy of extended benefits. This conclusion corresponds to the conclusion drawn on the basis of the exhaustion-rate data.

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[1] The relative drop in regular UI payments reported in the text was mirrored by data on first payments under this program. Average weeks of benefits collected under UI differed only slightly between the recessions of the 1970s and 1980s. A similar situation occurred for the EB program. Given the multi-phase nature of FSC, however, it was not possible to compare first payments under that program with the FSB experiences of the 1970s.

[2] Specifically, state EB trigger rates were increased by one percentage point, and additional, more stringent qualifying provisions for EB were implemented at the beginning of 1982.4.

Turning to the third subperiod (84.2 to 85.1), we find essentially the same pattern of residuals as in the second subperiod. FSC residuals were positive, and regular UI and EB residuals were negative. However, as evidenced by the drop in the unemployment rate, the economy had become relatively healthy during this period. Moreover, if we compare the overall sum of the EB and FSC residuals in this subperiod with the overall sum of EB and FSC residuals in the two previous subperiods, we find that the level of extended benefit compensation was less than historical levels by $0.92-billion per quarter in the first subperiod, and more than historical levels by $0.04-billion and $0.09-billion in the second and third subperiods, respectively.[1] Given the pattern of unemployment rates, this result shows clearly that the timing of FSC was probably not appropriate, either in providing a counter-cyclical stimulus or in providing extended benefits when UC recipients needed them most.

In summary, several general conclusions on FSC can be drawn from these aggregate data:

- FSC played two roles in the recession of the 1980s: as in previous recessions, it expanded UC benefits concomitantly with higher unemployment rates; and it filled in some of the "holes" left by legislated changes in the EB program which reduced the availability of EB.
- FSC was implemented late in the business cycle, and it continued for some time after the economy had recovered. A substantial fraction of total benefits were also paid in this "post-recession" period.

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[1] These are 1967 dollars. The rates were computed by summing the EB and FSC residuals in each period and dividing by the number of quarters.

- The counter-cyclical impact of FSC occurred later in the business cycle than did the temporary extended benefits (FSB) program in the mid-1970s, and its counter-cyclical stimulus was substantially less.

- Once implemented, FSC (in combination with the reduced EB program) provided extended benefits comparable to historical levels, and it appeared to have lowered overall UC exhaustion rates to approximately nonrecessionary levels, suggesting that extended benefits durations may have been about "right" during this time period.

C. DISTRIBUTIONAL IMPACTS OF FSC

One of the main distinguishing features of the FSC program relative to previous extended benefits programs was the attempt to fine-tune the targeting of benefits by adjusting the maximum potential duration according to different state insured-unemployment rates (IUR), and by adjusting the duration as the IUR changed over time within each state. Moreover, when a state's maximum duration changed, individual entitlements changed not only for new initial claims but also for continued claims. This feature applied to FSC-I to FSC-III but was eliminated for FSC-IV. In addition, the speed and the probability with which state maximum durations could change were also reduced for FSC-IV relative to the first three phases of the program.

Evidence of the extent to which these features of the FSC program led to differences in duration among states and to changes in the maximum duration within states are reported in Tables II.6 and II.7, respectively. The data in Table II.6 report the maximum benefits at the midpoint of each quarter. These data show that, in most quarters, the FSC rules led to a significant dispersion of FSC maximum durations among states. This dispersion was particularly true during the FSC-II period through the first several quarters of FSC-IV, with the exception of the second quarter of

TABLE II.6

THE DISTRIBUTION OF STATE
MAXIMUM POTENTIAL FSC DURATION BY QUARTER
(number of states)

Phase/Quarter		Maximum Weeks of FSC Duration					
		6	8	10	12	14	16
FSC-I	1982.4	11	4	36	0	0	0
FSC-II	1983.1	0	5	8	2	20	16
FSC-III	1983.2	0	11	14	11	15	0
	1983.3	0	30	14	6	1	0
FSC-IV	1983.4	0	23	0	13	15	0
	1984.1	0	23	3	12	13	0
	1984.2	0	25	5	13	8	0
	1984.3	0	30	1	13	7	0
	1984.4	0	31	1	12	7	0
	1985.1	0	31	3	11	6	0

NOTE: The maximum durations are for the midpoint of each quarter.

TABLE II.7

CHANGES WITHIN STATES IN MAXIMUM FSC DURATION
BY TIME PERIOD AND NUMBER OF CHANGES

Phase/Quarter		Number of States with: No Change	One Change	Two Changes	Three Changes	Total Changes
FSC-I	1982.4	48	2	1	0	4
FSC-II	1983.1	32	17	2	0	21
FSC-III	1983.2	14	28	9	1	46
	1983.3	28	20	3	1	26
FSC-IV	1983.4	51	0	0	0	0
	1984.1	45	6	0	0	6
	1984.2	38	13	0	0	13
	1984.3	45	6	0	0	6
	1984.4	49	2	0	0	2
	1985.1	45	6	0	0	6
Total						130

NOTE: Changes in duration that occurred at the beginning of an FSC phase are not reported in the table.

FSC-III, when most states had maximums of 8 to 10 weeks. The data in Table II.7 show the number of states that experienced a change in maximum duration during each quarter, excluding any changes that occurred at the beginning of each FSC phase. As shown in the table, both the FSC-II and FSC-III rules produced quite a number of changes in duration, which were particularly pronounced during FSC-III. During the two quarters in which this program operated, 72 changes occurred (or 1.4 changes per state), and a number of states experienced more than one change in duration within a single calendar quarter. In contrast, the FSC-IV program produced far fewer changes, as expected given the restrictions placed on the frequency of changes and the use of the long-term IUR as the trigger mechanism.

In summary, the FSC program rules led to a significant dispersion in the maximum durations of FSC among states and time periods. Thus, an important question to ask is, did these differences in maximum duration lead to the payment of benefits in states and time periods that exhibited the highest levels of unemployment, as intended? In addition, did the greater frequency of changes in duration under the FSC-I, II, and III programs than under FSC-IV affect the targeting of benefits? Data that shed some light on these questions are reported in Table II.8. They show the distribution of weeks paid by three insured-unemployment-rate categories--low, medium, and high.[1] We used weeks rather than dollars to eliminate the effect of state-by-state differences in weekly benefit

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[1] We used less than 3.5 percent to define the low category to less than 5.0 percent to define the medium category, and 5.0 percent and higher to define the high category. We used the IUR at the midpoint of each quarter to classify the states. Separate tabulations based on three total-unemployment-rate categories (less than 7.5 percent, 7.5 to less than 9.5 percent, and 9.5 percent and higher) produced similar results.

TABLE II.8

DISTRIBUTION OF FSC, EB, AND REGULAR UI WEEKS
PAID BY IUR CATEGORY AND FSC PHASE
(percent)

Program/IUR Category	FSC-I	FSC-II	FSC-III	FSC-IV	Total
FSC					
Low	8.6%	6.9%	32.1%	53.3%	34.0%
Medium	40.9	17.9	49.7	39.1	39.7
High	50.5	75.2	18.2	7.6	26.3
Total	100.0	100.0	100.0	100.0	100.0
EB					
Low	0.0	0.0	6.7	1.6	2.7
Medium	4.8	0.0	39.8	44.1	17.9
High	95.2	100.0	53.5	54.3	79.4
Total	100.0	100.0	100.0	100.0	100.0
Regular UI					
Low	12.6	7.6	36.6	57.0	39.0
Medium	31.3	17.5	39.7	35.4	32.9
High	56.1	74.9	23.8	7.6	28.0
Total	100.0	100.0	100.0	100.0	100.0

NOTE: Data are restricted to 50 states plus the District of Columbia and to the 1982.4 to 1985.1 period.

levels. The distributions are shown by FSC phase and, for comparison purposes, for EB and regular UI.

The data in the table show clearly that the distribution of FSC benefits by IUR level was similar to the distribution for regular UI during each of the time periods shown in the table. While a somewhat higher percentage of FSC weeks than regular UI weeks were provided in the medium IUR category (with the opposite being true for the low IUR category), almost no difference occurred for the high IUR category. If FSC benefits were effectively targeted toward high unemployment areas, we would expect to find a greater concentration of FSC benefit payments in the high IUR category relative to regular UI. However, the small differences that did occur (in FSC-I and III) were in the opposite direction. Moreover, the differences that occurred for the FSC distribution among FSC phases mirrored those for regular UI, indicating that the differences arose because of changes in the distribution of states by IUR level, and not because of changes in FSC program rules. Thus, the greater flexibility in duration in FSC-I, II, and III relative to FSC-IV also did not appear to affect the distribution of benefits. In contrast, EB benefits that were paid during the same time periods were concentrated in the high and (in later time periods) medium IUR categories.

These findings may be due to the fact that FSC was paid after EB benefits were exhausted, if EB was triggered on in a state. This situation would tend to reduce the concentration of FSC in high unemployment states, since those were the states with EBs. To examine this possible effect on the results in Table II.8, we disaggregated the distributions by the EB status of each state. These results are reported in Table II.9. They show

TABLE II.9

DISTRIBUTION OF FSC, EB, AND REGULAR UI WEEKS PAID BY IUR CATEGORY AND EB STATUS (percent)

Program/IUR Category	FSC Period	
	EB On	EB Off
FSC		
Low	1.5%	48.5%
Medium	28.8	44.6
High	69.7	6.9
Total	100.0	100.0
EB[a]		
Low	2.6	n.a.
Medium	16.7	n.a.
High	80.7	n.a.
Total	100.0	n.a.
Regular UI		
Low	1.6	53.7
Medium	16.4	39.4
High	82.0	6.8
Total	100.0	100.0

NOTE: Data are restricted to 50 states plus the District of Columbia and to the 1982.4 to 1985.1 period.

[a] A small percentage of EB weeks paid (1.8 percent) was recorded in the EB off period because the EB status at the midpoint of the quarter was used to classify states.

n.a. = not applicable.

the same story as reported above--namely, that FSC weeks paid during periods in which EB was also available in a state (which occurred for 69.1 percent of all FSC weeks paid) were distributed by IUR level in the same way as the distribution of regular UI weeks paid. Moreover, during EB periods, regular UI and EB weeks paid were concentrated to a greater degree in high-IUR states than were FSC weeks paid.

These results show that, as the EB program operated during the FSC period, it concentrated extended benefits in high unemployment-rate areas to a substantially greater degree than did FSC. To some extent, this result is not surprising, because the changes made in EB in 1981 and 1982 effected a greater concentration of benefits in high unemployment-rate areas by reducing the size of the EB program quite substantially.[1] Thus, it is interesting to ask how the EB program prior to the recent changes would have compared with FSC. An indication of the likely answer to this question can be obtained by comparing the distribution of EB and regular UI benefits in three time periods: (1) 1980.4 to 1981.3, the year prior to any changes in EB triggers; (2) 1981.4 to 1982.3, the year after the national trigger was eliminated and the IUR definition changed to eliminate EB recipients from the calculation; and (3) the year after the final EB trigger change was made (i.e., after the state IUR triggers were raised). Data for these three time periods (not reported in the tables) show that EB weeks paid were concentrated in high unemployment-rate states to a greater extent than were regular UI. The difference in the distributions was least pronounced during the first time period, when the national EB trigger was

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[1] See Corson and Nicholson (1985) for an analysis of the impact of the EB program changes.

on for the first four months. In the two subsequent time periods, weeks paid were highly concentrated in the high unemployment category. Thus, as structured both before and after the recent programmatic changes, the EB program would probably have been more effective than FSC at targeting benefits toward high unemployment-rate areas, particularly once the national trigger was eliminated.

In summary, these results indicate that the FSC program did not appear to target benefits more effectively to areas and time periods with high unemployment than did the regular UI program. The high degree of sensitivity of the FSC maximum potential durations to the insured-unemployment rate both among states and across time within states did not provide a satisfactory targeting mechanism. In contrast, the EB program appeared to be more efficient at targeting benefits, particularly in the absence of the national trigger. The likely reason that FSC benefits were not directed more toward areas of high unemployment was because a minimum level of benefits was provided in all states throughout the FSC program. In contrast, for the EB program, a state's IUR must be above a defined threshold before any extended benefits are paid.

D. INDIVIDUAL ELIGIBILITY REQUIREMENTS

Until recently, the permanent EB program and previous temporary extended benefits programs used each state's rules on individual eligibility to determine eligibility for extended benefits. Beginning in the latter stages of the FSB program, and in the early 1980s for the EB program, some initial and continuing eligibility rules for extended benefits were made uniform across states. The FSC program adopted the same uniform rules that applied to EB: (1) a uniform qualifying-wage

requirement and (2) an enhanced work test. We now examine aggregate data that indicate the impact of these two eligibility rules.

1. Qualifying Wages

The uniform qualifying-wage requirement that applied to FSC and EB required an individual to have worked a minimum of 20 weeks in the base period to be eligible for extended benefits. In states that define eligibility in terms of base-period earnings that must exceed specified multiples of the high quarter wage (hqw) or the weekly benefit amount (wba), the equivalent requirements were to have a minimum of 1.5 hqw or 40 wba of earnings in the base period. This rule became effective in EB beginning in October 1982, which was shortly after the FSC program began in mid-September 1982. These minimum qualifying-wage requirements were intended to target extended benefits toward individuals who exhibited a relatively strong labor-force attachment (as evidenced by the base period work history), since individuals with short base-period work histories were ineligible. In addition, it reduced cross-state variation in eligibility, which, it has been argued, is desirable in a federally financed program such as FSC.

Evidence of the extent to which these minimum qualifying-wage rules had an impact is reported in Table II.10, which presents the percentage of initial FSC claimants who had insufficient wage credits. These data are reported for each state over the entire FSC period, together with the state's qualifying-wage requirement. The data show that approximately 4.0 percent of the monetary determinations performed in the FSC program were

TABLE II.10

PERCENT OF FSC NONMONETARY DETERMINATIONS
WITH INSUFFICIENT WAGE CREDITS BY STATE

State	State Law[a]	Percent Ineligible
AL	1.5 hqw	1.1%
AK	$1,000	3.0
AZ	1.5 hqw	n.a.
AR	1.15 hqw	8.4
CA	8 wks wk & $900 or $1,200	5.1
CO	40 wba	n.a.
CT	40 wba	0.0
DE	36 wba	0.3
DC	1.5 hqw	10.1
FL	20 wks wk	0.0
GA	1.5 hqw	0.0
HI	30 wba/14 wks wk	0.0
ID	1.25 hqw	0.6
IL	$1,600	n.a.
IN	1.25 hqw	0.0
IA	1.25 hqw	11.6
KS	30 wba	1.0
KY	1.38 hqw	0.6
LA	30 wba	0.0
ME	7 x annual aww	7.9
MD	1.5 hqw	n.a.
MA	30 wba	15.0
MI	18 wks wk	1.1
MN	15 wks wk	13.7
MS	40 wba	1.7
MO	30 wba	12.5
MT	20 wks wk	0.0
NE	$600	10.7
NV	1.5 hqw	0.0
NH	$1,700	0.0
NJ	20 wks wk	n.a.
NM	1.25 hqw	8.6
NY[b]	20 wks wk	n.a.
NC	1.5 hqw	n.a.
ND	40 wba	0.0

TABLE II.10 (continued)

State	State Law[a]	Percent Ineligible
OH	20 wks wk	1.4%
OK[b]	1.5 hqw	n.a.
OR	18 wks wk	1.5
PA	37-40 wba	0.7
RI[b]	20 wks wk	n.a.
SC	1.5 hqw	0.0
SD	$728 in HQ/ 30 wba outside HQ	0.0
TN	40 wba	1.3
TX	1.5 hqw	0.0
UT	20 wks wk	0.0
VT	20 wks wk	0.0
VA	50 wba	n.a.
WA	680 hours	n.a.
WV	$1,150	0.0
WI	15 wks wk	21.1
WY	1.6 hqw	n.a.
Total U.S.		4.0%

SOURCE: State qualifying-wage laws are from Significant Provisions of State Unemployment Insurance Laws, July 4, 1982, ETA, UIS, 1982. The major provisions excluding distributional requirements are presented. The abbreviations are: hqw (high quarter wages), wks wk (weeks of work), wba (weekly benefit amount), aww (average weekly wage), and HQ (high quarter). The percent with insufficient wage credits is computed from state report, ES218, FSC.

n.a. = not available.

[a] The following changes in qualifying-wage requirements occurred during the FSC program, as reported in the referenced issues of Significant Provisions of State Unemployment Insurance Laws, ETA/UIS: AR to 35 wba in July 1983, ID to 1.5 hqw in July 1983, KY to 1.5 hqw in January 1983, ME to 6 x annual aww in July 1984, MI to 20 wks wk in July 1983, MO to 1.5 hqw in January 1985, ND to 1.5 hqw in July 1983, UT to 1.5 hqw in July 1984, WI to 18 wks wk in January 1984, and WY to 8 percent of state aww in July 1984.

[b] The available data provided for NY, OK, and RI appeared to be incorrect.

denied because of insufficient wage credits.[1] The table indicates that the percentage ineligible varied by state, as expected. On the one hand, states with minimum qualifying requirements that equalled the FSC requirement generally showed an eligibility rate of zero, although there were some anomalies.[2] On the other hand, states with minimum qualifying requirements that were less stringent than the FSC requirement exhibited ineligibility rates that ranged up to 21 percent. For example, the two states with a minimum requirement of 15 weeks of work (Minnesota and Wisconsin), as compared with the FSC rule of 20 weeks, had ineligibility rates of 13.7 and 21.1 percent, respectively. Thus, these data generally indicate that, as expected, the FSC qualifying-wage requirements restricted eligibility.

2. The Work Test

The work-test rules adopted for FSC mirrored those implemented in the EB program in April 1981. These rules required FSC recipients to accept jobs if the offer was provided in writing and if the job paid an amount greater than the higher of the minimum wage or the UI weekly benefit. This provision was more stringent than the job-suitability criteria of many states, which usually tie suitable-work criteria to the previous employment history of recipients. In addition, FSC claimants were required to engage in a "systematic and sustained effort to obtain work"

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[1] This percentage is the U.S. total, excluding states with no reported information. The average was computed by weighting each state by the number of monetary determinations performed.

[2] For example, data for the District of Columbia showed 10.1 percent ineligible when the qualifying requirement was the same as the requirement applied to FSC.

and to provide "tangible evidence" of work-search activity for their continued eligibility. As implemented, this requirement was also generally more stringent than the regular UI requirement. When proposed for the EB program, these more stringent work-test requirements were expected to "help workers who had little chance to return to their old occupation face the reality of the changing economy and begin new careers" (OMB, 1981). A similar intention presumably applied to FSC.

