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### Faster Reemployment Is Not Always Better Employment: The Bonus/Training Conflict in the Personal Reemployment Account Proposal

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# **Faster Reemployment Is Not Always Better Employment: The Bonus/Training Conflict in the Personal Reemployment Account Proposal**

Ross J. Davidson

## **I. Introduction: The PRA Proposal**

In 2003, the Bush administration proposed establishing Personal Reemployment Accounts (PRAs) to assist unemployed individuals seeking work.<sup>1</sup> The program would not replace unemployment insurance (UI) but would provide resources to assist unemployed individuals in the transition between jobs. The program would also use reemployment bonuses as an incentive for those seeking work to obtain employment more quickly. Under the program, UI recipients who meet certain criteria would be eligible for accounts of up to \$3,000 to be used for job training, work search, and other

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<sup>1</sup> David Leonhardt, [How to Give Job Seekers a Tastier Carrot](#), N.Y. Times, June 8, 2003, at C4.

reemployment services (to be administered by state One-Stop Career Centers).

Recipients would have 12 months to use the accounts. Those recipients who find jobs within 13 weeks would be permitted to keep the remaining balance in their accounts as a reemployment bonus. Sixty percent of this balance would be payable immediately, with the remaining forty percent payable after six months of employment.

States would receive funds from the federal government to establish the accounts, but the amount of the individual accounts would be left to the discretion of each state administering the program. States would also make the ultimate determination of which current UI recipients would receive PRAs. Federal law already requires states to evaluate claimants as they enter the UI system and predict which UI recipients are most likely to exhaust their benefits before finding a job (and thus remain unemployed for a longer period of time).<sup>2</sup> Such recipients would be eligible to receive PRAs. However, since states establish their own guidelines in determining who is most likely to exhaust benefits,<sup>3</sup> the federal government would be leaving the ultimate decision regarding who receives a PRA in the hands of the individual states.

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<sup>2</sup> Paul T. Decker, *Work Incentives and Disincentives*, in UNEMPLOYMENT INSURANCE IN THE UNITED STATES: ANALYSIS OF POLICY ISSUES 285, 308 (Christopher J. O’Leary & Stephen A. Wandner eds., 1997). In determining which UI recipients would be eligible for PRAs, program administrators would rely on Worker Profiling and Reemployment Service (WPRS) systems that are already in place to determine which UI recipients are most likely to exhaust their benefits:

Recent legislation (the Unemployment Compensation Amendments of 1993) has addressed this issue by requiring states to implement systems, called Worker Profiling and Reemployment Service (WPRS) systems, to identify permanently dislocated claimants expected to experience long spells of unemployment and to provide them with mandatory job search assistance services. One of the primary objectives of the WPRS initiative is to coordinate the provision of services from different employment and training agencies so that claimants will have better information about the opportunities for participating in training and other reemployment services.

Walter Corson & Paul T. Decker, *Using the Unemployment Insurance System to Target Services to Dislocated Workers*, in LONG-TERM UNEMPLOYMENT AND REEMPLOYMENT POLICIES, 3, 4 (Laurie J. Bassi & Stephen A. Woodbury eds., 2000).

<sup>3</sup> EMPLOYMENT & TRAINING ADMINISTRATION, U.S. DEPT. OF LABOR, *Personal Reemployment Accounts: President Bush Takes Action to Help Unemployed Americans Get Back to Work*

The original Bush administration proposal would have given states \$3.6 billion over two years to establish PRAs. However, Congress did not approve the proposal in 2003.<sup>4</sup> In 2004, the House gave approval for a PRA pilot program.<sup>5</sup> Permissible uses for PRAs under the bill included “job training, childcare, transportation, relocation, career counseling, computer classes, and housing aid.”<sup>6</sup> On November 1, 2004, U.S. Secretary of Labor Elaine L. Chao “announced a \$9 million demonstration project for states interested in Personal Reemployment Accounts.”<sup>7</sup> Although a maximum of nine states will be allowed to participate in the pilot program, the program in most other respects will be similar to the initial Bush administration proposal.<sup>8</sup>

Given heightened unemployment in recent years, at first blush it may be difficult to find fault with a proposal that puts money in the hands of unemployed workers and has as its goal facilitating the training and reemployment of those workers. While the objectives of the PRA proposal in this respect seem admirable, the structure of the program is out of synch with current economic realities. The rise in recent years of long-term unemployment (i.e., structural unemployment<sup>9</sup>) means that even workers who are

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*Quickly*, [http://www.doleta.gov/reemployment/Reemployment\\_index.cfm](http://www.doleta.gov/reemployment/Reemployment_index.cfm), accessed Aug. 27, 2004 [hereinafter *ETA, Personal Reemployment Accounts*].

<sup>4</sup> McGuireWoods, LLP, & Fortney, Scott, LLC, *Under the Capitol Dome*, 1:11 Fed. Emp. L. Insider 4 (2004) [hereinafter *Under the Capitol Dome*].

<sup>5</sup> *Id.* “The bill, H.R. 444, sponsored by Representative John Porter (R-Nevada), would allow demonstration moneys generated under the Workforce Investment Act to be used by states and local workforce investment boards” in administering the accounts. *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> U.S. DEPT. OF LABOR, News Release, Nov. 1, 2004, <http://www.dol.gov/opa/media/press/eta/ETA20041912.htm>, accessed Nov. 1, 2004 [hereinafter *USDOL News Release*].

<sup>8</sup> *Id.* For a more detailed explanation of the PRA proposal, see Paul T. Decker & Irma Perez-Johnson, *Personal Reemployment Accounts: How Would They Work?*, Mathematica Policy Research, Inc., Jan. 2004, no. 2; *ETA, Personal Reemployment Accounts*, *supra* note 3.

<sup>9</sup> “[S]tructural unemployment refers to a permanent loss of the old job and difficulty in finding a new job.” Duane E. Leigh, “The Role of Unemployment Insurance in Addressing Structural Unemployment: Lessons from Other Nations,” in *LONG-TERM UNEMPLOYMENT AND REEMPLOYMENT POLICIES*, Laurie J. Bassi & Stephen A. Woodbury, eds., 187, 188 (2000).

willing and eager to find new work will often have difficulty doing so, particularly in industries where qualified job seekers far outnumber job openings. For workers only qualified for work in such industries, the likelihood of finding a new job that supports their previous standard of living may be increased significantly by acquiring skills through training in order to be able to work in a new industry. The PRA program, while in theory providing resources for job training, discourages using account funds for that purpose by focusing recipients instead on immediate returns to work through the use of reemployment bonuses and by failing to account for other obstacles to training inherent in the current UI system.