The application of these work-test rules was expected to enhance job search and thus to reduce FSC claims below the level that would have occurred in the absence of such requirements. Although we cannot test this hypothesis directly, two pieces of evidence may provide an indication about the impact of these work-test provisions. First, an analysis of the EB program, which compared EB collection before and after the implementation of these work-test rules, suggested that they appeared to have (1) reduced the rate at which regular UI exhaustees applied for EB when available, (2) reduced the average number of weeks of EB collected, and (3) reduced the EB exhaustion rate (Corson and Nicholson, 1985). These requirements may have had a similar impact on FSC relative to what would have occurred in their absence.

Second, the application of the FSC work-test rules might have been expected to increase the rate of nonmonetary determinations and denials relative to the rates for regular UI. This scenario would occur if recipients were less likely to comply with the more stringent FSC rules than with the less stringent regular UI rules, or if the relatively closer monitoring of FSC work-search activities that was to be undertaken uncovered more potential nonmonetary issues than under regular UI.

Information on determination and denial rates for FSC and regular UI for the FSC period is reported in Table II.11 for selected nonseparation issues. These data show small differences between FSC and regular UI in determination or denial rates for the two nonmonetary issues that might be affected by the work test rules--able and available and refusal of suitable work. Two of these differences are statistically significant at the .05 significance level. The denial rate for refusal of suitable work was significantly higher for FSC than for regular UI, while the reverse was the case for the able and available determination rate. Thus, although the first of these significant differences is in the expected direction, the mixed nature of the results and their small size suggest that the enhanced work-test requirement had little or no impact on denial rates. The evidence cited earlier on the EB program suggests that these work-test rules could nevertheless have had some impact on recipient behavior. We also found during our state visits (see Chapter V) that state officials reported that they implemented work test rules for FSC that were more stringent than those applied to regular UI.

TABLE II.11

FSC AND REGULAR NONMONETARY DETERMINATIONS AND DENIALS BY NONSEPARATION ISSUE

	FSC Phase					Regular
	I	II	III	IV	Total	UI
Determinations Per 1,000 Continued Claims						
Able and available	15.16	12.84	11.78	12.88	12.88	14.27
Refusal of suitable work	1.63	0.93	1.34	1.59	1.48	1.27
Total nonseparation	23.00	20.17	20.11	23.26	22.29	29.18
Denials Per 1,000 Caseload Claims						
Able and available	9.36	7.69	6.68	8.07	7.88	7.92
Refusal of suitable work	1.08	0.66	0.59	0.57	0.63	0.38
Total nonseparation	14.94	12.13	11.51	13.98	13.39	16.89

NOTE: Rates are means over all states. Regular UI rates are for the entire FSC period.

CHAPTER III

CHARACTERISTICS OF FSC RECIPIENTS AND THEIR LABOR-MARKET EXPERIENCES

In this chapter, we address three broad issues: (1) the population served by the FSC program, (2) the recipients' experience with unemployment compensation, and (3) the types of jobs held by recipients at the end of their unemployment spells. To describe the population that was served, we present the demographic characteristics of recipients, as well as characteristics of their pre-unemployment job and household income. The unemployment compensation experience of recipients is characterized by such factors as the weekly benefit amount, the number of weeks of compensation collected, and participation in EB and the FSC program. We also consider the post-unemployment experience of recipients, including their probability of returning to their former employer or industry, and changes in their average quarterly earnings. These characteristics and the labor-market experience of FSC recipients are compared with those of other groups of individuals--individuals who received only regular UI, individuals who received regular UI and EB but not FSC, and individuals who received temporary extended benefits during the 1974-75 recession. The purpose of these comparisons is to describe the nature of the extended benefits population during the recent recession and to show how it differed from the nature of the extended benefits population in the recession of the mid-1970s.

After the experiences of the overall FSC group are described, we explore whether the characteristics, the unemployment experience, and the post-unemployment experience of the individuals who received FSC changed

over the various phases of FSC. In addition, we discuss the characteristics of two special FSC subgroups: individuals who stopped receiving FSC benefits in one of the program phases but returned to collect additional FSC in subsequent phases, and individuals who received more compensation than they would have had they received only EB. Before we present our findings, we briefly describe the data used in this chapter and the comparison groups used for the analysis.

A. DESCRIPTION OF THE DATA

The Continuous Wage and Benefit History (CWBH) database was the data set used to describe the characteristics of recipients. This database contains information on the demographic characteristics and unemployment compensation experience of recipients during their UI benefit year, and on their earnings by calendar quarter. The earnings records cover the second quarter of 1980 through the first quarter of 1984, with some differences in coverage by state. These records include the amount of intrastate earnings that individuals received each quarter from each employer, and contain some information on the characteristics of the employers.

The data set used for the analysis consists of a stratified random sample of individuals who established a UI benefit year between June 1, 1981, and December 31, 1983, and who received at least one payment.[1]

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[1] The CWBH states used different sampling rates to ensure that adequate sample sizes were available for within-state analyses. For the states in our sample, the minimum sampling rate of one percent was used for all states to create a simple random sample. Individuals who did not collect any extended benefits were then further subsampled to reduce the size of the sample to a manageable number.

Samples from 13 CWBH states were used.[1] The earlier benefit-year restriction reflects one of the primary FSC eligibility requirements--that individuals were to have established a benefit year no earlier than June 1981 to qualify for FSC.[2] The sample was also limited to those whose first payment was made no later than December 31, 1983, so that a minimum of two quarters of information would be available after an individual began receiving compensation.[3] We can thus observe whether an individual received some form of extended benefits.

Table III.1 presents the distribution of FSC recipients in our sample by state. The states which participated in the CWBH system were not a random sample of states. Certain regions were oversampled (such as the Mountain region) while others were undersampled (such as the North Central region). Thus, conclusions drawn from these data are not strictly generalizable to the FSC experience of the United States as a whole. However, the sample of individuals is representative of the 13 states that are included. Because these states provide a broad range of unemployment and FSC experience (as is evidenced by the FSC durations and unemployment

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[1] Two states of the 15 for which some data were available were excluded. One, Utah, did not have data that were sufficiently clean for analysis purposes at the time the data were extracted, and it was not included for that reason. In addition, although some data were available for Texas, they were not available prior to 1983, and, for that reason, the state was also omitted from the analysis.

[2] Individuals who were entitled to receive EB as of the week ending on June 1, 1982 were also eligible to receive FSC regardless of the benefit-year beginning date. However, a previous study of the early phases of the FSC program (Corson, 1984) indicated that there were relatively few such individuals who did not also meet the benefit-year restriction. Thus, we applied the benefit-year restriction in defining the comparison sample.

[3] The data set contained data through June 1984.

TABLE III.1

FSC SAMPLE CHARACTERISTICS

State	FSC Sample		Maximum FSC Duration (weeks)				Total Unemployment Rate[e]		
	Number	Percent Distribution	FSC-I	FSC-II	FSC-III	FSC-IV	1982	1983	1984
Georgia	385	4.3%	6	8,10[b]	8	8	7.8%	7.5%	6.0%
Idaho	132	1.5	10	16	14,12,10[c]	14	9.8	9.9	7.1
Iowa	229	2.6	10	14	12,10,8[c]	10[d]	8.5	8.1	6.9
Louisiana	622	7.0	10	14,16[b]	14,12[c]	12	10.3	12.0	9.7
Missouri	447	5.0	10	14	12,10,8[c]	8	9.2	9.7	7.3
Nevada	156	1.8	10	14	12,10,8[c]	12,10,8[d]	10.1	9.8	7.7
New Mexico	130	1.5	10	14	10	8	9.2	10.0	7.6
New York	2,564	28.9	8,6,8[a]	10	10,8[c]	8	8.6	8.4	7.2
North Carolina	612	6.9	10	14	12,10,8[c]	12,10,8[d]	9.0	8.6	8.4
Pennsylvania	1,939	21.9	10	16	14,12,10[c]	14	10.9	11.7	9.4
South Carolina	235	2.7	10	14	12,10,8[c]	12,10,8[d]	10.8	9.7	7.2
Washington	754	8.5	10	16	14,12[c]	14,12[d]	12.1	11.0	8.8
Wisconsin	660	4.0	10	14,16[b]	12,10,8[c]	14,12,10,8,10[d]	10.7	10.3	7.4
Total Sample	8,865	100.0%	--	--	--	--	7.4[f]	9.5[f]	7.9[f]
Total U.S.							9.7%	9.6%	7.4%

SOURCE: Maximum FSC weeks data come from the FSC trigger notices prepared by the U.S. Unemployment Insurance Service. Unemployment rates come from Employment and Earnings.

a New York began FSC-I with 8 weeks, went to 6 weeks on 11/14/82, and then went back to 8 weeks on 12/12/82.

b The maximum FSC benefits for these states changed during the FSC-II period (i.e., January-March 1983). Georgia changed from 8 to 10 weeks on 1/23/83, Louisiana from 14 to 16 weeks on 3/20/83, and Wisconsin from 14 to 16 weeks on 1/23/83.

c The maximum FSC benefits for these states declined during the FSC-III period (April 1, 1983, to September 18, 1983). Idaho changed from 14 to 12 weeks on 6/26/83, then to 10 weeks on 7/24/83. Iowa changed from 12 to 10 weeks on 5/29/83, then to 8 weeks on 7/10/83. Louisiana changed from 14 to 12 weeks on 6/19/83. Missouri changed from 12 to 10 weeks on 5/1/83, then to 8 weeks on 6/19/83. Nevada changed from 12 to 10 weeks on 5/22/83, then to 8 weeks on 7/17/83. New York changed from 10 to 8 weeks on 6/5/83. North Carolina changed from 12 to 10 weeks on 5/1/83, then to 8 weeks on 5/27/83. Pennsylvania changed from 14 to 12 weeks on 7/31/83, then to 10 weeks on 10/9/83. South Carolina changed from 12 to 10 weeks on 5/1/83, then to 8 weeks on 6/19/83. Washington changed from 14 to 12 weeks on 6/26/83. Wisconsin changed from 14 to 12 weeks on 6/12/83, then to 10 weeks on 7/10/83, then to 8 weeks on 8/7/83, and back to 10 weeks on 8/20/83.

d The maximum FSC benefit for these states changed during the FSC-IV period (October 19, 1983, to March 31, 1985). Iowa changed from 12 to 10 weeks on 1/22/84, then to 8 weeks on 4/22/84, and back to 10 weeks on 3/17/85. Nevada changed from 12 to 10 weeks on 4/22/84, then to 8 weeks on 7/22/84. North Carolina changed from 12 to 10 weeks on 1/22/84, then to 8 weeks on 4/22/84. South Carolina changed from 12 to 10 weeks on 7/22/84, then to 8 weeks on 10/21/84. Wisconsin changed from 14 to 12 weeks on 4/22/84.

e The unemployment rates for the mid-months for each of a year's four quarters were averaged to obtain an estimate of the annual unemployment rate for a state.

f Weighted by the average percent of the FSC sample in each state.

rates reported in Table III.1), the results reported herein should be useful to policymakers concerned with extended UI benefits.

B. COMPARISON GROUPS

To place the characteristics of the FSC recipients into perspective, we compare the characteristics of FSC recipients with those of individuals who were laid off at approximately the same time but received only UI. Since these individuals were presumably not unemployed long enough to receive FSC or EB, comparisons between UI and FSC recipients indicate whether individuals who were unemployed for longer periods of time differed substantially from regular UI recipients during the recent recession, which, as evidence suggests, was in fact the case in the recession of the mid-1970s.[1]

In some instances, comparisons with those who have been unemployed longer are more appropriate. In these cases, the characteristics of FSB recipients are compared with those of EB recipients who also did not collect FSC. These individuals, like FSC recipients, collected benefits beyond regular UI. While these EB recipients were similar to FSC recipients in this respect, they differed in terms of several other important dimensions. As shown in Tables III.2 and III.3, the geographic distribution of EB-only recipients differed from the distribution of FSC recipients, and, in general, EB-only recipients were laid off earlier in the recession than were FSC recipients. In addition, as shown later, some FSC recipients received more compensation than did EB recipients because they collected both EB and FSC. The differences in geographical and

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[1] See Corson et al. (1977) and Corson and Nicholson (1982).

TABLE III.2

THE DISTRIBUTION OF UC RECIPIENTS BY STATE

	FSC Recipients	UI-Only Recipients[a]	EB-Only Recipients[b]
Georgia	4.4%	10.7%	0.0%
Idaho	1.5	1.7	6.3
Iowa	2.6	2.1	1.3
Louisiana	7.0	5.0	8.7
Missouri	5.0	6.7	5.2
Nevada	1.8	1.6	2.4
New Mexico	1.5	1.6	0.4
New York	29.0	21.2	0.0
North Carolina	6.9	10.8	8.4
Pennsylvania	21.9	19.2	30.5
South Carolina	2.7	5.3	7.2
Washington	8.5	6.3	12.9
Wisconsin	7.5	8.1	16.7
Sample Size	6,014	8,857	1,814

[a] These individuals collected UI but did not collect any extended benefits.

[b] These individuals collected EB but not FSC.

TABLE III.3

THE DISTRIBUTION OF THE SAMPLE BY
BENEFIT-YEAR BEGINNING DATES

	FSC Recipients	EB-Only Recipients	UI-Only Recipients	Total Unemployment Rate[a]
1981				
Before 81.3	0.6%	5.7%	2.5%	7.4%[b]
81.3	3.6	18.4	8.2	7.3
81.4	8.3	27.8	13.6	8.3
1982				
82.1	12.3	15.4	11.4	8.8
82.2	12.3	13.4	8.1	9.3
82.3	11.9	10.6	9.1	9.7
82.4	13.1	6.5	12.7	10.6
1983				
83.1	13.0	1.9	10.8	10.2
83.2	9.3	0.3	6.8	10.1
83.3	7.4	0.0	6.5	9.5
83.4	8.2	0.2	10.2	8.4
Total	100.0%	100.0%	100.0%	
Sample Size	8,864	1,814	6,011	--

[a] The unemployment rates are for the mid-month of each quarter.

[b] The only month in this period was June 1981; therefore, the unemployment rate for this period was the rate for June 1981.

temporal distributions occurred because EB was available in some states only for particular periods of time, whereas FSC was available in all states over the entire FSC period. The temporal distribution was also affected by an increase in the EB state trigger level in October 1982, which made fewer states eligible for EB after that point than would have been the case in the absence of the change. For these reasons, the EB group is used primarily for comparisons with the unemployment compensation experience of FSC recipients.

C. CHARACTERISTICS OF FSC RECIPIENTS[1]

In this section, we discuss the characteristics of FSC recipients before, during, and after their unemployment spells. We begin by examining the characteristics of the FSC recipients and comparing them with those of UC recipients who were laid off in approximately the same period and who collected only regular UI. FSC recipients are also compared with recipients of the previous temporary unemployment compensation program, the Federal Supplemental Benefits (FSB) program.

1. Demographic and Economic Characteristics

Individuals who remained unemployed long enough to receive FSC were quite similar to UI recipients who did not receive any form of extended benefits. The demographic and economic characteristics of these two groups of recipients, reported in Table III.4, show that in both the FSC and UI programs approximately two-thirds of recipients were males, the average age

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[1] In this chapter, differences in means between groups are considered to be statistically significant if the differences are significant at the .05 level in a two-tailed test.

TABLE III.4

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF
UC RECIPIENTS AND THEIR HOUSEHOLDS

	FSC Recipients	UI-Only Recipients	FSB Recipients
Sex and Age			
Male	(63.3%)	(61.8%)	(52.6%)
Less than 22	6.5	9.4	25.2
22-24	10.9	12.1	
25-40	49.8	46.6	32.0
41-54	21.2	20.2	20.0
55-64	10.6	10.2	13.8
65+	1.1	1.5	8.9
Mean (years)	36.1	35.5	39.1
Female	(36.7)	(38.2)	(47.4)
Less than 22	6.0	8.6	16.9
22-24	10.9	11.3	
25-40	47.7	41.6	35.8
41-54	21.8	23.8	26.6
55-64	11.8	13.6	13.1
65+	1.7	1.1	7.5
Mean (years)	37.1	37.5	40.4
Race			
White, not Hispanic	77.6	81.7	84.7
Black, not Hispanic	15.9	13.1	15.2
Hispanic and others	6.5	5.2	
Years of Education			
<9	9.8	11.1	40.8
9-11	19.2	19.7	
12	47.8	48.7	38.5
13-15	15.5	13.6	15.4
16+	7.7	6.9	5.5
Mean	11.7	11.6	11.2
Marital Status			
Married	54.7	59.0	61.2
Never married	26.8	25.1	38.8
Divorced, separated, or other	18.5	15.9	

TABLE III.4 (continued)

	FSC Recipients	UI-Only Recipients	FSB Recipients
Number of Dependents			
0 (excluding spouse)	47.4%	46.8%	n.a.
1	21.4	20.6	n.a.
2	17.3	19.2	n.a.
3	14.0	13.4	n.a.
4 or more	1.1	1.1	
Mean			
Spouse Work Status When Applicable			
Yes	61.9	65.8	n.a.
No	38.1	34.2	n.a.
Pre-Unemployment Annual Household Income			
$0-9,999	10.2	8.7	n.a.
10,000-14,999	13.1	12.2	n.a.
15,000-19,999	15.4	14.9	n.a.
20,000-24,999	15.6	18.3	n.a.
25,000-29,999	12.0	12.5	n.a.
30,000+	33.7	33.3	n.a.
Mean (dollars)	$19,444	$20,525	
Sample Size	5,745	3,174	6,817

n.a. means not available.

was 36 and 37 years for males and females, respectively, and the average years of education were just under 12. A few small differences occurred for other characteristics. Compared with the UI recipients who did not collect extended benefits, somewhat fewer FSC recipients were white (78 versus 82 percent), slightly fewer were married (55 versus 59 percent), and fewer FSC recipients who were married had working spouses. Despite this latter difference, the pre-unemployment household incomes of the two groups were approximately the same--$19,500 for FSC recipients and $20,500 for UI recipients.[1]

The type of recipients who collected FSC differed substantially from those who collected Federal Supplemental Benefits (FSB), the previously enacted emergency compensation program. Compared with FSC recipients, FSB recipients were older, much more likely to be females and/or married, and less well educated. Moreover, previous research (Corson et al., 1977) found that FSB recipients differed along these same dimensions relative to other groups of individuals who were unemployed during the 1974-75 recession. Thus, in contrast to this previous recession, long-term unemployment and extended benefits recipients during the recent recession were not concentrated among particular subgroups of the unemployed, such as older individuals and females. This result may have been due to the fact that long-term unemployment during the recent recession was concentrated more heavily in the male-dominated durable-goods manufacturing industries than was unemployment during the previous recession (see discussion below). Hence, concerns expressed in the 1974-75

[1] These demographic differences were statistically significant, but the magnitude of the differences was small in each case.

recession that extended benefits were being paid disproportionately to groups that are often thought to exhibit relatively weak labor-force attachment did not appear to be the case in the recent recession.