This comment will address the ways in which the current PRA proposal is inefficient as a response to long-term unemployment because it underemphasizes the important role that training plays in effective reemployment services. Part II will review the historical objectives of the UI system and discuss how two of those objectives – promoting reemployment and preventing downward mobility – fare under the current system. Part III describes the ways in which the PRA proposal, while designed to more effectively meet the goals of promoting reemployment and preventing downward mobility, favors immediate reemployment and discourages some activities (e.g., training) that could lead to more efficient job matches in the future. Part IV discusses alternatives to the PRA proposal and recommends an approach that retains the fundamental design of the current proposal but better balances the current incentives for immediate reemployment with incentives to accept training opportunities that may be in workers' long-term interests.

## **II. Objectives of Unemployment Insurance**

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### A. Providing Stabilization for Workers and the Economy

The current federal-state unemployment insurance (UI) system was instituted under the Social Security Act of 1935. While the Social Security Act has no purpose statement, a “declaration of policy” recommended by the 1936 United States Social Security Board explained that “the goal of unemployment insurance was to stem the ‘menace to the health, welfare and morals’ caused by unemployment-related economic insecurity.”<sup>10</sup> The Committee on Economic Security, which was established by President Roosevelt in 1934 and which recommended the establishment of a national unemployment insurance system, provided more specific guidance regarding the purposes of such a system. The Committee identified three purposes of UI: “to provide some measure of economic stability for the unemployed worker, to stabilize the employment of individual employers by providing a lower tax rate for employers who laid off fewer workers, and to minimize recessions by maintaining purchasing power.”<sup>11</sup>

UI provides stabilization for unemployed workers and for the economy during times of recession by providing short-term (usually 26 weeks) support to unemployed workers in the form of benefit payments.<sup>12</sup> For workers, UI benefits increase stability in two ways. First, benefit payments are designed to provide short-term stability through

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<sup>10</sup> Gillian Lester, *Unemployment Insurance and Wealth Redistribution*, 49 UCLA L. REV. 335, 341 (2001) (citation omitted) (quoting the declaration).

<sup>11</sup> Lucy A. Williams & Margaret Y.K. Woo, *The “Worthy” Unemployed: Societal Stratification and Unemployment Insurance Programs in China and the United States*, 33 COLUM. J. TRANSNAT’L L. 457, 478-79 (1995). Of these at times competing goals, “the greatest emphasis appears to have been on the alleviation of hardship to the unemployed worker.” *Id.* at 479 n.98 (citation omitted). The second purpose, relating to stabilizing the employment of individual employers, will not be discussed in this comment.

<sup>12</sup> *Id.* at 480. It is important to note the relationship between individual and economic benefits in UI. While UI payments are received by individual workers, the benefits of such payments accrue to not only the individuals but the economy at large. “Unemployment insurance allows workers time to look for jobs that match their education and training, and it supports families and communities during hard times, all of which lead to a more productive economy.” Tom Baker, *Containing the Promise of Insurance: Adverse Selection and Risk Classification*, 9 CONN. INS. L.J. 371, 388 (2003). For a discussion of the individual and broader societal benefits of increased training in the PRA context, see Section IV-C.

partial income replacement while unemployed workers transition between jobs (or wait to be rehired by their former employers).<sup>13</sup> While these benefit payments are intended to help workers maintain an accustomed standard of living, their success in this respect is limited, since payment levels are typically set at only about 50 percent of workers' normal salary levels.<sup>14</sup> Second, benefit payments enable unemployed workers to conduct more extensive work searches without being forced to accept the first immediately available job in order to pay for food or other expenses. Thus, UI promotes long-term stability for workers by allowing them to be somewhat selective and find work without an accompanying reduction in their wages and standard of living.<sup>15</sup>

The payment of UI benefits provides stabilization for the economy by bolstering spending during times of recession. This kind of economic stabilization has long been considered one of the primary purposes of unemployment insurance.<sup>16</sup> According to Kenneth Casebeer,

Congress viewed unemployment insurance payments as a means of exerting an influence upon the stabilization of industry. "Their only distinguishing feature is that they will be specially earmarked for the use of the unemployed at the very times when it is best for business that they should be so used." Early payment of insurance benefits serves to prevent a decline in the purchasing power of the

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<sup>13</sup> UI was originally designed to bridge the period between jobs for workers experiencing temporary layoffs. However, permanent layoffs have risen significantly since the inception of the UI system, and short-term benefits are often not sufficient to bridge the longer unemployment spells associated with long-term unemployment. Kenneth M. Casebeer, "Unemployment Insurance: American Social Wage, Labor Organization and Legal Ideology," 35 B.C. L. Rev. 259, 342 (1994).

<sup>14</sup> Williams & Woo, *supra* note 11, at 483.

<sup>15</sup> While the objective of short-term stability is clearly defined in the UI literature, there is more debate about the role of UI in promoting job matching and preventing downward mobility. For a discussion of this topic, see *infra* Section II-C.

<sup>16</sup> Casebeer, *supra* note 13, at 335.

unemployed, which in turn serves to aid industries producing goods and services.<sup>17</sup>

The effectiveness of UI as a stabilizer for unemployed workers and the economy has been undermined by rising long-term unemployment. Workers are increasingly more likely to exhaust their benefits before finding another job, resulting in a mere postponing of the destabilizing impacts on workers and the economy as a whole. Because UI provides workers with benefits during periods of unemployment but does little to counteract long-term unemployment, its effectiveness as a long-term stabilizer is limited in today's economy.

### **B. Promoting Reemployment**

Some have argued that another goal of the UI system is to facilitate reemployment.<sup>18</sup> This contention is not without support. The Committee on Economic Security, established by President Roosevelt “in 1934 with the mandate to ‘study problems relating to the economic security of individuals’ and to recommend government policies that would ‘promote greater economic security[,]’ . . . found that ‘the first objective in a program [to support that goal] must be maximum employment.’”<sup>19</sup> In addition, one could argue that UI promotes reemployment by keeping large numbers of unemployed workers off of the welfare rolls by providing temporary wage replacement. Also, because UI recipients are required to look for work and know that their benefit payments will stop at a definite point in time, they may feel a greater motivation to find work.

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<sup>17</sup> *Id.* at 320 (citation omitted) (quoting Chief Justice Warren Burger).

<sup>18</sup> Williams & Woo, *supra* note 11, at 484.

<sup>19</sup> *Id.* at 478.

Despite these arguments and the Committee on Economic Security's early declaration of policy, studies of the actual impacts of UI on reemployment suggest that unemployed workers receiving UI benefits on average experience longer periods of unemployment than unemployed workers who receive no benefits.<sup>20</sup> This result should not be surprising, given that UI minimizes the harm of unemployment by allowing the unemployed individual to remain unemployed for a short time without being forced back into the labor force at a significantly lower wage. While it might be inaccurate to say that the purpose of UI is to prolong unemployment, UI does reduce the cost to the individual of being temporarily unemployed. This is hardly a surprise effect of UI. Indeed, one might argue that a primary purpose of UI is to allow recipients to remain unemployed for a longer time than if they were not receiving benefits, thus facilitating a better match between the claimant's skills and prior wages and the skills and wages of the job sought. In this respect, a longer period of unemployment that leads to a higher paying job and more efficient match may be better for the individual and the economy than a shorter period of unemployment that results in a lower standard of living for the individual and a loss of productive skills.<sup>21</sup>

Regardless of whether promoting speedier reemployment was an original objective of the UI system, many today feel that the system should do more to promote this purpose. Some critics of the current UI system do not accept the job matching argument and feel that UI subsidizes unemployment and discourages recipients from

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<sup>20</sup> Walter A. Corson & Robert G. Spiegelman, "Introduction and Background of the Reemployment Bonus Experiments," in PHILIP K. ROBINS & ROBERT G. SPIEGELMAN, eds., REEMPLOYMENT BONUSES IN THE UNEMPLOYMENT INSURANCE SYSTEM: EVIDENCE FROM THREE FIELD EXPERIMENTS 1, 6 (2001).

<sup>21</sup> See *infra* Section II-C, which discusses matching as a purpose of the UI system.

actively seeking work.<sup>22</sup> While not all who subscribe to this disincentive view of UI would recommend eliminating UI altogether, many feel that the system could be improved by providing incentives for unemployed individuals to return to work more quickly. The reemployment bonuses available under PRAs are an example of such an incentive.

In theory, providing a reemployment bonus increases the cost to the worker of remaining unemployed and causes a reduction in the reservation wage (i.e., the wage at which the worker is willing to accept employment), thereby increasing the likelihood that the worker will accept a particular job offer.<sup>23</sup> The idea of offering a cash reemployment bonus to encourage a swifter return to work predates the current PRA proposal. Between 1984 and 1989, reemployment bonus experiments “designed to counteract the reemployment disincentives inherent in UI” were conducted in Illinois, Pennsylvania, and Washington.<sup>24</sup> In terms of reducing UI system costs, the success of such experiments was limited. While the Illinois experiment provided evidence that the provision of reemployment bonuses could shorten the average period of unemployment and thus result in a net savings to the UI system (i.e., for each dollar spent on the bonuses, two dollars

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<sup>22</sup> See generally Decker, *supra* note 2, at 286-98 (discussing theory behind disincentive view of UI and relevant studies).

<sup>23</sup> Walter A. Corson and Robert G. Spiegelman describe the theoretical underpinnings of reemployment bonuses as follows:

The expectation that an offer of a bonus would lead to reduced unemployment has theoretic roots in contemporary job-search theory, which developed the concept of an optimal search strategy for unemployed workers. McCall (1965) described an optimal search rule for job seekers as involving a sequential process in which the worker decides whether or not to continue searching after obtaining each wage offer. In this context, a bonus offer to find a job within a specified time raises the cost of rejecting a given job offer, thereby reducing the reservation wage and increasing the likelihood of accepting any particular job offer (see Davidson 1990, pp. 15-17). This theory, in conjunction with job matching theory, would hold that reducing the reservation wage would not necessarily reduce the offered wage because the higher reservation wage was unrealistic in terms of job offers available. Thus, the critical questions to be answered for a potential bonus offer program are 1) will it reduce unemployment and 2) will the reduction affect job matches?

*Supra* note 20, at 7.

<sup>24</sup> Decker, *supra* note 2, at 305.

were saved that would have been spent on UI benefits), the Pennsylvania and Washington experiments resulted in overall losses to the UI system (i.e., the bonuses plus costs of administering the program exceeded the reduction in UI benefit payments).<sup>25</sup> These experiments led to the conclusion “that reemployment bonuses are unlikely to be a cost-effective method for speeding reemployment, at least from the standpoint of the UI system.”<sup>26</sup> Despite these findings, reemployment bonuses have remained a topic of political discussion. The Reemployment Act of 1994, which did not receive Congressional approval, would have allowed states to offer reemployment bonuses to UI claimants who find new employment quickly.<sup>27</sup>

Focusing on the effectiveness of reemployment bonuses in reducing unemployment spells and UI system costs distracts from a more fundamental question: does UI discourage recipients from actively seeking and accepting suitable employment? If not, reemployment bonuses are unnecessary, because they provide an incentive where none is needed and may actually result in UI recipients accepting unsuitable work, thus harming their long-term interests in order to qualify for a short-term benefit.

Adherents to the disincentive view of UI cite evidence suggesting that the length of unemployment benefits is positively related to long-term unemployment.<sup>28</sup> The temptation exists to attribute this result to problems of moral hazard within the insurance context. “‘Moral hazard’ refers to the change in incentives that can result from insurance protection.”<sup>29</sup> Because UI reduces the cost to the individual of remaining unemployed (i.e., pays the individual for being jobless), moral hazard suggests that UI reduces the

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<sup>25</sup> *Id.* at 306.

<sup>26</sup> *Id.*

<sup>27</sup> See Corson & Decker, *supra* note 2, at 16; Leigh, *supra* note 9, at 189.