2. Pre-Unemployment Job Characteristics

The jobs held by FSC recipients prior to their becoming unemployed differed somewhat from those held by the UI-only recipients in our comparison group. As shown in Table III.5, FSC recipients earned higher mean wages on their pre-UI jobs and were more likely to be employed in durable-goods manufacturing, retail trade, or the services sector than were the UI-only recipients (these differences were statistically significant). In contrast, a large difference in the opposite direction occurred in nondurable manufacturing. These differences reflected the fact that durable manufacturing and these other industrial sectors were hit the hardest by the 1981-1983 recession. Thus, individuals in these sectors experienced longer periods of unemployment, on average, and were more likely to receive benefits beyond regular UI. As shown by the comparison with FSB recipients, the industrial sectors that contained extended benefits recipients in the 1974-75 recession were somewhat different than in the recent recession, with a much higher concentration in nondurable manufacturing.

3. Unemployment Compensation Experiences

Data on the unemployment compensation experience of FSC and UI-only recipients, reported in Table III.6, show that the potential durations of regular UI and the ratio of weekly benefits to previous weekly earnings (the wage-replacement ratio) were similar for the two groups. However,

TABLE III.5

CHARACTERISTICS OF THE PRE-UI JOB
OF UC RECIPIENTS

	FSC Recipients	UI Only Recipients	FSB Recipients
Industry			
Agriculture, forestry, and fisheries	1.4%	1.6%	0.7%
Mining	1.7	1.1	0.3
Construction	12.7	12.5	10.6
Durable-goods manufacturing	25.5	22.7	24.0
Nondurable-goods manufacturing	14.1	25.7	20.1
Transportation and public utilities	3.9	3.9	4.7
Wholesale trade	5.7	4.3	2.6
Retail trade	12.3	9.7	15.5
Services, including finance, insurance, real estate	20.0	16.0	17.1
Public administration and other not classified	2.8	2.6	4.4
Mean Usual Weekly Earnings[a] (Real Terms)	$294.00	$284.00	$294.00
Sample Size	8,196	5,608	6,819

[a] The mean usual weekly earnings for UI-only recipients was based on a sample of 3,963, and for FSC recipients on a sample of 6,475. Nominal FSB weekly earnings of $170 were converted to 1982 dollars using average weekly earnings in the private sector to make this earnings figure comparable to the figure for the FSC and UI recipients in the sample. It was assumed that 1974 was the appropriate base year for FSB and as shown in Table III.3, 1982 was the benefit year beginning date for the majority of the other two samples.

TABLE III.6

UNEMPLOYMENT COMPENSATION EXPERIENCE

	FSC Recipients	UI-Only Recipients	EB Recipients
Average Weekly Benefit Amount	$125	$120	$124
Wage-Replacement Ratio[a]	0.72	0.69	0.80
Potential Duration of Regular UI (weeks)	25.6	25.7	25.2
Average Number of Weeks of UC Collected	37.3	10.2	29.5
Average Amount of UC Collected	$4,763	$1,285	$3,794
Sample Size	8,864	6,011	1,814

[a] The wage-replacement ratio was calculated by dividing the weekly benefit amount by usual weekly earnings as reported by the claimants.

mean weekly benefit amounts for FSC recipients were larger than those for UI recipients who did not collect extended benefits. EB-only recipients also had higher weekly benefit amounts and, in this case, a higher wage-replacement ratio than did regular UI recipients. These differences probably arose because of the relative concentration of FSC (and EB) recipients in durable manufacturing and, with respect to EB recipients, the concentration of this sample in the few states which were on EB early in our observation period (these states had higher weekly benefit maximums than other states in the sample). Whether these differences also arose because of the impact of FSC or EB on work behavior is addressed in the next chapter.

Data on the weeks of UC and the amounts collected are also reported in the table. By definition, FSC recipients collected more weeks of unemployment compensation than did UI-only recipients (37.3 weeks, compared with 10.2 weeks), and the amounts of UC differed similarly. The EB comparison group also collected more unemployment compensation than did the regular-UI-only group, because of the manner in which the groups were defined. The EB group collected somewhat less than the FSC group, since individuals who collected both EB and FSC were classified as FSC recipients.[1]

More details on FSC receipt, the interactions among FSC program phases, and the behaviorial impacts of these programs are addressed later in this chapter.

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[1] FSC was paid only when EB was exhausted or when it was not available.

4. Post-Unemployment Employment and Earnings

In most states, quarterly data on jobs and earnings (wage records) are submitted to the UI system by employers. Among the CWBH states in our sample, this was true for all states except New York. Another state, Wisconsin, reported only annual data, which was not sufficiently disaggregated for analytical purposes. For the other states, quarterly data were available for various time periods which differed by state, and these data were used to examine post-UI employment. Before presenting that analysis, we should note that comparisons of the wage-records data with base period earnings (reported elsewhere in the CWBH system) showed that approximately 10 to 15 percent of the wage-records observations were missing.[1] However, because the occurrence of missing values appeared to be uncorrelated with UC recipient type (UI, EB, and FSC) or time, we therefore believe that these data can be used for comparisons across groups and time periods. However, the absolute levels of the numbers must be considered to be underestimates of the true values, and, for that reason, we use these wage-record-data only to make comparative statements.

Data in Table III.7 show that, among the recipient groups, FSC recipients had consistently lower rates of re-employment than either regular UI or EB recipients, as was to be expected. For example, after six quarters, the rate of re-employment among FSC recipients was two-thirds that of regular UI recipients. Among individuals who were employed by the sixth quarter after the benefit-year beginning quarter (Table III.8), the

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[1] A typical record with missing data showed approximately equal earnings for a number of consecutive quarters, with one quarter in the middle showing zero earnings.

TABLE III.7

PERCENT EMPLOYED BY QUARTER SINCE
THE BENEFIT-YEAR BEGINNING QUARTER

Quarters After Benefit-Year Beginning	FSC Recipients		UI-Only Recipients		EB Recipients	
	Percent Employed	Sample Size	Percent Employed	Sample Size	Percent Employed	Sample Size
0[a]	67.4%	5,551	79.9%	4,061	62.4%	1,429
1	32.3	5,507	75.0	4,080	40.4	1,472
2	33.5	5,169	80.1	3,772	48.2	1,487
3	39.3	4,751	79.9	3,520	58.6	1,496
4	48.1	4,198	78.3	3,194	59.4	1,491
5	46.8	3,389	76.3	2,674	58.4	1,457
6	51.0	2,649	75.4	2,177	58.4	1,347
7	49.9	1,936	75.4	1,790	58.7	1,166
8	48.0	1,233	75.2	1,433	57.6	933

NOTE: Because earnings in approximately 10 to 15 percent of the quarters appear to be incorrectly reported as zero, the numbers in the table should be viewed as minimums.

[a] Because Quarter 0 is the quarter in which UI receipt began, some employment reported for this period occurred prior to UI receipt.

TABLE III.8

AVERAGE QUARTERLY EARNINGS BY QUARTER FOR THOSE WHO WERE EMPLOYED IN THE SIXTH QUARTER AFTER THE BENEFIT-YEAR BEGINNING QUARTER

Quarters Relative to Benefit-Year Beginning	FSC Recipients		UI-Only Recipients		EB Recipients	
	Average Earnings	Sample Size	Average Earnings	Sample Size	Average Earnings	Sample Size
-2	$2,209	1,264	$2,233	1,424	$2,044	720
-1	2,387	1,290	2,367	1,540	2,205	750
0[a]	1,655	1,322	1,977	1,499	1,523	745
1	535	1,350	2,154	1,610	805	771
2	513	1,351	2,713	1,631	991	779
3	615	1,352	2,859	1,642	1,444	787
4	1,044	1,352	2,837	1,642	1,924	787
5	1,769	1,352	3,014	1,642	2,271	787
6	2,480	1,352	3,333	1,642	2,727	787
7	2,350	945	3,289	1,355	2,644	664
8	2,210	551	3,111	1,096	2,504	532

NOTE: Because earnings in approximately 10 to 15 percent of the quarters appear to be incorrectly reported as zero, the numbers in the table should be viewed as minimums.

[a] Quarter 0 is the quarter in which the benefit year began.

average earnings of the FSC recipients had returned (approximately) to the pre-unemployment level at that point, but FSC recipients did not fare as well relative to the other recipient groups. As shown in the table, individuals who had received UI only or EB, and were employed by the sixth quarter, had higher average earnings in the sixth quarter than average earnings in the quarter prior to their unemployment.

One explanation for the relative earnings difference could be that, on average, the UI and EB recipients became employed more quickly than did FSC recipients and may have thus experienced some increases in wages by the reference quarter. A second, probably more important, explanation is that fewer FSC recipients returned to their former employer, or even to their former industry, than did those in the other recipient groups. As shown in Table III.9, significantly fewer FSC recipients expected recall by their pre-UI employer than did the other two groups, and far fewer had a definite recall date (8 percent, compared with 32 percent for regular UI recipients who did not proceed to collect extended benefits). Furthermore, as shown by the data in Table III.9, almost twice as many UI-only recipients as FSC recipients returned to their former employer (during the period for which we have data). Similarly, fewer FSC recipients returned to the same industries as defined by 1- or 2-digit SIC groups than did recipients in the UI or EB comparison groups. Clearly, the lack of a recall date was a predictor of long-term unemployment and, hence, extended benefits receipt. Moreover, because the probability of changing both jobs and industries was higher for this group, earnings relative to the pre-UI period were lower for extended benefits recipients than for individuals who did not collect extended benefits.

TABLE III.9

RE-EMPLOYMENT EXPECTATIONS AND
EXPERIENCE OF UC RECIPIENTS

Percentage of UC Recipients	FSC Recipients	UI-Only Recipients	EB Recipients
Expecting Recall	43.6%	65.8%	53.3%
With a Definite Recall Date	8.1	32.0	12.7
Re-Employed by the Same Employer[a]	34.2	62.2	44.8
Re-Employed in the Same 2-Digit Industry[a]	42.1	69.4	56.5
Re-Employed in the Same 1-Digit Industry[a]	49.9	75.6	67.7
Sample Size	4,008	3,209	915

[a] These data items were constructed by comparing post-UC employer IDs and industry codes with those of the employer in the first quarter before UI receipt began. The reported sample size is for these variables.

5. Unemployment Compensation and Household Income

To examine the importance of unemployment compensation (particularly FSC) to recipients, we contrast four income measures: (1) annual pre-unemployment income; (2) benefit-year income excluding unemployment compensation (which is the sum of the recipient's earnings during the year after the commencement of UI and the annual income of other household members reported for the pre-unemployment year); (3) benefit-year income including the claimant's unemployment compensation but excluding FSC payments (which indicates the level of income that the recipients would have had in the absence of FSC, assuming no behavioral response to FSC); and (4) benefit-year income including all unemployment compensation that was actually received. The percentage of recipients whose income would have been below the poverty level is shown for the various measures. Measures (2) through (4) reflect the household's income during the unemployment period if no earnings adjustments were made by other household members. Before proceeding with this analysis, it should be noted that the household income used in this section is self-reported income. This measure may not accurately measure actual income levels, due to substantial nonresponse (over 50 percent). As a consequence, the results reported in this section should be viewed with caution.

Before FSC recipients became unemployed, their incomes were approximately the same as those of UI or EB recipients, as shown in Table III.10. The average pre-unemployment household income was approximately $19,500, and 12.3 percent of the FSC individuals had household incomes

TABLE III.10

HOUSEHOLD INCOME INCLUDING AND EXCLUDING UNEMPLOYMENT COMPENSATION

	FSC Recipients	UI-Only Recipients	EB Recipients
Pre-Unemployment Household Income[a]			
Mean	$19,500	$21,000	$19,000
As a Percentage of the Poverty Standard			
0.0-0.5	4.2%	3.4%	4.3%
0.5-1.0	8.1	7.3	9.6
1.0-1.5	11.5	9.8	12.8
1.5-2.0	12.4	12.0	12.8
Over 2.0	63.8	67.5	52.0
Household Income During the Benefit Year Excluding UC			
Mean	$15,000	$21,000	$16,000
As a Percentage of the Poverty Standard			
0.0-0.5	14.3%	5.4%	11.6%
0.5-1.0	18.9	9.5	15.7
1.0-1.5	16.4	11.0	19.2
1.5-2.0	14.8	15.1	19.5
Over 2.0	35.6	59.0	34.0
Household Income During the Benefit Year Including Non-FSC UC			
Mean	$19,000	$22,500	$20,000
As a Percentage of the Poverty Standard			
0.0-0.5	4.8%	3.3%	3.2%
0.5-1.0	13.1	8.5	11.3
1.0-1.5	15.6	11.0	10.2
1.5-2.0	15.6	12.4	20.1
Over 2.0	50.9	61.8	55.2

TABLE III.10 (continued)

	FSC Recipients	UI-Only Recipients	EB Recipients
Household Income During The Benefit Year Including All UC			
Mean	$20,000	$22,500	$20,000
As a Percentage of the Poverty Standard			
0.0-0.5	3.3%	3.3%	3.2%
0.5-1.0	10.3	8.5	11.3
1.0-1.5	15.1	11.0	10.2
1.5-2.0	14.5	12.4	20.1
Over 2.0	56.8	61.8	55.2
Sample Size	1,839	1,151	344

NOTE: Mean household income has been rounded to the nearest $500.

[a] Recipients' earnings in the pre-UI period were self-reported, while quarterly wage records were used to estimate recipients' earnings during the benefit year. This difference in measurement methods may affect comparisons of the pre-UI income measure with the other measures of household income.

under the poverty level.[1] Had the FSC recipients not received unemployment compensation (and had the incomes of other household members remained the same as they had been in the pre-unemployment year), the average FSC household income would have dropped to $15,000, with 33.2 percent of the households falling into poverty. Had the FSC program not existed, regular UI and EB benefits would have raised their household incomes to an average of $19,000, and reduced the percentage of recipients living in poverty from 33.2 to 17.9 percent. The additional availability of FSC benefits further increased the annual household income and reduced the percentage of individuals in poverty to 13.6 percent.[2] Thus, FSC benefits represented an important income source for recipients.

D. PHASES OF FSC

As originally enacted, the FSC program was planned to last for six months. However, as we described in Chapter I, the program was extended and its rules were altered several times, creating four distinct FSC phases: FSC-I, which began on September 12, 1982, and continued through January 8, 1983; FSC-II, which began on January 9, 1983, and continued through March 31, 1983; FSC-III, which began on April 1, 1983, and

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[1] While we found that FSC claimants earned more than UI recipients, their total household incomes were slightly less than those of UI recipients, because the income of the other household members was smaller.

[2] Comparisons with the pre-UI situation suggest that income in the benefit year may have equalled pre-UI levels, but differences in the measurement of recipient's earnings mean that pre-UI income is probably understated relative to the income in the benefit year.

continued through October 18, 1983;[1] and FSC-IV, which began on October 19, 1983, and continued through March 31, 1985, with continued claims paid beyond that point.

Each phase exhibited particular features which could affect the type of recipient who collected benefits and the nature of their FSC experience. The major difference between the first two phases of the program was that the second phase allowed recipients to collect FSC for a longer period of time. During both periods, FSC entitlements, which changed with the state insured-unemployment rate, were fairly stable. Among the states in our sample, only New York, Georgia, and Wisconsin experienced a change in their maximum FSC duration during the first two phases. Conversely, the next FSC phase (FSC-III) was marked by frequent changes in maximum durations. In the final program phase (FSC-IV), the frequency with which state maximum durations could change was limited. FSC-IV also provided individual recipients with entitlements that were set at the time of FSC-IV enrollment and could not change with the insured-unemployment rate, as they could in previous FSC phases.

With each extension, certain individuals who had received FSC benefits in a previous phase could return to collect additional benefits. Individuals who had received FSC-I were allowed to collect additional FSC-II benefit weeks. Recipients who had collected FSC in either previous FSC phase were eligible for additional FSC payments in FSC-III. However, in FSC-IV, the "reach-back" provision (as this eligibility rule was called)

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[1] FSC-III was legislated to expire on September 30, 1984. However, there was an 18-day extension while Congress decided on the details of the FSC-IV extension.

was limited; only FSC-III recipients were provided with additional benefits.

In this section, we first examine the FSC individual qualifying requirements and how they affected the recipients. We then examine the flow of FSC recipients into and through the program phases over time. Finally, we consider how the population and its experience evolved throughout the four program phases, by examining changes in their demographic characteristics, their unemployment compensation experience, and their post-unemployment and earnings.