<sup>28</sup> Leigh, *supra* note 9, at 209 (citing several studies).

<sup>29</sup> Baker, *supra* note 12, at 373.

incentive for the individual to return to work. Counteracting incentives, such as reemployment bonuses, are useful in minimizing these deterrent effects and thereby neutralizing outside influences on the individual's decision about when and how to reenter the labor market.<sup>30</sup>

While moral hazard is a potential problem in any system that insures against preventable losses,<sup>31</sup> some overestimate the impacts of moral hazard problems in the UI context by giving inadequate attention to the preexisting incentives for UI recipients to return to work. According to Lee Anne Fennell, there are several methods for controlling moral hazard in the insurance context, including “monitoring, coverage conditions, coverage limits, . . . partial coverage, and norms.”<sup>32</sup> The UI system currently utilizes most or all of these methods. Characteristics of the UI system that control moral hazard by curbing disincentives to return to work include limited duration of benefits (usually 26 weeks),<sup>33</sup> the fact that income replacement is only partial,<sup>34</sup> and eligibility requirements regarding involuntary unemployment, history of labor force attachment, and work search and availability.<sup>35</sup> Because recipients are required to have a history of stable employment, are not unemployed by choice, and receive benefits that are temporary and significantly lower than the wages to which they are accustomed, it is reasonable to assume that most recipients want to reenter the labor force and are not trying to postpone reemployment. Instead of trying to affect the incentives of UI recipients who are already

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<sup>30</sup> See Lee Anne Fennell, *Relative Burdens: Family Ties and the Safety Net*, 45 WILLIAM & MARY L. REV. 1453, 1504-06, 1505 n.130 (2004) (discussing moral hazard in the insurance context, as well as the provision of reemployment bonuses as a potential cost-limiting action).

<sup>31</sup> *Id.* at 1504.

<sup>32</sup> *Id.* at 1505.

<sup>33</sup> Williams & Woo, *supra* note 11, at 480.

<sup>34</sup> “The historical standard for defining benefit levels has been a 50% wage replacement. . . . [W]hether that level is sufficient to cover ‘necessary expenses’ has been questioned.” *Id.* at 483-84.

<sup>35</sup> States are required to have monitoring systems in place to ensure that UI recipients are actively seeking work. *Id.* at 504.

willing and eager to return to work, the UI system can better promote reemployment by providing additional resources to help recipients qualify for and find work.

Because most workers do not require an additional incentive to return to work, providing reemployment bonuses to unemployed workers may cause more problems than they solve. A frequent criticism of reemployment bonuses has been that offering a bonus will not significantly affect rates of employment, since reemployment bonuses do not create new jobs. According to Decker, “If all unemployed workers generally compete for a limited number of job vacancies, claimants who find positions more quickly because they receive a bonus offer may displace other unemployed workers from these jobs.”<sup>36</sup> While this may not be a bad thing in itself, it is hardly the result that proponents of reemployment bonuses might expect.

A more problematic result of introducing bonuses into a system that already balances reemployment incentives and disincentives may be the skewing of incentives in ways that are detrimental to the long-term interests of both individuals and society. According to Fennell, exerting too much control in the insurance context can cause problems:

There is another side to the controllability of costs. . . . Some things that families might do to control costs are not in the long-term interests of either the dependent person or the caretaker. In these cases, creating or maintaining incentives towards cost control actually could prove counterproductive. To put this another way, there is a potential silver lining to what we normally think of as ‘moral hazard.’ Sometimes people make decisions that are normatively better when they are not given an incentive to control costs. In these

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<sup>36</sup> Decker, *supra* note 2, at 306.

cases, public provision of assistance would not create a distortion against controlling costs, but rather would work to correct a distortion in favor of controlling costs.<sup>37</sup>

To put this in the context of UI, unemployed individuals may be able to make decisions that are in their own (and often society's) best interests when they are not given an incentive (in this case, a reemployment bonus) to control costs. This reflects the earlier point that UI promotes stability by allowing workers to make decisions that are in their best interests without being forced to accept work beneath their previous wages and skill levels in order to make ends meet. By offering a reemployment bonus, the government may be taking workers' eyes off of their long-term interests and focusing their gaze instead on a short-term reward. This is one way in which the goal of promoting reemployment in the UI system is often at odds with the goal of facilitating better job matching and preventing downward mobility. As discussed in the next section, meeting the latter goal may mean allowing individuals to pursue a course that does not lead to immediate reemployment.

### **C. Preventing Downward Mobility and Facilitating Better Job Matching**

As mentioned previously, UI benefits make it possible for recipients to remain unemployed longer than they could without the receipt of such benefits. This gives recipients the opportunity to conduct more extensive job searches and find work that effectively utilizes their current skills and experience and that pays wages that will allow

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<sup>37</sup> Fennell, *supra* note 30, at 1506.

them to maintain a standard of living to which they are accustomed. Another way of saying this is that UI facilitates job matching and prevents downward mobility.<sup>38</sup>

Preventing downward mobility and facilitating better job matching have been described as important (if not primary) purposes of the UI system. “Maximum utilization of a worker’s skills and experience [i.e., job matching] is a recognized goal of the unemployment compensation system.”<sup>39</sup> Other scholars have noted that “the very premise of unemployment insurance is the maintenance of economic stability in the unemployed worker’s life [i.e., the prevention downward mobility] until she is able to find another job.”<sup>40</sup>

Recognition of these objectives has been incorporated into the current UI system in the form of a limitation placed on the requirement that UI recipients be available for work. Benefit recipients are not expected to accept work outside their field of previous employment or that would lead to a significant reduction in wages or the underutilization of their skills.<sup>41</sup> Thus, the recipient need not be available for any work opportunities, only for those that would constitute “suitable” work. However, the longer the recipient remains unemployed without finding “suitable” work, the more this limitation is relaxed to include work at a lower wage or outside the individual’s field of expertise.<sup>42</sup>

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<sup>38</sup> While facilitating job matching and preventing downward mobility are distinct goals, they are related, and this comment often refers to them interchangeably. However, it should be noted that these goals may at times conflict (e.g., a worker may accept a job that is an efficient use of her skills but pays substantially less than her previous job). In such cases, deciding which goal is preferable can be tricky and involves weighing benefits to society against benefits to the individual. This discussion is beyond the scope of this comment. In passages of this comment where it is unclear which of the goals is being addressed, the reader should assume that the goal being addressed is preventing downward mobility, as this seems to be most relevant to the concerns of individual workers.

<sup>39</sup> Casebeer, *supra* note 13, at 327 (citation omitted) (quoting Vermont Supreme Court in *In re Potvin*).

<sup>40</sup> Williams & Woo, *supra* note 11, at 482.

<sup>41</sup> 2 MARK A. ROTHSTEIN, EMPLOYMENT LAW 350, 396 (2d ed. 1999).

<sup>42</sup> *Id.* at 398-99.

Unfortunately, the rise in long-term unemployment since the inception of the UI system has made downward mobility a reality for many workers. Studies have shown that the proportion of unemployed workers on temporary layoffs is decreasing, suggesting that a higher proportion of workers are facing permanent layoffs.<sup>43</sup> In addition, workers are staying unemployed for longer periods of time than before. The percentage of workers unemployed for at least 15 weeks has increased steadily over several decades.<sup>44</sup> When workers do find work, it is often at wages significantly lower than those of their previous job. According to one study, “One to three years after losing their jobs, half [of permanently laid-off workers] were either not working or had new jobs with weekly earnings of less than 80% of their prelayoff earnings.”<sup>45</sup> In addition, several studies showed that “five years after their job loss, the wages of dislocated [i.e., permanently laid-off] workers . . . were still about 15% lower than their predislocation levels. . . . Unemployment insurance claimants who exhaust their benefits have especially high earnings losses.”<sup>46</sup> These statistics illustrate that the goals of promoting job matching and preventing downward mobility are not being realized for many (if not most) unemployed workers.

The current UI system is poorly suited to deal with the rise in long-term unemployment. Although the federal government may extend the duration of UI benefits during times of recession,<sup>47</sup> the standard benefit term is 26 weeks and “was designed to

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<sup>43</sup> Corson & Decker, *supra* note 2, at 7.

<sup>44</sup> *Id.* at 7-8.

<sup>45</sup> *Id.* at 5.

<sup>46</sup> *Id.* at 5-7.

<sup>47</sup> In response to the post-September 11 recession, Congress enacted the Job Creation and Worker Assistance Act of 2002, which temporarily extended the standard UI benefit period from 26 weeks to 39 weeks. See Robert W. Oast, Jr., *Treading Water in Slow Economic Times and Recovering from Disaster: The Job Creation and Worker Assistance Act of 2002*, 34 URB. LAW. 927, 932 (2002).

meet the cyclical unemployment problems of industrial society.”<sup>48</sup> UI benefit payments are intended to bridge the period between jobs for workers experiencing temporary layoffs and are “premised on the assumption that workers can find work if they simply try.”<sup>49</sup> As a result, they are inadequate for addressing lengthened unemployment spells and the difficulties today’s workers face in finding jobs that match their skills and prior wages.

While the UI system as currently constituted is not equipped to deal with long-term unemployment, it still serves an important role in providing at least temporary support to unemployed workers. Eliminating UI completely would likely do more harm than good. Instead, UI should be restructured or additional programs instituted that would help UI recipients overcome the effects of long-term unemployment. A clue as to how this could be accomplished is found in the following statement by William Norwood regarding the current UI system:

“One of the things that I began to realize is that the early concept of availability for work had somehow gotten distorted into instant availability. . . . In some instances, what we really ought to have been doing was encouraging people to be entering training, rather than to be immediately available for the first job that came along. To upgrade their skills, take advantage of the time between jobs to move up in the occupational hierarchy.”<sup>50</sup>

The ease with which UI recipients may find new work depends in large part on possessing the skills that are valued by employers in today’s postindustrial economy. Thus, training is often critical to overcoming the effects of long-term unemployment. This is highlighted by the fact that the unemployed workers with the largest reductions in

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<sup>48</sup> Casebeer, *supra* note 13, at 342.

<sup>49</sup> Williams & Woo, *supra* note 11, at 483.

<sup>50</sup> Casebeer, *supra* note 13, at 343.

earnings typically include those with the least education.<sup>51</sup> On the other hand, job growth in the next ten years is expected to be most significant in high-skill industries, such as information technology, health services, and professional and business services, while the manufacturing industry is expected to experience a reduction in overall jobs.<sup>52</sup>

According to the White House webpage, “Two-thirds of America’s economic growth in the 1990s resulted from the introduction of new technologies – and 60% of the new jobs of the 21st century require post-secondary education held by only one-third of America’s workforce.”<sup>53</sup>

Unfortunately, receiving the training required for many of these new jobs is difficult for most UI recipients. Typically, UI recipients rely on their benefit payments for support and do not have additional financial resources to use for training. To make matters worse, the current UI system discourages training as an alternative to immediate reemployment. For example, the UI system does not permit UI trust funds to be used for retraining costs.<sup>54</sup> Federal and state job training programs are in effect, but they “are generally poorly funded, and serve only a small percentage of the eligible population.”<sup>55</sup> In addition, while these programs on their face provide resources to unemployed workers, administrative and other problems have prevented many of the funds from reaching the workers most in need of them.<sup>56</sup> Although UI recipients are technically “eligible to participate in training offered through programs operating under the authority of the Economic Dislocated Worker Adjustment Assistance (EDWAA) Act . . . these services

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<sup>51</sup> Corson & Decker, *supra* note 2, at 5.

<sup>52</sup> U.S. Department of Labor, Bureau of Labor Statistics, “Career Guide to Industries, Overview and Outlook,” <http://www.bls.gov/oco/cg/indchar.htm>, accessed November 1, 2004.

<sup>53</sup> The White House, “Better Training for Better Jobs,” <http://www.whitehouse.gov/news/releases/2004/04/print/20040405-7.html>, accessed November 1, 2004.

<sup>54</sup> Williams & Woo, *supra* note 11, at 484.