1. Qualifying Requirements

To qualify for FSC benefits, an individual must have exhausted all other forms of unemployment compensation. Thus, UI and EB exhaustees constituted the basic target population for FSC. However, as described in the previous chapter, the eligibility rules of FSC made a small percentage of this target population ineligible for the program. Like EB, the recipients must have had 20 weeks of work in the base period or its equivalent. Table III.11 presents the percentage of UI exhaustees who did not qualify for FSC in the CWBH states in our sample. We also compared these results with the aggregate results reported in Chapter II on FSC monetary determinations with insufficient wage credits. Several observations can be made. First, as shown in Chapter II, the impact of the qualifying-wage requirement varied by state; for instance, it was large in such states as Wisconsin whose minimum qualifying requirements were substantially less stringent than the FSC rule. Second, the supposedly "equivalent" alternative qualifying-wage rules would have had different results if applied. For example, data for Iowa show that about 9.2 percent

TABLE III.11

THE PERCENTAGE OF REGULAR UI EXHAUSTEES WHO WERE INELIGIBLE FOR FSC BY FSC QUALIFYING-WAGE CRITERIA, BY STATE

State	State Law	Alternative Qualifying Wage Rules			Applicable State Law	FSC Monetary Determinations with Insufficient Wage Credits
		Weekly-Benefit Amount Criterion	High Quarter Earnings Criterion	Weeks-Worked Criterion		
Georgia	1.5 hqw	4.9	0.0	n.a.	0.0	0.0
Idaho	1.25 hqw	15.8	10.3	n.a.	10.3	0.6
Iowa	1.25 hqw	13.1	2.8	0.0	2.8	11.6
Louisiana	30 wba	8.7	7.2	0.0	8.7	0.0
Missouri	30 wba	15.4	11.2	n.a.	15.4	12.5
Nevada	1.5 hqw	3.9	0.0	0.0	0.0	0.0
New Mexico	1.25 hqw	8.4	7.4	n.a.	7.4	8.6
New York	20 wks wk	4.4	n.a.	3.1	3.1	n.a.
North Carolina	1.5 hqw	7.6	3.7	0.0	3.7	n.a.
Pennsylvania	37-40 wba	1.6	0.9	6.9	1.6	0.7
South Carolina	1.5 hqw	3.8	1.0	0.0	1.0	0.0
Washington	680 hours	0.4	4.8	0.0	0.0	n.a.
Wisconsin	15 wks wk	13.3	n.a.	12.4	12.4	21.1
Total		6.2	3.9	3.7	--	--
Sample Size		5,420	3,714	4,395		

[a] State qualifying-wage laws are from Significant Provisions of State Unemployment Insurance Laws, July 4, 1982, ETA, UIS, 1982. The major provisions, excluding distributional requirements, are presented. The abbreviations are as follows: hqw (high quarter wage), wba (weekly benefit amount), and wks wk (weeks worked). During the FSC period, Missouri changed to 1.5 hqw in January 1985 and Wisconsin to 18 wks wk in January 1984.

n.a. means not applicable.

of regular UI exhaustees would have been ineligible for FSC under the weekly benefit amount criterion, compared with 2.1 percent under the high-quarter-wage criterion and 0.0 percent under the weeks-worked criterion. Third, in most of the states in the sample, the aggregate data on insufficient wage credits are quite similar to the micro-data results based on the applicable state law. However, for several states (Idaho, Iowa, and Louisiana), the two measures differ substantially. This difference may be due to the fact that not all exhaustees applied for FSC or to the fact that the qualifying-wage-rule calculation for the micro-level data does not take into account all aspects of state qualifying-wage requirements (e.g., the requirements that earnings be distributed across more than one quarter). However, these reasons do not appear to be sufficient to explain the magnitude of the observed differences. Nevertheless, in our judgment, these few cases do not bring into question the overall results of this analysis--namely, that the minimum qualifying-wage requirements instituted as part of the FSC program led to a modest overall reduction in the caseload which was concentrated, as expected, in states with regular UI minimum qualifying requirements that were substantially more lenient than those used for FSC.

2. The Flow of Recipients into and through the FSC Program

Data in Table III.12 report the percentages of UI recipients who exhausted regular UI and the percentages of this group who proceeded to collect extended benefits. Several observations can be made. First, as reported in previous work (Corson and Nicholson, 1985), not all regular UI exhaustees collect EB if it is available, and the percentage who do collect it appears to be lower than one would expect purely on the basis of either

TABLE III.12

THE PERCENTAGE OF EXHAUSTEES WHO
COLLECTED EB OR FSC

Percentage of:	FSC-I[a]	FSC-II	FSC-III	FSC-IV
UI Recipients Who Exhausted UI	31.2	35.9	35.9	30.4
UI Exhaustees in EB States Who Received EB	90.8	82.7	79.9	n.a.
UI Exhaustees in Non-EB States Who Received FSC	75.7	71.2	77.8	81.4
EB Exhaustees Who Received FSC	94.2	91.5	93.1	n.a.

[a] This group was restricted to individuals who exhausted regular UI or EB if appropriate during the FSC-I period. That is, it does not include the individuals who exhausted benefits prior to this time and who were eligible for FSC.

n.a. means not available due to small sample size.

their re-employment or the qualifying-wage restrictions. During this period, the EB take-up rate among UI exhaustees appeared to drop over the FSC period, from 91 to 80 percent. Second, the take-up rate for FSC in non-EB states was significantly lower (71 to 81 percent) than the rate for EB during the first two FSC phases. Although not conclusive, this finding suggests that a temporary program such as FSC will have a lower take-up rate than would a permanent program such as EB. However, once such a program becomes established, the take-up rate may rise, as evidenced by the fact that the longest FSC phase (FSC-IV) had higher take-up rates than was the case in the earlier, shorter phases. Third, individuals for whom EB was available and who exhausted EB had very high subsequent take-up rates for FSC (between 90 and 95 percent). Thus, the drop in participation observed between regular UI exhaustion and the collection of EB or FSC was not apparent between EB and FSC. This finding is due partially to the fact that the qualifying-wage restrictions were the same for EB and FSC during this period, but it may also represent a behavioral response.

Data on the flow of individuals among the various FSC phases show that initial payments were heaviest in the beginning, as the backlog of UI and EB exhaustees were enrolled. Table III.13 indicates that, during the three-and-a-half-month start-up phase, almost a third (29.0 percent) of those who received FSC, and whose benefit years were prior to 1984, entered the program.[1] During the three-month FSC-II phase, 11.0 percent of the sample recipients started receiving FSC; 30.3 percent were enrolled in the

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[1] Because of the truncation of the CWBH sample, FSC-IV recipients are not represented in the sample in their true proportion. As shown in Table II.3, 21 percent of first payments were in FSC-I, 12 percent in FSC-II, 27 percent in FSC-III, and 40 percent in FSC-IV.

TABLE III.13

THE PERCENTAGE OF INDIVIDUALS RECEIVING FSC BENEFITS
BY FSC PHASE AND FSC FIRST PAYMENT

Recipients Whose First FSC Payment Was During:	Percentage Receiving: FSC-I	FSC-II	FSC-III	FSC-IV[a]	Sample Size
FSC-I	**100.0**	**62.7%**	**42.5%**	**2.0%**	**2,566**
Received EB	100.0	65.8	42.0	2.7	1,334
Did Not Receive EB	100.0	59.3	43.0	1.3	1,232
FSC-II	**n.a.**	**100.0**	**72.4**	**2.5**	**975**
Received EB	n.a.	100.0	75.2	2.9	524
Did Not Receive EB	n.a.	100.0	69.2	2.0	451
FSC-III	**n.a.**	**n.a.**	**100.0**	**50.6**	**2,687**
Received EB	n.a.	n.a.	100.0	51.8	1,102
Did Not Receive EB	n.a.	n.a.	100.0	49.7	1,585
FSC-IV	**n.a.**	**n.a.**	**n.a.**	**100.0**	**2,629**
Received EB	n.a.	n.a.	n.a.	100.0	88
Did Not Receive EB	n.a.	n.a.	n.a.	100.0	2,541

NOTE: The total sample received 29.0 percent in FSC-I, 11.0 percent in FSC-II, 30.3 percent in FSC-III, and 29.7 percent in FSC-IV.

[a] Our data set showed that small percentages of FSC-I and II recipients received FSC-IV, even though this was not supposed to be possible. We do not know whether this actually occurred or whether the data are incorrect.

following six and a half months (FSC-III); and the remaining 29.7 percent of the FSC sample began collecting FSC benefits during the first five and a half months of FSC-IV.

Individuals could have collected FSC benefits from one phase had they not exhausted their previous FSC entitlement or had they qualified for additional benefits under the reach-back provisions of FSC. The reach-back provision under each extension of the FSC program entitled certain individuals (those who had received FSC benefits in a previous phase of the program) to receive additional benefits. According to the program regulations, individuals who began their FSC receipt in FSC-I could have received benefits under both FSC-II and FSC-III. Similarly, individuals whose first FSC payment was in FSC-II were entitled to collect FSC-III benefits. In the final extension of FSC, Congress limited the reach-back provision by allowing only those individuals whose first FSC payment was during or after FSC-III to receive FSC-IV payments. Additional FSC-IV benefits were not provided to FSC-I and FSC-II recipients.

Table III.13 also shows the percentage of individuals who received benefits in each phase by first FSC payment. As shown in the table, a large percentage of the individuals who began collecting benefits in one phase of the program continued on to subsequent phases. By phase, these rates were 62.7 percent for FSC-I, 72.4 percent for FSC-II, and 50.6 percent for FSC-III. In addition, 42 percent of those who began in FSC-I collected not only FSC-II but also FSC-III benefits.

We have distinguished between individuals who received EB and those who did not, so as to investigate whether the behavior of EB recipients, who had been unemployed relatively longer when they began FSC, differed

from non-EB recipients who received FSC. However, as shown in the table, EB receipt did not greatly affect the rate of movement among FSC phases. The data in the table also show that the proportion of FSC recipients who received EB declined dramatically after FSC-II, because many fewer states qualified for EB after that point than had been the case previously. Over half of the recipients who started in FSC-I or FSC-II received EB; only 41 percent of those beginning in FSC-III received EB; and 3 percent of the recipients beginning in FSC-IV received EB. Thus, the FSC program had basically replaced the EB program as a vehicle for providing extended benefits by the final phase.

3. Changes in the Demographic Characteristics of Recipients over Phases

The types of individuals who collected FSC did not significantly change over time, as indicated in Table III.14. With respect to age, race, sex, education, and marital status, the recipients of FSC-I or II, FSC-III, and FSC-IV were very similar. The industrial composition of the recipients (which is not reported in the table) also did not change over time. The only statistically significant difference was that slightly fewer spouses of FSC-IV recipients worked than in the earlier phases (60 percent versus 63 percent).

4. Changes in Unemployment Compensation Experience

Comparisons among FSC phases in terms of UC program experience (Table III.15) show two differences. First, mean weekly benefit amounts were higher in later phases than in earlier phases. This difference is probably due to the increases in state maximum weekly benefit amounts and increases in earnings that occurred over time (data on base-period

TABLE III.14

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF FSC RECIPIENTS AND THEIR HOUSEHOLDS, BY FSC PHASE

	FSC-I/II Recipients	FSC-III Recipients	FSC-IV Recipients
Sex			
Male	63.3%	63.0%	63.2%
Female	36.7	37.0	36.8
Race			
White, not Hispanic	76.0%	78.9%	77.6%
Black, not Hispanic	17.4	14.8	15.6
Hispanic and others	6.6	6.4	6.8
Mean Age			
Male	35.4	35.7	36.7
Female	36.9	37.0	37.7
Mean Years of Education	11.7	11.8	11.7
Marital Status			
Married	55.3%	54.6%	54.7%
Never married	26.5	27.2	26.2
Divorced, separated, or other	18.2	18.2	18.7
Spouse Work Status When Applicable			
Yes	63.1%	62.7%	60.0%
No	37.9	37.3	40.0
Mean Pre-employment Annual Household Income	$18,500	$19,500	$20,000
Sample Size	3,541	4,523	4,080

NOTE: Individuals are included in an FSC phase if they collected any FSC compensation during that phase. Thus, individuals could be in the reported statistics for more than one phase.

TABLE III.15

SELECTED CHARACTERISTICS OF THE RE-EMPLOYMENT COMPENSATION EXPERIENCE BY FSC PHASE

	FSC-I/II	FSC-III	FSC-IV
Average Weekly Benefit Amount	$117	$125	$132
Wage Replacement Ratio	0.71	0.72	0.73
Potential Duration of Regular UI (weeks)	25.4	25.9	25.8
Average Number of Weeks of UC Collected	41.1	41.1	35.4
Average Amount of UC Collected			
Regular UI	$2,979	$3,233	$3,357
EB	648	551	182
FSC	1,432	1,556	1,244
Total	$5,059	$5,340	$4,783
Sample Size	3,541	4,523	4,080

earnings, not reported in the table, show this latter increase). This difference does not seem to be related to any change in the underlying pre-UI job characteristics of program recipients, nor to any change in their behavior. The fact that the wage-replacement ratio did not increase substantially also supports this view.

Second, recipients in the last phase collected significantly fewer weeks and dollars of compensation. FSC recipients who received benefits under the first three phases of the program collected an average of 41 weeks of unemployment compensation, whereas FSC-IV recipients received benefits for an average of 35 weeks. FSC-IV recipients collected significantly less EB (which is to be expected due to the EB program changes), but also less FSC. These differences probably reflect the improvement in the economy during FSC-IV.

5. Changes in Post-Unemployment Employment and Earnings

Data on the re-employment of FSC recipients are reported by phase in Table III.16. These data show that FSC-IV recipients appeared to become re-employed more quickly than did recipients during earlier FSC phases, as could be expected given the relative improvement in the economy during that period. For example, in the second quarter after the beginning of the benefit year, 34 percent of the FSC-IV recipients were re-employed (compared with 29 to 30 percent for the earlier phases), and this difference among phases was more pronounced three quarters after the benefit-year beginning date. However, by the fifth to sixth quarter, these differences by FSC phase disappeared, and re-employment rates were approximately equal.

TABLE III.16

PERCENT EMPLOYED BY QUARTER SINCE THE BENEFIT-YEAR BEGINNING QUARTER, BY FSC PHASE

Quarter After Benefit-Year Beginning	FSC-I/II Recipients		FSC-III Recipients		FSC-IV Recipients	
	Percent Employed	Sample Size	Percent Employed	Sample Size	Percent Employed	Sample Size
0	64.2%	2,060	66.0%	2,924	67.7%	2,735
1	30.2	2,116	28.9	2,932	31.1	2,640
2	29.8	2,118	29.4	2,932	33.8	2,300
3	34.3	2,120	34.9	2,912	41.0	1,885
4	38.3	2,119	40.2	2,761	41.6	1,383
5	43.4	2,114	44.1	2,228	45.1	749
6	48.9	2,012	47.8	1,623	50.0	342
7	49.4	1,711	44.8	1,056	45.8	142
8	48.2	1,190	42.7	579	52.2	46

NOTE: Because earnings in approximately 10 to 15 percent of the quarters appear to be incorrectly reported as zero, the numbers in the table should be viewed as minimums.

However, among those FSC recipients who were re-employed by the sixth quarter, the earnings of the FSC-IV recipients (see Table III.17) were lower relative to pre-UI earnings than for the other FSC phases. Whereas the earnings level among these earlier FSC recipients had returned to its pre-unemployment level, the average earnings level of FSC-IV recipients was only 80 percent of its previous level. One reason for this difference is indicated in Table III.18, which shows that, while the number of FSC-IV recipients with definite recall dates was slightly greater than the number in the earlier FSC phases, fewer recipients actually returned to their former employers or industry. Approximately 32 percent of the FSC-I or FSC-II recipients and 29 percent of the FSC-III recipients were re-employed by the same employer by the fourth quarter after the beginning of the benefit year, whereas a significantly lower percentage (24 percent) of the FSC-IV recipients were re-employed by the same employer.[1] Too, by the fourth quarter, somewhat fewer FSC-IV recipients were re-employed in their former industry than were earlier FSC recipients, as measured at either the 1- or 2-digit SIC level.

E. SPECIAL FSC RECIPIENT SUBGROUPS

FSC provided unemployment compensation to two unique groups of recipients. The first group consists of individuals whose compensation exceeded the amount that would have been provided under the regular EB program. These individuals are of interest because they represent the

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[1] The discussion of post-employment experience by FSC phases controls for the follow-up quarter because the amount of follow-up is substantially shorter for FSC-IV recipients than for the other FSC recipients.

TABLE III.17

AVERAGE QUARTERLY EARNINGS BY QUARTER FOR THOSE WHO WERE EMPLOYED IN THE SIXTH QUARTER AFTER THE BENEFIT-YEAR BEGINNING QUARTER

Quarters Relative to Benefit-Year Beginning	FSC-I/II Recipients		FSC-III Recipients		FSC-IV Recipients	
	Average Earnings	Sample Size	Average Earnings	Sample Size	Average Earnings	Sample Size
-2	$1,989	901	$2,167	761	$2,620	170
-1	2,213	921	2,512	772	2,490	168
0[a]	1,500	953	1,825	772	1,470	170
1	461	981	500	775	442	171
2	492	982	411	775	306	171
3	615	983	484	775	498	171
4	970	983	934	775	762	171
5	1,595	983	1,720	775	1,423	171
6	2,364	983	2,418	775	1,992	171
7	2,345	818	2,042	455	1,448	70
8	2,251	523	1,804	208	n.a.	n.a.

NOTE: Because earnings in approximately 10 to 15 percent of the quarters appear to be incorrectly reported as zero, the numbers in the table should be viewed as minimums.

n.a. means the number is not available due to very small sample size.

[a] Quarter 0 is the quarter in which the benefit year began.

TABLE III.18

RE-EMPLOYMENT EXPECTATIONS AND EXPERIENCE
OF FSC RECIPIENTS, BY FSC PHASE

Percentage of FSC Recipients:	FSCI/II Recipients		FSC-II Recipients		FSC-IV Recipients	
	Percent	Sample Size	Percent	Sample Size	Percent	Sample Size
Expecting Recall	43.5%	1,283	43.6%	2,092	45.2%	2,107
With a Definite Recall Date	7.3	1,283	7.2	2,092	8.9	2,107
Re-Employed by the Same Employer						
By quarter 4	32.0	2,002	29.5	2,718	24.1	1,357
By quarter 6	29.3	1,891	29.0	1,590	20.2	328
Re-Employed in the Same 2-Digit Industry						
By quarter 4	34.5	2,002	32.6	2,718	29.0	1,357
By quarter 6	32.6	1,891	32.7	1,590	26.8	328
Re-Employed in the Same 1-Digit Industry						
By quarter 4	39.3	1,991	37.3	2,166	34.0	1,337
By quarter 6	38.6	1,883	39.1	1,573	33.2	321

long-term unemployed, who would be assisted by extensions beyond regular EB. In this sense, they are similar to the population served by the FSB program of the mid-1970s. During the FSC period, individuals who received EB and FSC comprised the majority of this group, but FSC alone also provided some individuals with total benefits beyond what would have been provided by EB alone had it been in effect. While individuals could not receive more than 150 percent of their original entitlement (which is similar to the EB limitation) under the initial FSC-I regulations, the amendments that followed raised the limit to 165 percent in FSC-II, and to 155 percent in FSC-III and FSC-IV. The additional benefits provided in FSC-III and IV to recipients of earlier FSC phases increased these amounts still further. Thus, FSC could provide longer-term support than could EB alone.

The second group discussed in this section consists of individuals who returned to receive FSC benefits after having ceased receiving benefits in an earlier FSC phase. These individuals are termed the "reach-back" group. In this section, we describe how the experience of these two groups differed from the experience of the other FSC recipients.

1. Long-Term FSC Recipients

Among our FSC sample, a substantial portion (49.4 percent of the sample)[1] received what we have termed "long-term FSC benefits"--that is, total benefits that exceeded what would have been available had both

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[1] Since individuals who did not begin collecting FSC until the FSC-IV program was implemented are underrepresented in the sample, the true proportion collecting long-term benefits is probably lower, since few FSC-IV recipients would fall in this category.

regular UI and EB been provided to these individuals. Thus, FSC not only "replaced EB," but it also provided additional benefits to many individuals.