<sup>55</sup> *Id.*

<sup>56</sup> “Better Training for Better Jobs,” *supra* note 53.

have not been closely coordinated with UI and [the Employment Service], so few UI claimants have actually participated in the available training opportunities.”<sup>57</sup> Overall, only a small percentage of UI recipients or exhaustees benefit from current programs designed to provide job search assistance and training.<sup>58</sup>

Another way that the UI system discourages training is through the requirement that claimants be available for work. Historically, recipients of UI involved in long-term training programs were likely to be found ineligible for benefits on the premise that they were not available for work.<sup>59</sup> “In 1970, the federal unemployment insurance statute was amended to prohibit states from denying unemployment insurance benefits to unemployed workers in training for being unavailable for work, refusing to take suitable work, or failing to look for work, if the training was approved by the state agency.”<sup>60</sup> However, states were given autonomy “to determine what training is appropriate for a claimant,” as well as “what criteria are established for approval of training for an individual.”<sup>61</sup> In the intervening years, the change has had little effect, since “states have utilized the training approval mechanism infrequently, and the fund for retraining programs has remained inadequate.”<sup>62</sup> While many policymakers recognize the increased need for training among the unemployed,<sup>63</sup> efforts to make more training resources available to UI recipients have been largely ineffective.

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<sup>57</sup> Corson & Decker, *supra* note 2, at 4.

<sup>58</sup> *See id.* at 12-13.

<sup>59</sup> Williams & Woo, *supra* note 11, at 484.

<sup>60</sup> *Id.*

<sup>61</sup> Gerald Hildebrand, *Federal Law Requirements for the Federal-State Unemployment Compensation System: Interpretation and Application*, 29 U. MICH. J.L. REFORM 527, 550 (1996) (citation omitted) (citing USDOL, 1970 Draft Legislation).

<sup>62</sup> Williams & Woo, *supra* note 11, at 484.

<sup>63</sup> According to former U.S. Secretary of Labor Raymond Donovan, UI laws discourage workers from seeking jobs in new industries which may pay a lower initial wage but which may hold the possibility of rewarding new careers. This result simply does not make sense,

The current UI system, by discouraging training, is ineffective in preventing downward mobility. Facilitating the training of unemployed workers to qualify them for jobs in different industries at a similar or better standard of living would seem to be a good alternative to “work at a lesser skill and lower wages.”<sup>64</sup> Inasmuch as PRAs provide funds for training and more intensive job searches, they recognize a failing in the current system and are onto something good. However, this is only one aspect of the current PRA proposal, which also recommends providing bonuses as incentives for reemployment. The next section addresses the training and reemployment aspects of the PRA proposal and how effective they are as responses to the perceived shortcomings of the UI system.

### **III. The Bonus/Training Conflict in the PRA Proposal**

#### **A. PRAs and Choice**

Despite the UI system’s purported goals of promoting reemployment and preventing downward mobility, in at least some regards the system is ineffective in achieving these ends. The PRA proposal seems to focus on these two goals in ways that are designed to provide what is missing (or fix what is not working) in the current UI system.

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either for the individual worker or the economy as a whole. With the growth of new industries and declining employment in old industries, workers must be challenged to adjust their lives and their careers to meet changing conditions.

Casebeer, *supra* note 13, at 333-34 (citation omitted).

<sup>64</sup> *Id.* at 324.

The reemployment bonus aspect of the PRA proposal is designed to speed up the reemployment process for UI recipients, who have been shown to have longer average unemployment spells than unemployed workers who do not receive UI.<sup>65</sup> The bonus is available only to those PRA recipients who accept a full-time job within the first 13 weeks of receiving UI benefits.<sup>66</sup> Thus, the bonus would provide recipients with an incentive for more rapid reemployment. The size of the bonus (and consequently the incentive) would vary based on the amount remaining in the individual account (which would generally have a starting balance of \$3,000).<sup>67</sup> Thus, recipients who use PRA funds for other activities related to work search or training stand to receive a smaller bonus than recipients who do not engage in these other activities. Sixty percent of the bonus would be payable immediately upon acceptance of full-time work, with the remaining forty percent payable after six months of employment.<sup>68</sup>

In addition to providing a bonus connected to the speed of reemployment, PRAs may encourage more effective job placement by making funds available for work search or training. In general, the accounts would be administered through state One-Stop Career Centers and could be used for a number of activities related to job training and work search, including child care and transportation.<sup>69</sup> To monitor use of the funds, recipients would receive vouchers instead of cash, which could then be used “to purchase

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<sup>65</sup> Corson & Spiegelman, *supra* note 20, at 6.

<sup>66</sup> Decker & Perez-Johnson, *supra* note 8.

<sup>67</sup> *Id.* States would determine the size of the individual accounts (up to \$3,000) and would have flexibility in designing the program. *Id.*

<sup>68</sup> *Id.*

<sup>69</sup> *Id.*

the full range of services offered by One-Stop Career Centers.’’<sup>70</sup> PRA recipients would have 12 months to use the funds.<sup>71</sup>

While the PRA proposal tries to address the failures of the current UI system in promoting reemployment and preventing downward mobility, it also brings into sharp focus the potential conflicts between these two goals.<sup>72</sup> One conflict may arise when a worker’s current skill set is no longer useful in securing adequate employment, either because jobs for which that worker is qualified are in short supply or would lead to a much lower standard of living. In this case, focusing on reemployment will likely lead to downward mobility and an inefficient match between the worker’s qualifications and the new job. On the other hand, finding a job that supports the worker’s accustomed standard of living will often involve enrolling the worker in a course of training to update her skills. While an appropriate step to preventing downward mobility, pursuing such training opportunities does not usually lead to immediate reemployment.

The fact that the goals of rapid reemployment and job matching may conflict in some respects does not necessarily mean that the combination of these goals within the PRA proposal is fatal to the effectiveness of PRAs. Because PRA recipients may choose between using the accounts for a more extensive job search or accepting a present opportunity and receiving the bonus, the program theoretically empowers recipients to make the choice that best suits their current needs and long-term interests. PRA

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<sup>70</sup> *Id.* It is unclear to what extent PRA recipients would be able to use the accounts to purchase training and other services from the marketplace rather than One-Stop Career Centers. Secretary of Labor Elaine Chao has suggested that PRA recipients could purchase services from the marketplace. USDOL News Release, *supra* note 7. Decker & Perez-Johnson suggest that PRA recipients would be given more control and flexibility in their use of resources than are currently granted to other customers of One-Stop Career Centers. Decker & Perez-Johnson, *supra* note 8.