The characteristics of these long-term FSC recipients (reported in Tables III.19 through III.22) differed from those of other FSC recipients in several respects. Demographically, a significantly larger fraction of them were males (65 versus 61 percent) and whites (80 versus 75 percent), as shown in Table III.19. Of those recipients who were married, significantly more of the spouses worked. Their pre-unemployment household incomes were also larger, although the difference was not statistically significant. However, these differences do not seem to have been due to any behavioral response by these demographic groups. Instead, they reflect the fact that individuals who were laid off early in the recession had a greater chance of collecting long-term benefits, since EB was available to a greater extent during that period. Longer FSC benefits were also available at that time. These individuals (i.e., those who were laid off early in the recession and who collected long-term UC benefits) were highly concentrated in durable manufacturing, and, consequently, many were white males. This finding is confirmed by data on industry (not reported in the table) and by the fact that the long-term UC collectors were quite similar demographically to the EB-only recipients whose characteristics are reported in Table II.19.

By definition, the unemployment compensation experience of the long-term FSC recipients differed from the experience of both the short-term FSC recipients and the EB recipients. As shown in Table III.20, the long-term FSC recipients collected an average of 13.7 more weeks of

TABLE III.19

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF SPECIAL FSC RECIPIENT SUBGROUPS AND THEIR HOUSEHOLDS

	Short-Term FSC Recipients	Long-Term FSC Recipients	EB Recipients	FSC Reach-Back Group
Sex				
Male	61.3%	65.2%	66.0%	62.6%
Female	38.7	34.8	34.0	37.4
Race				
White, not Hispanic	74.8%	79.8%	84.4%	74.4%
Black, not Hispanic	17.1	16.2	12.4	18.0
Hispanic and others	8.1	4.0	3.2	7.6
Mean Age				
Male	36.7	36.0	35.5	36.3
Female	37.8	36.8	36.3	37.7
Mean Years of Education	11.6	11.9	11.7	11.7
Marital Status				
Married	54.6%	54.8%	57.1%	55.1%
Never married	27.3	26.2	25.3	27.0
Divorced, separated, or other	18.1	19.0	17.6	17.9
Spouse Work Status When Applicable				
Yes	59.9%	64.0%	51.9%	62.2%
No	40.1	36.0	40.9	37.8
Mean Pre-Unemployment Annual Household	$19,000	$20,000	$19,000	$18,500
Sample Size	3,213	2,520	517	1,198

TABLE III.20

CHARACTERISTICS OF THE UC EXPERIENCE FOR
SPECIAL FSC RECIPIENT SUBGROUPS

	Short-Term FSC Recipients	Long-Term FSC Recipients	EB Recipients	FSC Reach-Back Group
Average Weekly Benefit Amount	$119	$132	$124	$119
Wage Replacement Ratio	.71	.75	.80	.72
Potential Duration, Regular UI (weeks)	25.2	26.0	25.2	25.5
Total UC Weeks Collected	32.2	45.5	31.8	44.1
Total UC				
Regular UI	$2,897	$3,475	$3,100	$3,042
EB	37	779	752	617
FSC	752	1,756	n.a.	1,853
Total	$3,686	$6,010	$3,852	$5,512
Sample Size	4,478	4,379	1,814	2,002

TABLE III.21

PERCENT EMPLOYED BY QUARTER SINCE THE BEGINNING OF UC RECEIPT, FOR SPECIAL FSC SUBGROUPS

Quarter After Benefit-Year Beginning	Short-Term FSC Recipients		Long-Term FSC Recipients		EB Recipients		FSC Reach-Back Recipients	
	Percent Employed	Sample Size	Percent Employed	Sample Size	Percent Employed	Sample Size	Percent Employed	Sample Size
0	72.6%	2,198	63.9%	3,353	62.4%	1,429	57.6%	1,148
1	39.5	2,138	27.7	3,369	40.4	1,472	20.5	1,161
2	46.2	1,889	26.2	3,280	48.2	1,487	22.3	1,161
3	56.4	1,632	30.4	3,119	58.6	1,496	28.3	1,161
4	55.9	1,319	37.2	2,879	59.4	1,491	31.8	1,122
5	56.3	878	43.5	2,511	58.4	1,457	34.3	996
6	59.6	577	48.6	2,072	58.4	1,347	40.9	847
7	58.4	397	47.8	1,539	58.7	1,166	39.0	651
8	57.1	252	45.7	981	57.6	933	40.7	491

NOTE: Because earnings in approximately 10 to 15 percent of the quarters appear to be incorrectly reported as zero, the numbers in the table should be viewed as minimums.

TABLE III.22

RE-EMPLOYMENT EXPECTATIONS AND EXPERIENCE
OF SPECIAL FSC SUBGROUPS

Percentage of FSC Recipients	Short-Term FSC Recipients	Long-Term FSC Recipients	EB Recipients	FSC Reach-Back Group
Expecting Recall	49.0%	46.7%	53.3%	43.7%
With a Definite Recall Date	8.4	7.8	12.7	6.0
Re-Employed by the Same Employer	36.7	32.2	44.8	28.4
Re-Employed in the Same 2-Digit Industry	44.3	40.3	56.5	38.5
Re-Employed in the Same 1-Digit Industry	51.6	48.6	67.7	47.8
Sample Size	1,761	2,247	915	714

compensation than did EB recipients and 13.3 more weeks than did other FSC recipients. Not only did these recipients receive benefits for longer periods of time, but they also received larger weekly benefit amounts than did either of the other two groups, again reflecting their concentration in high-wage industries and in states with relatively high maximum weekly benefit amounts. Overall, the long-term recipients collected an average of 63 percent more unemployment compensation than did other FSC recipients--$6,010 versus $3,686. The amount collected by the shorter-term FSC recipients was approximately the same as the average amount collected by the EB recipients--$3,852. The long-term recipients collected more benefits for three reasons: (1) they received larger UI entitlements; (2) they collected as much EB as did EB recipients; and (3) they received more FSC than did other FSC recipients.

As would be expected, the rate of employment for the long-term recipients was depressed for a longer period of time than was the rate for either the shorter-term FSC recipients or the EB recipients. Table III.21 shows that by the sixth quarter after benefits commenced only 48.6 percent of the long-term recipients were employed, compared with 59.6 percent of the shorter-term recipients. However, data not reported in the table show that of those who were employed in the sixth quarter the earnings of both groups were approximately equal to their pre-unemployment level. Overall, as shown in Table II.22, somewhat fewer of the long-term FSC recipients returned to their former employers, industries, or sectors.

2. FSC Reach-Back Recipients

A second group of recipients (23 percent of the FSC sample)[1] who were unique to the FSC program were those who stopped collecting FSC in one program phase, but were allowed to collect additional benefits in later phases.[2] These individuals could have remained unemployed without compensation, or only with temporary jobs, for a long period of time before returning for their additional FSC benefits. As shown in Table III.23, those individuals who began receiving FSC in the first phase and who continued on to FSC-II experienced an average benefit gap of 47 days. The average gap between the last FSC-II and first FSC-III payments for reach-back individuals was 67 days. For those who began receiving FSC during FSC-III and who at some point collected FSC-IV benefits, the average gap was 92 days.

As indicated in Table III.19, reach-back FSC recipients were demographically similar to FSC recipients in general. They had approximately the same age, race, sex, and marital status distributions, and the average level of education and household income were approximately the same. As compared with the long-term FSC recipients, reach-back recipients were distributed among the states in our sample in a manner

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[1] As indicated for the long-term recipients, the true proportion of FSC recipients who fall in the reach-back category is somewhat less than 23 percent because the truncation of the sample leads to an underrepresentation of FSC-IV recipients.

[2] The reach-back group was defined as FSC recipients whose last FSC payment during a given FSC phase was prior to the last week of that phase, and who collected FSC in the next phase. This group includes both those who had exhausted their earlier FSC entitlements and those who had not exhausted their FSC entitlements but stopped collecting benefits for a period of time. The two groups were not differentiated because of the cost and the likelihood of misclassification.

TABLE III.23

LENGTH OF TIME BETWEEN FSC PAYMENTS
IN DIFFERENT FSC PHASES FOR REACH-BACK RECIPIENTS

	Between FSC-I and FSC-II	Between FSC-II and FSC-III		Between FSC-III and FSC-IV
		For Those Whose First FSC Payment Was in FSC-I	For Those Whose First FSC Payment Was in FSC-II	
Less Than 15 Days	23.5%	0.2%	1.5%	0.0%
15 to 20 Days	11.4	0.6	9.1	5.1
21 to 28 Days	3.9	1.0	9.1	5.5
29 to 35 Days	4.3	1.9	20.1	4.8
36 to 42 Days	3.0	4.9	8.2	7.1
Over 42 Days	54.0	91.4	52.0	77.5
Average (Days)	46.9	66.7[a]	66.7[a]	91.9
Sample Size	381	631	329	661

[a] The reported average was calculated by combining those who started FSC-I with those who started in FSC-II.

similar to the FSC population in general, rather than concentrated in several states.[1]

The compensation experience of the reach-back group was similar to the experience of the previously discussed group of long-term FSC recipients. On average, reach-back recipients collected 44.1 weeks of compensation, compared with the 45.5 weeks of the other long-term FSC group and the 32.2 weeks of the short-term recipient group. In terms of the distribution of these weeks among programs, we find that, like the other long-term group, reach-back recipients collected a substantial amount of EB ($617) and a substantial amount of FSC--even more than the other long-term groups. These individuals had weekly benefits that were approximately equal to those of the short-term recipients (rather than to those of the long-term recipients) because they were not concentrated in the high weekly-benefit-amount states.

As shown in Table III.21, the levels of employment among reach-back recipients were even smaller than those among the other long-term groups. Only 40.7 percent of the reach-back recipients had become re-employed, compared with 45.7 percent for the other long-term groups.

Table III.22 shows that the percentage of recipients recalled to their former employer was smallest for the reach-back group, only 28.4 percent. Too, fewer were re-employed within the same 1- or 2-digit industry (although, in this respect, reach-back recipients were similar to the other long-term groups).

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[1] The only state with a significantly higher percentage of reach-back recipients than the general FSC population was New York. This was probably the case because New York had low FSC-I and FSC-II potential entitlements, which increased the probability of exhaustion.

CHAPTER IV

WORK DISINCENTIVE EFFECTS OF FSC

Work disincentives are a major concern in terms of designing extended benefits programs. "Work disincentives" occur when the availability of income support encourages some workers to remain unemployed longer than "necessary." Longer maximum periods of entitlement may cause recipients to search for new jobs less aggressively and to be less willing to accept job offers if they are forthcoming. Indeed, extensive empirical evidence indicates that longer maximum periods of entitlement are associated with longer periods of actual receipt.[1] However, the extent of these work disincentives may depend on the specific features of the extended benefits program.

In particular, two features of the FSC program are of interest, both because of their potential effects on work disincentives and because they differed from features of the permanent EB program. First, the maximum duration of FSC benefits varied with the insured-unemployment rate to a much greater degree than is the case under EB (every four weeks rather than every thirteen). More importantly in terms of its impact on work disincentives, the maximum duration for individuals was subject to change for most of the FSC program, rather than established at the time of the initial claim. As discussed further below, this uncertainty about the total number of weeks of entitlement could affect the extent to which the program created work disincentives. A second important aspect of FSC was

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[1] For a review of this evidence, see Moffitt 1985a and 1985b.

its temporary nature. Like the earlier FSB program and in contrast to EB, the FSC program was to be phased out as the economy recovered from the recession.

In this chapter, we present estimates of the work disincentive effects of FSB and compare them with estimates of the work disincentive effects that were developed previously for the EB and FSB programs. Section A discusses the specific hypotheses, data, and methodology for estimating the disincentive effects of FSC. Section B then presents the estimates for FSC and compares them with estimates for the other extended benefits programs. Section C concludes the chapter by presenting a brief summary of our findings.

A. HYPOTHESES, DATA, AND METHODOLOGY

Section 1 discusses how the specific features of FSC may have affected work disincentives; Section 2 then considers a variety of other factors that may affect the length of unemployment spells and that should thus be controlled for in the analysis. Section 3 describes the sample and the data, and Section 4, the analytical method.

1. Hypotheses about the Work Disincentives of FSC

Both the potential duration of weeks in which benefits can be received before entitlements are exhausted and the average weekly benefit amount are critical determinants of the work-search behavior of UC recipients. We distinguish between potential duration and the weekly benefit amount because the policy options under consideration involve changes in potential duration, not in the weekly benefit amount. We expect that longer potential duration periods or larger weekly benefits will

increase the length of time an individual is unemployed, because increases in these variables reduce the cost to the worker of remaining unemployed for an additional week.

Two features of FSC--the variable maximum duration and the temporary nature of the FSC program--could affect recipients' expectations about their total benefits and could thus affect work disincentives.

The Implications of Variable Entitlements. To the extent that recipients understand the program regulations, their expectations about the duration of FSC benefits would depend on their expectations about movements in the insured-unemployment rate. The insured-unemployment rate was at its highest point during the early part of the FSC program. Thus, if recipients correctly predicted a decline in the unemployment rate during their FSC receipt, they would have expected a decline in their potential FSC durations. Even if recipients formed no firm expectations about the likely changes in the insured-unemployment rate, the possibility that maximum durations would decline would probably cause some individuals to increase their search activity in order to become re-employed more quickly.

The Implications of the Temporary Nature of FSC. For two reasons, the temporary and changing nature of the FSC program may also have made recipients uncertain about the potential duration of their supplemental benefits. First, individuals who began collecting FSC benefits near one of the announced ending dates might have expected the program to end before they were to have received their full entitlements. Second, in light of Congress' intervening to lengthen the maximum durations of FSC in the middle of FSC-I, the maximum durations of FSC for the other phases of this

temporary program could have been shortened at any time by a legislative initiative. The possibility of such occurrences could have influenced recipients' expectations about their total entitlement, and the uncertainty probably caused some recipients to accelerate their job search. Thus, these two key features probably generated somewhat smaller work disincentive effects of FSC than the work disincentives of previous extended benefits programs.[1]

2. Other Factors Affecting the Duration of Unemployment

Other factors beyond those of direct interest may also affect the duration of unemployment. Since we will be comparing the durations of unemployment under various programs in order to assess the relative disincentive effects of FSC and other extended benefits programs, it is important to identify these factors and to attempt to control for them in the analysis. Below, we discuss the influence of economic and demographic factors.

The unemployment rate and an individual's desired wage play important roles in determining the length of unemployment spells. The theory of job search predicts that the speed with which individuals become re-employed will depend on the number of job offers received and the level

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[1] Although we expect that the sensitivity of FSC durations to the insured-unemployment rate and the temporary nature of the program would have led most recipients to expect shorter-than-nominal FSC durations, these same program features could also have led recipients to expect longer-than-nominal durations. If recipients strongly anticipated an increase in the unemployment rate or if they expected legislative action to be taken to increase durations, then expected FSC entitlements would be greater than the stated durations. Thus, although our hypothesis is that the work disincentive of FSC is likely to be smaller than that of EB, the opposite could occur.

of the minimum acceptable wage offered (the reservation wage). When the labor market is weak and the unemployment rate is high, recipients tend to receive fewer job offers, and are thus more likely to remain unemployed longer. Similarly, workers who had higher pre-unemployment wages tend to have higher reservation wages, and are thus more likely to remain unemployed longer. Therefore, we expect that both higher previous wages and higher unemployment rates would increase the length of unemployment spells.

Previous studies have also found that worker characteristics are associated with the length of unemployment spells. It appears that women, older workers, and nonwhites are more likely to have longer unemployment spells than are men, prime-aged workers, and whites. The causality between these demographic factors and the probability of becoming re-employed is not clear but may be related to such factors as differential preferences for leisure or differences in the rate at which individuals receive job offers at any given level of unemployment.

The above discussion indicates that the potential duration of unemployment compensation, which was the major factor altered by the FSC program, is just one of several factors that could lead to observed differences in the durations of unemployment spells. Thus, in order to accurately estimate the effect of potential FSC duration on unemployment-spell duration, it is important to control for changes in these other intervening factors.

3. Sample and Data for an Analysis of the FSC Work Disincentives

The basic data set used to estimate the effects of FSC on work disincentives is the same as was used in Chapter III. However, a few

additional restrictions were imposed. The sample was restricted to individuals who had collected at least one FSC benefit; who were residents of Missouri, New York, or Pennsylvania; and who collected their supplemental benefits in a fairly continuous fashion. The reason for each restriction is discussed below.

Individuals who collected only regular UI were excluded from the analysis sample because the primary objective was to determine how the effects of the FSC program on job-search behavior differed from the effects of other possible extended benefits programs. In addition, however, our initial analyses indicated that the results for individuals who could potentially receive both EB and FSC differed substantially from those who could receive only FSC. A statistical test of whether the two groups could be pooled in the analysis was rejected (at the 99 percent level of confidence), and the relationship between potential duration and the weekly exit rate from UI was opposite the expected relationship for the sample that could receive both EB and FSC. This may have occurred because most of this sample was concentrated in a single state (Pennsylvania). Because we were unable to explain this result adequately, we restricted the sample used for the results reported here to individuals who did not have EB available (i.e., FSC only recipients). In retrospect, this focus may be appropriate because extended benefits provided through a two program combination with two initial claims processes might affect individuals differently than extended benefits provided under a single program, with the same potential duration.

The sample was restricted to recipients in Missouri, New York, and Pennsylvania because of computational difficulties associated with a critical variable in the analysis--the maximum potential duration of the

FSC benefits of each sample member. Since the CWBH does not contain information on potential FSC durations, potential duration had to be constructed based on both information on each individual's regular UI entitlement and on detailed information on the maximum FSC duration which prevailed in each state in each week of our analysis period (January 1981 through March 1984). Accurately capturing the variation in potential FSC duration over time for each recipient entailed complicated programming specifications. Because of the complexity of the construction, we reduced the number of states included in the sample in order to minimize the likelihood of error and to lower the cost of this analysis.

New York and Pennsylvania were chosen initially because well over half of the extended benefits recipients in the CWBH sample lived in these states. These states also represented two different but common situations. In New York, EB was not available, and the maximum FSC durations were small. Conversely, EB was available in Pennsylvania during much of the FSC period, and the FSC maximum durations were large, although our final analysis sample, as described above, included only individuals who collected FSC when EB was not available. Missouri represented an intermediate situation, because it had an EB period which triggered off several months prior to the beginning of the FSC program. Consequently, FSC durations in Missouri tended to be longer than those in New York, but shorter than those in Pennsylvania. Based on these restrictions, the final analysis sample consisted of 70 percent observations from New York, and the remaining 30 percent distributed evenly between Missouri and Pennsylvania.

The final sample restriction required sample members to have collected their extended benefits in an approximately continuous fashion.

The statistical model used for the analysis applied to the duration of unemployment spells, whereas the CWBH provided data on the number of weeks of unemployment compensation. To improve the correspondence between the number of weeks compensated and the number of weeks unemployed, we included in the analysis sample only individuals whose receipt was approximately continuous. If more than four weeks intervened between the date of UI exhaustion and the beginning of FSC receipt, or if more than four uncompensated weeks occurred between the receipt of an individual's first and last supplemental benefit, the individual was omitted from the analysis sample.

4. Analytic Approach

The effect of unemployment compensation on the duration of unemployment spell can be analyzed by using two alternative (but closely related) unemployment outcomes--the number of weeks unemployed or the probability of leaving unemployment in a given week. For reasons discussed below, we have based the analysis of FSC work disincentives on the probability of leaving unemployment. We also provide a brief description of the techniques used to analyze these rates of exit from unemployment.

The Choice of Unemployment-Outcome Measure. Two aspects of the problem led us to analyze unemployment exit probabilities, rather than the average number of weeks unemployed. First, a direct analysis of the number of weeks unemployed cannot easily incorporate one of the key features of the FSC program--variations in potential duration over time. Most previous studies of work disincentives have been based on models that associate the duration of unemployment spells with conditions that prevailed at the beginning of an individual's spell. If the potential duration of benefits

and the unemployment rate remained fairly constant over the unemployment spells of individuals, the initial conditions might adequately reflect the conditions faced by the recipients throughout their spells. However, under the FSC program, neither potential durations nor unemployment rates were stable. Since our analysis of exit probabilities lends itself more easily to the inclusion of time-varying factors, this was an important factor in our choice.

The second factor which led us to analyze exit probabilities rather than the number of weeks unemployed pertains to the nature of the data. The CWBH data set contains information only on the number of weeks of unemployment compensation collected, not on the total number of weeks unemployed. If an unemployment spell exceeded an individual's maximum potential benefit duration, the available data truncated our measure of the number of weeks unemployed (the number of benefit weeks received) at the maximum number of benefit weeks.[1] Ordinary least squares analysis of such a truncated variable would introduce bias into the estimates and could

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[1] Observations were further truncated if either the spell was not completed by the end of the analysis period (March 31, 1984) or at some point during a spell we could no longer determine the individual's potential FSC duration. Changes in the FSC program that went into effect on April 1, 1983, and on October 19, 1983, made calculating the potential duration at these dates extremely complex for two groups of individuals: individuals who began receiving FSC prior to April 1, 1983, but whose last FSC payment was made after that date; and individuals who began receiving FSC prior to October 19, 1983, but whose last FSC payment was made after that date. When maximum potential FSC durations were changed at these times, a complicated set of rules governed the potential durations of individuals who had previously received FSC benefits. These special FSC entitlement calculations were sufficiently complex that most states had considerable trouble in implementing them. Therefore, not only would the calculations of these individuals' post-change potential durations be extremely difficult and error-prone, but, unless we made the same errors as did the states, our calculated entitlements might not be the same as what the states told the recipients.

produce misleading inferences about the effect of the FSC program on unemployment duration. A model of exit probabilities is able to address this problem (see the appendix for a technical discussion of this point).

Accordingly the estimates of the FSC work disincentive effects presented in the following section are based on models of the probability of leaving compensated unemployment (the exit rate) during each week of the spell, given that a person had already been unemployed and receiving benefits for a specific number of weeks. Separate probability models were estimated by the number of weeks previously unemployed. Each model included as independent variables the maximum duration of extended benefits, the weekly benefit amount, the pre-unemployment weekly wage, the monthly unemployment rate in the state, and such recipient characteristics as age, ethnic group, and sex.[1] The independent variables in the equation were measured as of the week being analyzed. For example, the potential duration of benefits for each individual in the equation that explained the probability of leaving unemployment in the seventh week was potential duration that prevailed in that individual's seventh week. The data were truncated by including as valid observations for individuals who exhausted FSC all weeks except the individual's last week. (The last week of benefit receipt by individuals who did not exhaust benefits was not a truncated observation, and it was included.)

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[1] The total unemployment rate was used rather than the insured unemployment rate, because it was felt that this rate more effectively described the labor-market conditions faced by insured recipients. This rate also reduced the colinearity between the unemployment rate and potential duration.

The exit probability models were estimated by using two different specifications--a log linear model and a logistic model. Finally, while the model was estimated by using exit probabilities, the results in Section B are presented in terms of average durations.[1]

B. EVIDENCE ON THE WORK DISINCENTIVE EFFECTS OF FSC RELATIVE TO OTHER EXTENDED BENEFITS PROGRAMS

In this section, we discuss evidence on the work disincentive effects of FSC. Section 1 examines the differences between the work disincentives of the FSC program and those of two other extended benefits programs, EB and FSB. Section 2 considers evidence on the effects of one key feature of FSC--the variable entitlement feature.

1. Overall Differences

In order to obtain the same information on the differences between the work disincentives of FSC and those of previous programs, we developed estimates of the work disincentives for a sample of FSC recipients (using the methods and sample described above) and compared them with existing estimates that were developed previously based on samples of individuals who received extended benefits under other programs. However, the comparisons must be made and interpreted with caution, because data sources, sample selection criteria, and methodological approaches differed in important ways among the studies. Furthermore, the limited capacity of any existing data set or econometric methodology to control satisfactorily for the many factors which could affect unemployment duration means that

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[1] A more detailed discussion of these technical issues is presented in Appendix A.

extreme caution must be exercised in attributing cross-period differences in measured work disincentives to differences in the extended benefits program that existed during those periods.

Table IV.1 compares estimates of the work disincentives under the three programs. A one-week increase in the potential duration of FSC was estimated to increase the average duration of benefit receipt by 0.91 weeks (or by nearly a full week). In contrast, a one-week extension of potential duration under EB was estimated to increase average duration by 0.11 to 0.19 weeks (or by just less than a day). Finally, a similar change under FSB was estimated to increase average duration by 0.54 to 0.70 weeks (or by 3 to 4 days). Thus, the estimates of work disincentive effects for FSC are higher than both those for FSB and EB, although they are much closer to the FSB results than the EB results.

It is important to note the potential effects of differences between the EB sample and the FSC and FSB samples used in these analyses on these estimates. The EB estimates are based on a sample which included all UI recipients (including UI recipients who did not receive EB), while both the FSC and the FSB samples were limited to individuals who exhausted regular UI and subsequently received extended benefits. As shown in Table IV.1, average weeks of unemployment was much higher in the FSB sample (61 weeks) than in the other two samples; the average duration in the EB sample was very short (13 weeks); and the average duration in the FSC sample (36 weeks) fell between these extremes. It may be the case that the behavior of the long-term unemployed is much more responsive to changes in potential duration than is the behavior of individuals who re-enter employment more

TABLE IV.1

COMPARISON OF ESTIMATES OF THE WORK DISINCENTIVE EFFECTS UNDER THREE EXTENDED BENEFITS PROGRAMS[a]

	FSC	EB	FSB
Estimated Increase in Average Weeks of Unemployment Induced by a One-Week Increase in Potential Duration	0.91[b]	0.11-0.19[c]	0.54-0.70[c]
Observed Average Weeks of the Unemployment of Sample Members[d]	36	13	61

[a] FSC estimates are based on a sample of individuals in three states who received FSC, but not EB; EB estimates are based on a sample of all UI recipients during a period when EB was in effect (Moffitt, 1985a); and the FSB estimates are based on a sample of EB only and EB plus FSB recipients (Moffitt, 1985a).

[b] The work disincentive estimate for FSC was derived by using a hazard-rate model, where the dependent variable is the probability of leaving unemployment in a given period, rather than the number of weeks unemployed. To derive the work disincentive estimate in terms of the number of weeks unemployed, we had to assume that individuals leave unemployment at a constant exponential rate, r, the average rate of leaving in our sample. The addition of one week of FSC would slow the rate of leaving to r + b, where b is the negative coefficient on the potential FSC duration variable. An estimate of the change in the number of weeks unemployed is, then, $1/(r + b) - 1/r$.

[c] The work disincentive estimates for both the EB and the FSB program were the coefficients on the variable "total potential duration of unemployment compensation at the beginning of the spell" in OLS regressions of the number of weeks unemployed as reported in Moffitt (1985a). A substantially lower FSB estimate (about 0.10) was obtained in Moffitt and Nicholson (1982) using a more complex model and estimation technique. The original FSB study (Brewster et al., 1978) also reported lower estimates that were in the 0.3 to 0.5 range.

[d] The mean durations for all three programs are sample means of the number of observed weeks unemployed.

quickly.[1] If this is true, then the presence of many short-term UI recipients in the EB sample may be responsible in part for the much smaller estimated disincentive effects under the EB program.[2]

In light of these factors, we place somewhat greater weight on the FSC versus FSB comparison, although differences in the methodological approaches used to estimate the disincentive effects cloud the comparison.[3]

From the comparison of FSC with FSB, it appears that the disincentive effects of the two programs were similar, although the point estimate for FSC was somewhat higher than for FSB. Despite their limitations, these comparisons certainly suggest that work disincentives under FSC were not lower than under previous extended benefits programs, as we hypothesized might be the case.

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[1] The findings in Chapter III indicated that the "exit rate" from UC is considerably higher between regular UI exhaustion and extended benefits than between one week of UC and the next under a single program. Moreover, the decline in participation in the transition from UI to FSC was higher than the decline from UI to EB. These findings suggest that the individuals who do go on to collect extended benefits may indeed be more responsive to changes in duration than those who do not.

[2] As shown by Moffitt (1985a), if the estimates of the disincentive effects for samples of UC recipients that are defined by the number of weeks collected are compared, the estimates increase the more the samples are restricted to long-term unemployed individuals.

[3] As described in Appendix A, the FSC estimates are based on a model of the probability of leaving unemployment in any month (a hazard-rate model). The FSB estimates are based on a model that explains variations in the length of unemployment spells. Although the concepts of the probability of leaving unemployment and the average duration of spells are closely related, the models entail different assumptions. In practice, however, the two approaches can yield similar results. For example, Moffitt's (1985a) estimates of the disincentive effects during an EB period based on a model of the average duration of spells were similar to those he estimated with a hazard-rate model.

2. The Disincentive Effects of the Variable and Fixed Entitlement Period

Variation in FSC rules over the life of the program affords an opportunity to investigate the work disincentive effects of allowing the maximum number of weeks in which a given individual can collect extended benefits to vary. The maximum number of weeks of entitlement varied substantially during FSC-III but was basically fixed during FSC-IV. Thus, comparisons between these two periods may shed some light on the relative disincentive effects of variable and fixed entitlement periods.

Figure IV.1 shows, for two samples, the probability of still being unemployed at the specified number of weeks after beginning to receive FSC receipt. One sample consists of individuals who received supplemental benefits under FSC-III; the other consists of individuals who did so under FSC-IV. Most, but not all, members of both samples are from New York.[1] These data indicate little or no difference under FSC-III and FSC-IV in terms of the probability of leaving unemployment.

As part of the modeling work, we also estimated the impacts of potential duration on the exit probability separately for individuals who began receiving supplemental benefits under FSC-III and those who began receiving them under FSC-IV. The estimated change in the average exit rate induced by increasing the maximum benefit period by one week was 0.58 percent for individuals who began receiving extended benefits under FSC-III, compared with 0.51 percent for those who began receiving extended

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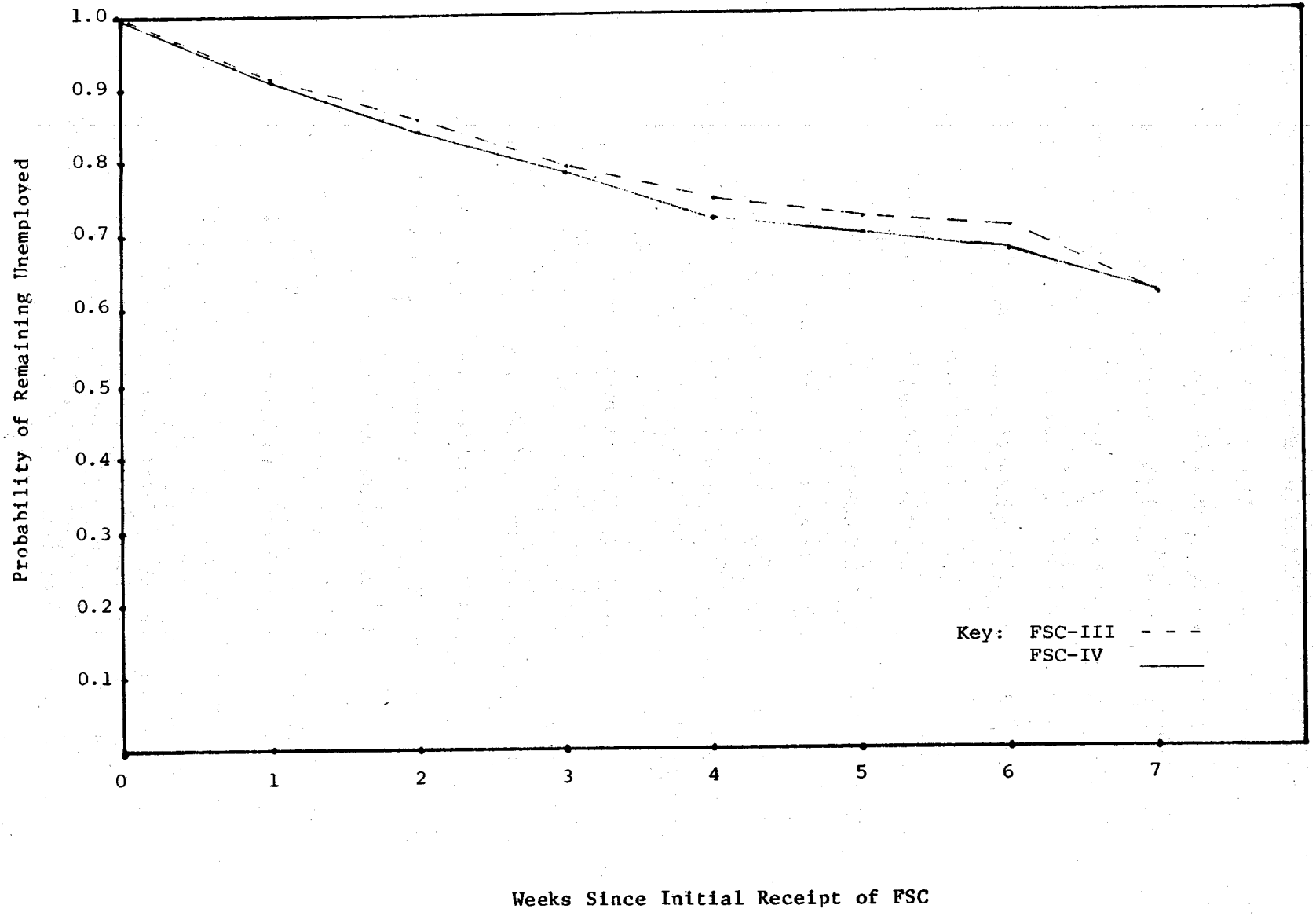
[1] Individuals were assigned to the FSC-III and FSC-IV groups based on when they received their initial FSC benefits. Individuals who started receiving benefits in FSC-III and also received benefits in FSC-IV were counted as observations in FSC-III, but they were not counted as observations in FSC-IV because their potential durations during the latter period could not be computed.

FIGURE IV.1

PROBABILITY OF REMAINING UNEMPLOYED, BY NUMBER OF WEEKS AFTER INITIAL RECEIPT OF FSC BENEFITS: FSC-III vs FSC-IV



benefits under FSC-IV. This difference of .07 percentage points is very small in both absolute and relative terms (the average exit rate was 5.36 percent) and is not statistically significant. These results, which control for other intervening variables (such as the unemployment rate), also suggest that allowing the individual's maximum entitlement to vary does not greatly affect work disincentives.

C. SUMMARY

Our analysis of the work disincentive effects of FSC suggested that two reasons explain why the work disincentive effects of FSC should be smaller than the work disincentive effects of other extended benefits programs, such as EB and FSB. First, the fact that the maximum potential duration for an individual could vary, rather than being fixed when extended benefits receipt began, introduced uncertainty that might have caused some individuals to accelerate their search for work. Second, the explicitly temporary nature of the FSC program and the repeated legislative changes might also have caused uncertainty among individuals about their maximum entitlement, thereby generating a similar effect. We developed empirical estimates of FSC disincentive effects by using data from the CWBH for samples of individuals from Missouri, New York, and Pennsylvania who received FSC (but no other extended benefits). These estimates were compared with estimates of the disincentive effects developed previously for EB and FSC. While the comparisons must be interpreted cautiously, it does seem clear that the expectations that FSC would have smaller disincentive effects than did other programs are not born out. The estimated FSC work disincentives are substantially larger than those for EB and, while somewhat larger, more similar to those for FSB.

CHAPTER V

ADMINISTRATIVE EXPERIENCE

The implementation and ongoing administration of the Federal Supplemental Compensation (FSC) program was characterized by a number of difficulties that arose from three main features of the program. First, as with other previous special UC extensions, the temporary nature of the program necessitated a short lead time (of about one month) between the passage of the legislation and the implementation of the program. The short lead time placed substantial pressure on administrators in their attempts to implement the program smoothly, which also proved to be the case during the latter program phases, all of which were extended at the eleventh hour.[1]

Second, FSC differed from past extensions in the way in which it attempted to target benefits toward areas and time periods that were hit the hardest by the recession. Specifically, the potential duration of FSC was made highly sensitive to changes in the insured-unemployment rate, and changes in potential duration affected not only new claimants but, for much of the program, continuing claimants as well. This situation added substantially to the administrative complexity of the program.

Finally, several specific rules made FSC more administratively complex than previous special programs, although not to the same degree as did the changes in potential duration. The most important of these areas were the following: the inclusion of previous exhaustees in the initial

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[1] The FSC-IV extension was actually enacted by Congress after FSC-III ended.

FSC phase, the reach-back provisions in force at each phase of the program, the special rules used to compute interstate claimant entitlements, the use of uniform minimum qualifying requirements, and the use of stringent work-test requirements.