<sup>71</sup> Decker & Perez-Johnson, *supra* note 8.

<sup>72</sup> Of course, these goals are not always conflicting and may work together in some instances (e.g., in helping a worker to find the best immediately available job).

proponents have repeatedly emphasized how the accounts would incorporate this element of personal choice. As Labor Secretary Chao has said,

Personal Reemployment Accounts will empower unemployed and dislocated workers with more control over selecting their own training and career paths. It's part of the President's commitment to building an ownership society. That's simply another way of saying that we trust individual workers to know what training courses to choose and to decide what job options they prefer.<sup>73</sup>

President Bush has also asserted that workers would be able to decide how to use their accounts.<sup>74</sup> In reality, though, this ability to choose is limited under the current PRA proposal.

The most obvious and perhaps most important limitation is that the accounts are only to be used for activities related to job search or training.<sup>75</sup> In this respect, PRA recipients have far less autonomy with the use of those funds than UI recipients have with the use of UI benefits (although in most cases PRA recipients will receive UI benefits at the same time, at least until those benefits expire). One could reasonably suppose that One-Stop Career Centers, which would administer the accounts, would not defer to a recipient's decision to use the account to pay for a big screen television, as this would fall outside the scope of uses related to job search or training. PRAs are available for a wide enough range of services, though, that recipients would seemingly not be too restricted in their use of the accounts. PRA recipients may even be able to use the accounts to pay for some activities only tangentially related to job search and training, such as housing and

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<sup>73</sup> USDOL News Release, *supra* note 7.

<sup>74</sup> See George W. Bush, Remarks on Employment Training at Northern Virginia Community College (June 17, 2003) (transcript available at <http://www.whitehouse.gov/news/releases/2003/06/20030617-3.html>).

<sup>75</sup> See Decker & Perez-Johnson, *supra* note 8.

childcare.<sup>76</sup> Also, once the recipient has obtained a job she receives the remainder of the account in cash,<sup>77</sup> suggesting that there would then be no restrictions on its use.

Because the accounts would be administered through One-Stop Career Centers, use of the accounts may also be limited by the services available through those centers. It remains to be seen whether services would also be available from the private sector, although according to a Department of Labor news release, PRAs could be used “to purchase job training and supportive services and products from either the marketplace or public One-Stop Career Centers.”<sup>78</sup> Of course, such flexibility is only theoretical at this early stage of the program. It remains to be seen how much autonomy recipients will have when the accounts are actually administered.

There is a more subtle but potentially powerful influence affecting the autonomy of PRA recipients. This lies in the powerful incentive PRAs provide for recipients to focus on short-term results (e.g., obtaining a job, perhaps at a lower reservation wage, in order to receive a bonus) instead of long-term opportunities (e.g., using the account for training, with a more uncertain result in terms of immediate job opportunities). In other words, the PRA program, while providing funds for training and extensive work search, discourages use of those funds for purposes other than immediate reemployment. Thus, PRAs do not maintain a balance between the goals of reemployment and preventing downward mobility. This partiality for swift returns to work influences the choices of PRA recipients regarding use of the accounts, making it more difficult for them to make objective decisions that are in their long-term interests. The next section addresses how this partiality is manifested in the current PRA proposal.

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<sup>76</sup> See *Under the Capital Dome*, *supra* note 4 (listing permissible uses of PRAs under 2004 House bill).

<sup>77</sup> See ETA, *Personal Reemployment Accounts*, *supra* note 3.

<sup>78</sup> USDOL News Release, *supra* note 7.

## **B. PRAs Discourage Job Training**

As discussed in Part II, reemployment bonuses may create a distortion in favor of speedy returns to work. In theory, the provision of funds to be used for work search or training may help to correct this distortion, thus balancing incentives so the recipient can choose between returning to work or holding out for a better job, based primarily on what is in the individual's (and often the economy's) long-term interests. However, other factors may complicate the decision making process for the individual.

Under the current proposal, the reemployment bonus and job search/training funds come from the same small coffer, which might force the recipient in some cases to choose between receiving the bonus by accepting immediately available employment (potentially at a lower wage) or forgoing the bonus by using the account to finance a more extensive job search or course of training. Thus, the current proposal increases the cost to the recipient of receiving training, because it means that she must give up a sizable cash bonus to do so. While many recipients faced with this decision may choose to accept the first available job in order to receive the bonus, they might thereby sacrifice valuable training and future opportunities in the form of more stable or profitable employment.

Another way in which the current proposal discourages the use of PRA funds for training purposes is by focusing recipients on short-term rather than long-term results. The best example of this is the 13-week reemployment deadline for those who would like to take advantage of the bonus option, which makes the focus for PRA recipients the speed of reemployment rather than the quality of employment. In addition, the accounts themselves are only available to recipients for 12 months, which again might emphasize

short-term results over long-term stability. This is particularly a problem if the desired course of training is longer than a year in duration or if the recipient must wait for a training program to begin.

It remains to be seen whether One-Stop Career Centers, which would administer the program, will emphasize rapid reemployment over long-term training opportunities. It may be easier for PRA administrators to help recipients find work based on their current limited skill sets rather than looking for ways to expand such skill sets through training opportunities. Focusing on immediately available jobs, even at reduced wages, may also be considered less risky than pursuing training programs with less certain employment outcomes. However, by avoiding risk in this way, PRA recipients will likely limit their future opportunities and be less of a benefit to society, which often benefits from individual risk-taking and investment in the future.

Finally, the obstacles to training already inherent in the UI system would also cause difficulties for those who want to use PRAs for training purposes.<sup>79</sup> Even with account funds available for training programs, PRA recipients may have trouble supporting themselves after their UI benefits expire. This would limit the ability of recipients to engage in more extended training programs for acquiring certain marketable skills. The current obstacles faced by federal and state job training programs could also limit the effectiveness of the PRA training option, since training coordinated through One-Stop Career Centers would likely involve such programs.