In this chapter, we examine how these three general features of the FSC program--(1) the temporary nature of the program, (2) the sensitivity of entitlements to the insured-unemployment rate, and (3) the complex nature of specific FSC rules--affected program administration. The discussion is based primarily on information gathered from five states.[1] Unemployment insurance administrators at both central and local offices were interviewed in these five states during April and May of 1984, using an interview guide that examined the implementation and operation of each phase of the FSC program. The information collected in these interviews was also supplemented with information from discussions with federal officials who were involved in implementing FSC and from a report on FSC administrative performance prepared by the Unemployment Insurance Service.[2]

In our analysis, we have focused on the three main features of FSC, described above, that distinguished it from previous extended benefits programs, including the permanent EB program. This focus was chosen to highlight the lessons that could be learned from the FSC experience, relative to an analysis that would document the administrative problems of FSC per se. To draw conclusions about the FSC administrative experience,

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[1] The five states were Alabama, Arkansas, California, New Jersey, and Wisconsin.

[2] This report is entitled "Review of the State Implementation of Federal Supplemental Compensation Programs," Office of Program Management, Unemployment Insurance Service, January 26, 1983.

we have compared the first three phases of FSC with its final phase, since FSC-IV instituted several changes that were designed to alleviate the problems experienced earlier in the program.

A. IMPLICATIONS OF THE TEMPORARY NATURE OF THE PROGRAM

Because all temporary extended benefits programs are initiated in response to similar situations, they are likely to suffer from similar types of problems. They are typically implemented in response to a perceived emergency, and are under pressure to become operational quickly. The rapidity with which the programs are conceived, operationalized, and implemented usually means that appropriate administrative procedures either have not been completely thought out or have not been instituted because of time constraints. Below, we discuss several administrative problems that arose during the FSC program and that can likely be attributed to the temporary nature of the program. The problems are grouped into three categories: (1) problems due to the short lead time, (2) problems due to media coverage, and (3) problems due to other aspects of the temporary nature of the program.

1. Problems due to the Short Implementation Period

A problem common to almost all temporary programs is that they are implemented quickly and with relatively little lead time. This was especially true of the FSC program, since the time between the passage of the FSC-I legislation and its actual implementation was less than one month, and it took two weeks of this period before preliminary implementation instructions could be prepared and transmitted to the states by the federal government. During this time, much work had to be

undertaken before the new program could start processing claimants. Although the short lead time did not cause any major start-up delays in the states in our sample, its impact was felt in three other ways:[1] states often began preparations before they had a clear understanding of what the program rules would be, (2) many short-cuts were taken in setting up the program that would cause major problems later, and (3) staff had to be diverted from other tasks in order to meet the FSC deadlines.

The central office in each state had to undertake the following activities before the program could be implemented: developing forms that could be used by the local offices to process claimants, providing the local offices with detailed instructions on how to process claims, and developing the necessary computer programs which would determine the eligibility and entitlements of claimants. Several states in our sample attempted to "get a jump" on these tasks by undertaking them before they had received instructions from the federal government. Unfortunately, their doing so caused several "false starts," and resources were wasted. However, our respondents felt that they had no other option with such a short lead time.

Once the states received instructions, not enough time was available to consider carefully the possible contingencies that should be established. Consequently, several states established procedures which,

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[1] Tabulations of the mean number of days between the claim week ending date of first payments and the check date (based on our CWBH sample) show no statistically significant differences between the FSC program and the EB program during FSC. Furthermore, no differences were observed during the start-up period of each FSC phase, and, in fact, the mean lag time was shorter for FSC (9.4 days) than for EB (12.7 days) during the first month of FSC-I.

when applied later, were insufficiently flexible to deal with revisions in the program. The most common problems of this type pertained to data-processing procedures. For example, several of the states in the sample did not have a simple way to use their computer records to determine the number of weeks in which a claimant had collected benefits, other than going back to the weekly payment records and summing the number of payments manually. Later, the lack of a summary statistic greatly complicated entitlement redeterminations that depended on how many weeks the person had already collected benefits.

The relatively short start-up time also implied that a large amount of staff time (primarily central office staff time) had to be diverted abruptly from other tasks. In the states in our sample, this appeared to cause delays in other activities, primarily in the data-processing area. However, these delays were short-lived, and they are to be expected in any temporary program.

2. Problems due to Media Coverage

During serious recessions, legislative bills which propose additional unemployment compensation typically receive a great deal of media coverage; such was the case with the FSC legislation. Published articles about the early forms of the initial bill generated many questions from potential claimants. Local offices were generally unprepared to answer these questions, both because they had not received information about the program and because the questions placed further demands on their staff. Respondents from several of the states that were visited asserted that claimants became frustrated, and the credibility of the unemployment

insurance system was diminished. Media misinformation continued to be a problem every time the FSC program was changed.

3. Problems due to Other Aspects of Temporary Programs

Because FSC was a temporary program, several administrative aspects were not completely resolved at the federal level before the program was implemented. For example, the interaction of FSC with existing unemployment compensation programs did not seem to be particularly well thought out. In a well-designed program, the sequence of programs should make sense from both the individual and the administrative perspectives. While the interaction between the FSC and the regular unemployment insurance program created no undue problems, many problems were created by the legislative interaction between FSC and the regular Extended Benefits program. Claimants were eligible to receive FSC only after they exhausted all the benefits to which they were entitled under the existing UI/EB system. Therefore, if EB was "on" (in other words, if extended benefits were available in the claimant's state), individuals could collect FSC only after they had exhausted the EB entitlement. However, during the FSC period, states commonly had the EB trigger "off." EB recipients then had to be transferred en masse to the FSC program.

A more acute administrative problem arose in states in which EB was triggered "on" during FSC. In these cases, FSC claimants had to be taken off the FSC program and transferred to EB, and then re-transferred to FSC when they exhausted EB. This transfer process was an expensive task, because all FSC claimants had to be notified and reprocessed. Temporary staff had to be hired at the local office to accommodate the increased number of claims to be processed. In one of the sample states, it was felt

that implementing this process was substantially more difficult and expensive than starting up the initial program. This situation also created confusion among claimants, because they did not understand that they had to make a claim to a different extended benefits program before their FSC claim expired. Thus, the availability of FSC both before and after EB obfuscated its purpose in the minds of both the claimants and the administrators. A strong feeling was expressed in the interviews that the FSC and EB programs should either be hierarchical or combined into one program.

A second administrative aspect that was not thoroughly thought out before the program began was how states should be reimbursed. Initially, an FSC claim was reimbursed at the same rate as an EB claim.[1] However, because FSC entitlements had to be redetermined when the unemployment rate changed, FSC claims required more time than did EB claims. The states in the sample also argued that the complex nature of the program meant that more experienced, and hence more expensive, staff were used for program administration. The reimbursement of start-up costs was also handled in a haphazard fashion. If a state applied for reimbursement, it was generally given some money; if a state did not request funds, it received none.

Finally, the temporary nature of the program also generated a large number of program amendments. Because the program was short-lived, Congress reviewed it more frequently than might have been the case otherwise. Each time the program came up for possible renewal, a number of proposals were made to alter the program. While it is true that Congress

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[1]The reimbursement rate was adjusted beginning in FSC-II.

has temporarily altered permanent programs (for example, the EB 120 percent rule has been changed at times), changes are more likely to be made to temporary programs. Of course, each change entails additional administrative expense.

B. IMPLICATIONS OF THE SENSITIVITY OF BENEFITS TO THE UNEMPLOYMENT RATE

The most unique aspect of FSC was the degree to which claimants' entitlements were sensitive to changes in the insured-unemployment rate. Under the regular UI program, neither a claimant's eligibility nor his or her entitlement depends on labor-market conditions. Under the EB program, an individual's eligibility depends on the insured-unemployment rate, which triggers the EB program "on" or "off" at the state level. However, as long as the program is "on," the duration of EB is independent of the insured-unemployment rate. Under the FSC program, the number of weeks in which an individual could have collected benefits did depend on the level of the insured-unemployment rate. In fact, not only did the initial FSC entitlement depend on the insured-unemployment rate, but an individual's entitlement was increased or reduced according to the subsequent movements in the rate.

Some aspects of the FSC entitlement variability generated no particular administrative problems, while others created substantial problems. Changes in the maximum potential duration for new claimants did not cause major administrative problems, nor did entitlements when augmented with additional weeks of benefits, as long as the number of additional weeks did not depend on the number of weeks in which an individual had already collected benefits. However, major problems occurred either when claimants' entitlements were reduced or when changes

in the claimants' entitlements depended on the number of weeks of benefits collected. Such was the case when a new FSC phase began and additional benefits were provided to recipients from earlier FSC phases.

Reductions in previously announced entitlements led to strong adverse public reaction, since most of the claimants probably did not believe that their entitlements could be reduced. As reported by the states, reduction notifications brought many claimants into the local offices with their original benefit determination notices, asserting that a mistake had been made. When they learned that their entitlements had indeed been reduced, some became hostile, and their interactions with program staff grew tense. Local offices had a difficult time handling the large number of inquiries generated by the reductions. Several states also reported that this situation increased the number of appeals, although an increase did not show up in the aggregate data we examined. A more lasting effect of the reductions may be a deterioration in the claimants' regard for the unemployment insurance system, since, according to the respondents, many claimants felt that the "system" was reneging on benefits that had been promised to them.

The redetermination process was also made administratively difficult when a claimant's new entitlement depended on the number of weeks already collected. The data bases of most of the states did not contain a summary statistic to indicate the number of weeks collected, since this variable is not used in operating the regular UI system. Therefore, calculating the total weeks received involved, at best, a complex process, and, in some states that we visited, some or all of the redeterminations had to be undertaken manually in the local offices by counting the number

of checks that were mailed. The manual determination procedure was a slow and error-prone process.

C. IMPLICATIONS OF THE COMPLEX NATURE OF SPECIFIC RULES

Three other aspects of the FSC program caused administrative problems. The first was that the program's potentially eligible population included individuals who had exhausted UC benefits prior to the program start date. These individuals had to be notified about their potential eligibility for FSC, which increased the administrative workload. The second was that the reach-back provisions enacted in each phase also created problems in terms of notifying individuals. Finally, the "lesser" rule for interstate claims created problems because an individual who worked in one state but resided in another was entitled only to the smaller entitlement of the two states.

The initial and subsequent revisions of FSC legislation extended eligibility to claimants who had exhausted previous entitlements and whose benefit year fell within certain time limits, as described in Chapter I. States were required to notify all potentially eligible individuals, and the process became expensive if the state complied fully with the requirement. However, some states instead relied on the media to notify previous exhaustees, and provided notices only to current exhaustees. One major problem with this process was that many individuals were notified who were not actually eligible because, for example, they had some employment after exhaustion or had established new claims. Many of these individuals reported to the local offices, thus increasing the workload.

Similarly, the practice of including FSC exhaustees in each subsequent revision led many FSC exhaustees to check back at their local

offices periodically to determine whether they qualified for anything else, thus also increasing the workloads in the local offices. Although the large inflow of claims with each program revision was handled by temporary employees, permanent staff also had to be pulled off regular tasks in order to process the large inflow. While payments in other programs were not delayed during these times, state staff felt that fewer eligibility reviews were scheduled, and that fewer nonmonetary issues were identified and processed.

A final complexity of the program which caused administrative problems pertains to interstate FSC claims. Interstate claims are made when individuals work in one state but reside in another. Claims are filed in the state of residence (the agent state), but the state in which the individual works is liable for the claim (the liable state). The difficulty with FSC claims arose because interstate claimants could receive only the lesser of the FSC entitlements of the two states. Therefore, each time that interstate payments were issued the liable states had to ensure that the duration of each agent state's FSC benefits had not dropped. While the research office in a state's central office sometimes could predict and anticipate changes in its own insured-unemployment rate, it did not follow the unemployment rates of the other states. Typically, states received official notification of changes in duration after payments were due. Thus, interstate payments were often delayed, and/or overpayments occurred.

In contrast, the uniform minimum qualifying eligibility requirements instituted in FSC did not seem to cause problems in the states we visited. The minimum qualifying requirements in two of the states matched the FSC requirement, but in the three others some regular UI

eligibles were not eligible for FSC. As cited by the states, the only problem associated with instituting these requirements was making claimants understand why they were not eligible.

The stringent work-test requirements of FSC implemented by the states in our sample generally led to claimants' reporting more work search contacts per week than under regular UI, to the registration of all (and not just a portion of) claimants with ES, and to more frequent eligibility reviews than under regular UI.[1] The states, particularly those with relatively few work-test requirements for regular UI recipients, felt that these requirements were expensive to administer, and some respondents felt that the requirements were primarily a burden to claimants, rather than an effective vehicle for helping them find jobs. Nevertheless, other than their high costs, these requirements did not appear to create major administrative problems that were similar in degree to those cited previously.

D. SUMMARY AND CONCLUSIONS

Many lessons can be learned from the FSC experience about how supplemental benefit programs (such as FSC) could be designed better from an administrative standpoint. The first major administrative lesson is that a permanent program is clearly better than a temporary one, since the chaotic start-up period would be avoided. Implementing a program under short notice is expensive; resources are wasted in pursuing proposed features that are never enacted, and other tasks suffer as resources are

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[1]Some states performed eligibility reviews every 2 weeks, and others every 5 or 6 weeks.

diverted towards implementing the new program. A permanent program could also be coordinated logically with existing programs, providing the claimant with a sensible sequence of programs. Finally, a permanent program would not be plagued by the same type of media misinformation that occurred during FSC.

A second lesson that was learned from FSC concerned the feasibility of a program in which benefits are sensitive to labor-market conditions. Such a program can be administratively feasible if individual entitlements are fixed at the time they are determined. This was done in FSC-IV, and the states in our sample indicated that program operations were much smoother than they were previously during this phase. The number of weeks provided to a new claimant could still vary according to the strength of the labor market at the time of application, but altering existing entitlements would cause many administrative problems. If further extensions were desired, the administratively feasible way of doing so would be to offer a second fixed entitlement which was independent of the previous entitlement. The additional entitlement could then be treated as any other new claim.

Including previous exhaustees in an extended benefits program can also create several administrative difficulties. Notification can be difficult, and the backlog of individuals that must be processed at one time at the beginning of a program can become a problem. Overall, however, these problems do not appear to be so severe that this feature should be ignored in future temporary programs.

The final lesson that can be learned from the FSC experience concerns interstate claims. Interstate claims which depend on the benefits

available in the agent state (as was the case with FSC) will create administrative difficulties because the liable state computes the benefits. This was especially true in FSC, because its duration varied by state and was frequently altered. A program with less frequent changes or one that applied only the liable state's rules to interstate claims would be a much easier program to administer.

The states that we visited felt that the final version of the FSC program (FSC-IV) was administratively more feasible than the earlier phases. The most important feature which made FSC-IV easier to implement was the fixed nature of individual entitlements. The local office staff with whom we spoke felt that, unlike the earlier versions, individual claimants understood FSC-IV because it was more similar to the permanent unemployment compensation programs, UI and EB. A second FSC-IV feature which differed from the earlier versions of the FSC program was that the government reduced the likelihood that FSC durations would change. However, states felt that the reduced sensitivity of duration to the unemployment rate did not have a large administrative impact once individual entitlements were fixed.

CHAPTER VI

POLICY SIMULATIONS AND CONCLUSIONS

In the previous chapters, we examined the role of the FSC program in the 1981-83 recession. We found that the program provided a substantial amount of benefits that were an important source of income to individuals whose unemployment was brought about by the recession. However, we also found that the FSC program was initiated relatively late during the recent recession, and it continued well beyond the period of high unemployment. Moreover, while the program's benefit structure was quite sensitive to changes in the insured-unemployment rate, we found that it did not target benefits toward high-unemployment states and time periods to a degree that was any greater than the degree to which regular UI benefits do so. The benefit structure of the program also created numerous administrative problems for the states, and it was extremely confusing to recipients. Finally, we concluded that the FSC program was, in part, a replacement for the EB program (which was less available in this recession than previously) and, in part, a provider of extended benefits beyond those available from the regular EB program, but that it was not well coordinated with EB.

In this chapter, we examine how alternative extended benefits programs might have performed in the recent recession in terms of both the timing of benefits in the business cycle and the targeting of benefits toward high-unemployment areas and time periods. Because we assume that these alternative programs would have replaced both EB and FSC, we compare them with the combined EB and FSC experience. In the first section, we provide a brief description of how we performed the policy simulations. We

then discuss the results in the second section. The final section of the chapter uses these simulation results and our analysis of FSC to provide several recommendations for future extended benefits programs.

A. THE SIMULATION MODEL

The model used in this chapter to simulate the impacts of alternative extended benefit plans is a simple one that, nevertheless, provides insights into how the benefit structure would affect benefit amounts and their distribution. For each extended benefits plan, we specified what the maximum potential duration of extended benefits would be at different levels of the insured-unemployment rate. We also used the results obtained in Chapter IV to estimate how many weeks of benefits would be collected, on average, for the alternative durations of extended benefits. These estimates are shown in Table VI.1.

Then, for the time period of interest (1981.1 through 1985.1), we used the actual insured-unemployment rate in each state to determine the potential duration of extended benefits. The determination was made on a quarterly basis, using the IUR at the mid-point of each quarter. We then multiplied the number of regular UI exhaustees in each state in each quarter (i.e., potential extended benefits recipients) by an estimate of the proportion who would have collected extended benefits.[1] The number of

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[1] We used 0.86, which is the number estimated by Corson and Nicholson (1985) for the EB program. It takes into account the qualifying-wage restrictions and the drop-off in recipients that occurs between regular UI and extended benefits. As reported in Chapter III, this drop-off rate may be larger for a temporary program relative to a permanent extended benefits program. The rate used affects only the overall level of benefits reported in this chapter for each plan. It does not affect the comparison among plans.

TABLE VI.1

ESTIMATED WEEKS OF EXTENDED BENEFITS COLLECTED FOR ALTERNATIVE POTENTIAL DURATIONS

Potential Duration (Weeks)	Mean Duration Collected (Weeks)
8	6.42
12	9.24
13	9.99
16	12.26

SOURCE: Computed from models estimated in Chapter IV.

recipients was then multiplied by the mean number of weeks that we estimated would be collected (see Table VI.1) for the extended benefits potential duration in each state and quarter. This calculation provides an estimate of the number of weeks collected by extended benefits recipients. For purposes of determining the timing of benefit receipt, we assumed that all extended benefits were collected within the quarter of regular UI exhaustion, even though this would probably not be the case. The estimated weeks of benefit receipt by state and quarter were then used for the analysis reported in the next section.

B. SIMULATION RESULTS

We examined six extended benefits plans (described in Table VI.2) and their performance over the 1981.1 to 1985.1 period. This period was chosen so as to include the 1981-82 recession and the period of time during which FSC was available thereafter. All of the plans were assumed to be in place throughout this period, and we did not assume that the plans were changed during this time (as occurred for FSC). Thus, they can be considered "permanent" programs.

The first two plans are similar to the EB program in structure. They have a fixed duration (13 weeks), and the IUR trigger is a threshold one in which a state is either "on" or "off" the program. The trigger levels for Plan 1 are the same as for EB prior to the 1982 change from 4.0 to 5.0 percent, and the trigger levels for Plan 2 are the same as for EB after the 1982 change.

The last four plans are more similar to FSC, in that there are several levels of potential duration that depend on a state's IUR. However, only Plan 3 has a minimum level of benefits (8 weeks), as did FSC

TABLE VI.2

STRUCTURE OF SIMULATED EXTENDED BENEFITS PLANS

Plan	Insured-Unemployment Rate (IUR) Categories	Maximum Potential Duration
1	IUR $<$ 4.0	0
	IUR $\geq$ 4.0	13
2	IUR $<$ 5.0	0
	IUR $\geq$ 5.0	13
3	IUR $<$ 4.0	8
	4.0 $\leq$ IUR $<$ 6.0	12
	IUR $\geq$ 6.0	16
4	IUR $<$ 4.0	0
	4.0 $\leq$ IUR $<$ 6.0	12
	IUR $\geq$ 6.0	16
5	IUR $<$ 4.0	0
	4.0 $\leq$ IUR $<$ 6.0	8
	IUR $\geq$ 6.0	16
6	IUR $<$ 4.0	0
	4.0 $\leq$ IUR $<$ 5.0	8
	5.0 $\leq$ IUR $<$ 6.0	12
	IUR $\geq$ 6.0	16

throughout most of its life. For the other three plans, no extended benefits are paid in the lowest IUR category. Plans 4 and 5 contain two levels of extended benefits when the IUR exceeds the minimum threshold of 4.0 percent, and Plan 6 contains three levels.

The results of the simulations reported in Table VI.3 lead to several observations. First, none of the plans would have provided as large a benefit amount as did the combined EB and FSC programs during the 1981.1 to 1985.1 period, because some individuals could and did collect substantially more weeks of benefits during this period than they would have under the 16-week maximum used in the simulations. This was the case because some individuals collected both EB and FSC and because of the reach-back provisions of FSC. However, this situation does not represent a problem, since we are interested primarily in distributional comparisons with the actual programmatic experience, rather than in comparisons of total benefits.

Second, the time-period distributions show that the actual EB and FSC programs paid only 23 percent of total extended benefit weeks during the early part of the recession (1981.1 through 1982.3), when unemployment rates were quite high. As we noted previously, this finding was due to the fact that FSC was not introduced until the end of this period. Thus, the majority (64 percent) of actual extended benefits were paid in the second period, in which unemployment rates were still high. A significant amount (13 percent in total and 20 percent of FSC benefits) was paid in the final period, in which unemployment rates were low relative to the earlier periods. In contrast, all of the simulated plans would have paid substantially more in the first period (55 percent in all plans except Plan

TABLE VI.3

SIMULATION OF WEEKS PAID UNDER ALTERNATIVE EXTENDED BENEFITS PLANS

	Actual EB & FSC			Simulated Extended Benefits Plan					
	EB	FSC	Total	1	2	3	4	5	6
Distribution by Time Period									
81.1 - 82.3	60.0%	0.7%	22.8%	54.1%	54.7%	44.3%	54.4%	54.8%	54.5%
82.4 - 84.1	39.6	79.0	64.3	41.3	42.7	41.7	41.3	41.3	42.3
84.2 - 85.1	0.4	20.3	12.9	4.6	2.6	14.0	4.3	3.9	3.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Distribution by IUR Category									
Low	2.5%	33.8%	22.1%	0.0%	0.0%	24.1%	0.0%	0.0%	0.0%
Medium	28.3	39.8	35.6	38.7	0.0	33.4	35.7	31.4	27.9
High	69.2	26.4	42.3	61.3	100.0	42.5	64.3	68.6	72.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Percentage of Weeks Paid Relative to Actual EB Plus FSC	37.2%	62.8%	100.0%	55.2%	33.8%	83.4%	55.4%	43.8%	49.4%

3) based on our assumption that the extended benefits plans were in place during the entire period. In addition, only Plan 3--the FSC look-alike--would have paid a substantial amount in the third period, the period which exhibited relatively low unemployment rates.

Third, the distribution by IUR category shows that, as reported in Chapter II, the FSC program performed poorly by this measure of program effectiveness, since substantial amounts were paid in states and quarters in the low-IUR category. Although the EB program concentrated benefits in the higher-IUR categories, the overall result for the extended benefits programs as a whole was more similar to the FSC experience. Again, only Plan 3 would have had a similar distribution to the actual experience, with about one-quarter of all weeks paid falling in the low IUR category and 43 percent in the high IUR category. In contrast, all the other program structures would have concentrated benefits in the medium- and high-IUR categories, with Plan 2, the current EB program look-alike, directing all benefits to the high-IUR category.

It is clear from this discussion that an FSC-type program which provides a minimum amount of extended benefits in all states would provide a larger total amount of benefits than other program structures, but the distribution of these benefits would not be as concentrated in time periods and states that exhibited high unemployment as would occur under other program structures. Moreover, this program structure would not make sense in a permanent program, since it would effectively represent simply an increase in regular UI potential duration. The main differences among the other program structures would pertain to the total amount of benefits provided, as opposed to any major distributional differences. Plan 2 would

clearly be the least generous because of the high trigger level, and Plans 1 and 4 would be the most generous and quite similar. Compared with Plan 1, Plans 4, 5, and 6 would direct more benefits to high-unemployment areas (61 percent of Plan 1 weeks would have been paid in the high-IUR category, compared to 64 percent for Plan 4, 69 percent for Plan 5, and 72 percent for Plan 6). These higher payments are of course expected, because Plans 4 and 5 would provide two levels of extended benefits durations that depend on the IUR, and Plan 6 would provide three levels.

In our judgment, the structure of Plans 5 and 6 appear "best" in terms of their ability to direct benefits toward high-unemployment areas and time periods. However, the total benefits from these plans are lower than the benefit levels from most of the other simulated plans, but these levels could easily be adjusted by providing more weeks of potential duration at each level than the 8-, 12-, or 16-week durations used in our simulations.

C. CONCLUSIONS AND RECOMMENDATIONS

The analysis of FSC presented earlier in this report, together with the simulation results presented in this chapter, leads to several recommendations about the four extended benefits policy issues presented in Chapter I--that is, (1) whether extended benefit programs should be permanent or temporary, (2) the degree to which such programs should be sensitive to local labor-market conditions, (3) when such programs should be triggered on and off, and what their potential duration should be, and (4) the degree to which individual eligibility criteria should be uniform among states.

In terms of the first issue, our analysis of the FSC experience indicates that the temporary nature of the program probably contributed importantly to the administrative difficulties experienced by states. This was the case both because the lead time for implementing the initial FSC phase was quite short and because the program was subsequently revised quite frequently. Although future temporary programs would not necessarily be implemented as quickly as was FSC nor be changed as often, the probability that this scenario would occur is undoubtedly higher for temporary relative to permanent programs. In addition, our comparison of EB and FSC participation rates among regular UI exhaustees indicated that these rates were lower for FSC than for EB, and that this was probably the case due to the temporary nature of FSC. Equity considerations would suggest that the higher participation rate of a permanent program is more desirable, although program costs would be higher. Finally, the fact that FSC was implemented late in the recession and continued beyond the recessionary period might be attributable to its temporary nature, although this would not necessarily be the case in future programs. In fact, during the 1974-75 recession, the FSB program was instituted early in the recession. It did, however, continue well beyond the heart of the recession. These considerations suggest that a permanent program is probably better than a temporary program particularly for the first level of extensions beyond regular UI.

Our strongest findings pertain to the second policy issue. The high degree to which individual FSC entitlements were sensitive to changes in labor-market conditions created major administrative problems for the states, although these administrative problems subsided once the changes in

potential duration were applied only to new claimants. In addition to these administrative problems, our aggregate-level analysis suggested that the many changes in FSC potential duration did not provide benefits that were targeted toward areas that exhibited high unemployment any more effectively than did the regular UI program. Our simulations suggested that this was due primarily to the fact that FSC provided some benefits in all states regardless of the IUR. Moreover, variations in maximum duration above the minimum level were in two-week increments that, until FSC-IV, could change every four weeks. Our findings suggest that for future programs this degree of sensitivity is unnecessary for targeting benefits effectively. Thus, our findings suggest that future extended benefits plans be structured in a manner whereby they contain an unemployment rate threshold below which no benefits are provided and provide increasing increments in duration above that level. However, the number of increments should be small, they should change relatively infrequently, and the changes should affect only new claimants.

Our analysis of FSC also provides some insights into the issue of timing and duration. Clearly, an extended benefits program should be available earlier in a recessionary period and should end or be reduced in scope more quickly than was the case with FSC. Our simulations of alternative plans that triggered on and off automatically indicated that a permanent program would probably have been better coordinated with the business cycle than was FSC. Our comparison of benefit amounts during the 1981-82 recession with previous experience also suggested that, once FSC was implemented, extended benefits payment amounts, while less than those available in the mid-1970s, were similar in magnitude to historic

experience. Moreover, the impact of FSC on total exhaustion rates appeared to lower that rate to the level typically experienced during nonrecessionary periods. These findings led us to conclude that the benefit duration of FSC was about "right," given the severity of the recession. However, our distributional findings suggested that it might have been better to provide somewhat longer benefit durations in high-unemployment areas and shorter durations in low-unemployment areas.

In terms of the degree to which individual eligibility requirements were uniform, we found that the two uniform requirements which were instituted--minimum qualifying requirements and the stringent work test--did not create major administrative problems, although the work test was relatively expensive to administer. Hence, the equity advantages of using uniform requirements suggest that such requirements are reasonable.

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APPENDIX A

DETAILED DESCRIPTION OF ANALYTICAL METHODS AND RESULTS

An analysis of hazard-rate models, also known as survival analysis, enables us to circumvent the truncation problem and to incorporate time-varying factors.[1] First, we describe the empirical hazard-rate analysis technique which is analogous to cross-tabulation techniques. We then present two multivariate analysis techniques. Several tables provide detailed results.

The Empirical Hazard-Rate Analysis. The simplest hazard-rate analysis is the descriptive life-table method developed by Kaplan and Meier (1958). The sample exit rates for each period are calculated for various subgroups. Truncated observations (in this case, observations with a duration equal to the maximum potential duration) are included in the exit probability calculations, except for the period in which truncation occurred. We know that the individual did not exit (become re-employed) prior to the truncation period, but, for that period, we do not know whether the individual actually exited or whether the spell lasted longer than the observed period. Because these observations do not provide valid information on exit probabilities, they are excluded for that period. For example, an individual who was entitled to collect and in fact collected eight weeks of unemployment compensation (and who is thus a truncated observation) would be included in the analysis for weeks one through seven, but would be excluded from the week-eight analysis. Conversely, an

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[1] Kalbfreisch and Prentice (1980) provide a rigorous description of survival analysis.

individual who was entitled to receive eight weeks and collected seven (an untruncated observation) would be included in the analysis of the seventh or last week, because the observed exit is a valid, untruncated exit. Thus, the empirical hazard rate at time "t" is the number of individuals who are unemployed exactly "t" weeks as a fraction of those individuals who could have been observed collecting at least "t + 1" weeks of benefits.

Comparing the exit probabilities among different groups of recipients is simplified by converting the weekly probabilities of leaving unemployment (hazard rates) into cumulative probabilities of still being unemployed after a given number of weeks.[1]

Conclusions drawn from the simple empirical hazard-rate analysis must be interpreted carefully, because only factors which define the subgroups are controlled for. Observed differences in the average hazard rates could occur for a variety of reasons, such as differences in either the potential duration or the unemployment rate. In order to determine the work disincentive of the FSC program, all the important factors should be held constant. Multivariate analysis provides a way to address these concerns about the empirical hazard-rate analysis.

Multivariate Regression Analysis of Hazard Rates. The multivariate analysis uses models of the probability of leaving unemployment in a given week of supplemental benefit receipt.

To determine the effect of the FSC program on unemployment spells, we estimate several equations--one equation for each week of extended

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[1] If the probability of leaving in week $t = h_t$, then the probability an individual is unemployed at least "x" weeks is $(1 - h_1)(1 - h_2) \ldots (1 - h_x)$.

benefits receipt. The outcome variable for each week describes whether the individual exited from unemployment after that extended benefits week.

The following are the independent variables in the weekly models: the potential duration of extended benefits, the weekly benefit amount, the pre-unemployment weekly wage, the monthly state unemployment rate, and various recipient characteristics, such as age and sex dummy variables.

The major advantage of the week-by-week specification is that we can account for time-varying factors. The independent variables in each week's equation are specific to that week. For example, the unemployment rate or potential duration of benefits in the equation that explains the probability of leaving unemployment in the seventh week is the unemployment rate that prevailed in that individual's seventh week, rather than being the unemployment rate at the individual's first week, as is usually the case in a direct analysis of the number of weeks unemployed. Using separate, weekly equations also enables us to account for truncated data in the same manner as with the empirical hazard-rate technique.

The models of weekly exit probabilities were estimated under two alternative distributional assumptions. The equations were estimated assuming that the unexplained variation in exits followed either a univariate distribution or a logistic distribution. The first is called a linear probability model, while the second is a logistic model. Both models provide unbiased estimates of the impacts of the independent variables on the probability of exiting.

The specification for each weekly equation was:

$$U(t) = a(t) + b\ PFSC(t) + c\ WBA + d\ WAGE + e\ UR(t) + f\ AGE + g\ NONWHITE + h\ FEMALE,$$

where

U(t) is equal to 1 if the individual exits in week "t" and zero otherwise,

PFSC (t) is equal to the total number of weeks of FSC that the individual is entitled to receive in week t,

WBA is the individual's pre-unemployment weekly wage,

UR (t) is the state monthly unemployment rate applicable to week t,

AGE is the individual's age at the beginning of the spell,

NONWHITE is equal to 1 if the individual is nonwhite and zero if white,

FEMALE is equal to 1 if the individual is female and zero if male, and

a through h are regression coefficients.

To examine whether variable FSC-II benefits had a different work disincentive than fixed FSC-IV benefits, we specified the model as follows:

$$U(t) = a(t) + b_1\ PFSCI(t) + b_2\ PSCII(t) + b_3\ PFSCIII(t) + b_4\ PFSCIV(t) + c\ WBA + d\ WAGE + e\ UR(t) + f\ AGE + g\ NONWHITE + h\ FEMALE,$$

where

U(t) is equal to 1 if the individual exits in week "t" and zero otherwise,

PFSCI (t) is equal to an individual's FSC potential duration during the first phase of FSC, if applicable to week t,

PFSCII (t) is equal to an individual's FSC potential duration during the second phase of FSC, if applicable to week t,

PFSCIII (t) is equal to an individual's FSC potential duration during the third phase of FSC, if applicable to week t,

PFSCIV (t) is equal to an individual's FSC potential duration during the fourth phase of FSC, if applicable to week t,

WBA is the individual's pre-unemployment weekly wage,

UR (t) is the state monthly unemployment rate applicable to week t,

AGE is the individual's age at the beginning of the spell,

NONWHITE is equal to 1 if the individual is nonwhite and zero otherwise,

FEMALE is equal to 1 if the individual is female and zero if male, and

a through h are regression coefficients.

Table A.1 presents the means of the variables used in the analysis. Table A.2 presents coefficient estimates for the linear probability model version of the hazard-rate model. Table A.3 presents the estimated impacts of the length of potential duration on the duration of unemployment for the linear probability model, the logit model, and sample average hazard rates.

TABLE A.1

MEANS OF VARIABLES USED IN THE MULTIVARIATE ANALYSIS OF WEEKLY HAZARD RATES

Number of Observations	2.473
Weeks of Supplemental Benefits	6.5
Weekly UI Benefit	$111.47
Potential FSC Duration in the First Week of FSC Receipt	9.3
Pre-Unemployment Weekly Earnings	$210.64
Unemployment Rate at the Start of FSC Receipt	9.0
Age	37.4
Percentage Nonwhite	25.1
Percentage Female	42.2

TABLE A.2

SUMMARY OF THE ESTIMATED WEEKLY HAZARD-RATE EQUATIONS

Weeks After Regular UI	Mean Probability of Exiting Unemployment	Coefficients on Key Variables (Expected Sign in Parentheses)			Probability That Only the Intercept Was Significant	
		FSC Duration (-)	Weekly Benefit Amount in Tens of Dollars (-)	Unemployment Rate (-)	Logit Specification	Linear Specification
1	.064	-.004	+.000	+.006	.048	.061
2	.061	-.004	+.000	-.003	.002	.003
3	.050	-.001	-.004**	-.006	.154	.174
4	.049	-.001	-.003	-.002	.217	.251
5	.048	-.005	-.001	+.016*	.292	.276
6	.044	-.001	-.001	+.004	.876	.889
7	.060	-.002	-.005**	-.018**	.008	.018
Average	.054	-.003	-.002	+.004	--	--

NOTE: The figures reported in the table are coefficients of linear probability models of the probability of exiting from unemployment in a given week. Logistic models were also estimated. The signs and magnitudes of the coefficients were similar.

* Indicates that the coefficient is significantly different from zero at the 90 percent level of confidence.

** Indicates that the coefficient is significantly different from zero at the 95 percent level of confidence.

TABLE A.3

ESTIMATED WORK DISINCENTIVE EFFECTS FOR FSC RECIPIENTS

	Simple Empirical Hazard Rates	Linear Probability Models	Logit Model
Average Hazard Rate	4.58[a]	5.36	5.10
Average Change in the Hazard Rate with a One-Week Increase in Potential Duration	-0.23	-0.25** (0.14)	-0.28
Difference Between the Average Hazard-Rate Change Induced by One More Week of Variable FSC-III Benefits and Fixed FSC-IV Benefits ($b_{III} - b_{IV}$)	n.a.	0.07 (0.24)	-0.02

NOTES: The standard errors of the estimates were determined only for the coefficients in the linear probability model. Nonlinearity of the logit models made the calculations complex, and standard errors were not computed. The linear probability model coefficients could have received between one and three asterisks indicating:

n.a. means the estimate is not available from a particular analysis.

[a]All recipients, both FSC and EB, are included in the empirical hazard-rate numbers.

*Significantly different from zero at the 90 percent level of confidence.
**Significantly different from zero at the 95 percent level of confidence.
***Significantly different from zero at the 99 percent level of confidence.

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