Despite these disincentives, some recipients will probably choose to use the accounts for job search and training services. By implementing the current PRA proposal, we may even see a net increase in job search assistance and training among UI

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<sup>79</sup> See *supra* Part II-C (discussing such obstacles).

recipients. However, for this increase to be significant, and for PRA recipients to have greater control in using the accounts for their best interests, PRAs should provide more incentives for recipients to use the accounts for training purposes. The next section discusses how providing such incentives will help benefit workers and society.

### **C. PRAs Should Promote Job Training**

Given their name, it should not be surprising to anyone that Personal Reemployment Accounts focus mainly on promoting reemployment. However, immediate reemployment is not always in the best interests of workers or society. While job training is not always preferable to immediate reemployment, there are several reasons why PRAs should do more to promote job training. To better understand these reasons, it may help to compare the benefits that workers and society can expect to receive from programs that promote reemployment and those that promote training.

A seemingly obvious reason for promoting reemployment is to reduce the costs borne by state UI funds, several of which have been teetering on the verge of insolvency in recent years.<sup>80</sup> However, reemployment bonuses have operated at a loss in some demonstration projects, and therefore may not be the most cost-effective way of speeding up the reemployment process.<sup>81</sup> In addition, providing a bonus may have little effect on the overall employment level and instead only impact *who* receives work in industries with few job openings, rather than *how many* receive work. Those receiving bonuses

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<sup>80</sup> See Nancy Vogel, Jobless Fund to Hit Employers, L.A. Times, December 15, 2003, at B1; Stephanie Simon, Aid to Jobless Devastating State Finances, L.A. Times, January 21, 2003, at A10.

<sup>81</sup> Decker, *supra* note 2, at 306; Corson & Decker, *supra* note 2, at 14. According to Duane Leigh, “[E]stimated effects on weeks of UI receipt are about the same as those achieved, but at much lower cost, in demonstration projects testing the effectiveness of more closely monitoring work search behavior.” *Supra* note 9, at 210.

may merely be displacing the workers who would otherwise have received the jobs, resulting in little net benefit to society.<sup>82</sup>

Promoting reemployment through reemployment bonuses may benefit individuals in some cases by motivating them to intensify their work search. However, there are problems with the argument that workers need a bonus to incentivize them to return to work.<sup>83</sup> Also, as discussed in Part II-C, long-term unemployment has led to an overall reduction in wages for dislocated workers, and trying to speed up the reemployment process might only exacerbate this problem. Providing a bonus may create an incentive for workers to accept work not suited to their skills or at a lower reservation wage.<sup>84</sup>

On the other hand, providing training so dislocated workers can acquire skills that are in demand and transition to industries with more job openings may increase their long-term job security. This also benefits society by moving workers from highly saturated industries to industries where skilled workers are needed. This could have the overall effect of decreasing unemployment. Training programs also create skills that may benefit society, whereas reemployment bonuses may lead to the loss of skills if jobs that utilize a worker's past experience and skills are not immediately available. In addition, participation in training programs may help individuals qualify for jobs that provide wages comparable to or better than their previous wages.

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<sup>82</sup> See Decker, *supra* note 2, at 306; Carl Davidson & Stephen A. Woodbury, *From Social Experiment to Program: The Reemployment Bonus*, in PHILIP K. ROBINS & ROBERT G. SPIEGELMAN, eds., REEMPLOYMENT BONUSES IN THE UNEMPLOYMENT INSURANCE SYSTEM: EVIDENCE FROM THREE FIELD EXPERIMENTS 175, 195-98 (2001) (describing a study demonstrating the "crowding-out effects" of providing reemployment bonuses to a limited number of UI recipients).

<sup>83</sup> See *supra* Part II-B.

<sup>84</sup> At least one study suggests that providing reemployment bonuses does not adversely affect job matches. See Corson & Spiegelman, *supra* note 20, at 1. However, as effective matching may be reduced by bonuses in individual situations (even if not in the aggregate), and as training programs may result in more long-term stability and opportunities (and thus potentially increase quality of job matches), PRAs should still balance incentives to accept a bonus with incentives to participate in training.

Another benefit of removing the obstacles to training in both PRAs and the current UI system is that it would give workers the opportunity to make decisions based on their long-term interests. Rather than making it more costly for workers to focus on the long term (e.g., by denying them a bonus if they use funds for extended training programs), PRAs should help people overcome pre-existing incentives to act only in their short-term interests. As illustrated above, pursuing training opportunities can be beneficial to both individuals and society. Therefore, PRA recipients should be allowed to do just that.

While in many situations training for the better future job is preferable to taking the immediately available job, I do not propose making it difficult for workers to choose to receive a bonus if this would be in their long-term interests. I do propose balancing the incentives to choose immediately available work (and thereby a bonus) with incentives to receive training that would qualify the worker for better paying and more stable future employment. Ultimately, the worker must decide what is good for her in terms of not only short-lived benefits but also long-term opportunities and stability. However, because the current system makes it difficult to accept training opportunities (e.g., by giving workers no means of support while in training programs), this choice is taken away from workers. The next section will recommend ways in which the PRA proposal can be altered to accommodate workers who would choose to participate in training programs if current obstacles to training were removed.

#### **IV. Recommendations**

Adequate consideration of what measures could be taken to promote training in the PRA context would require additional research to determine the viability, cost, and long-term effectiveness of the various approaches. However, the following recommendations may serve as a starting point for further research and discussion and provide insights into how PRAs could better promote training.

**A. Extend the Length of UI Benefits for Workers Involved in Training**

The greatest obstacle to unemployed workers using PRA funds for job training may be the difficulty those workers would face in supporting themselves and their families while participating in training programs. Although all PRA recipients would also receive UI benefits, they likely would exhaust those benefits before completing an extensive training program. This could have the effect of forcing PRA recipients into the labor force before their training is complete (especially since PRAs can only be used for work search or training purposes and not for subsistence purposes).

The length of UI benefits should be extended for workers involved in approved training programs.<sup>85</sup> This would remove the deterrent for PRA recipients to use their accounts for training and might actually encourage them to pursue a course of training when it would be in their long-term interests. Program administrators, while allowing recipients to choose which courses of training to pursue, should monitor recipients' involvement in training. Such monitoring would ensure that recipients are not merely using the training option as a pretext for receiving more benefits.

In addition, legislators and UI administrators should work to remove the other obstacles to training that exist in the current UI system. Because only current or former

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<sup>85</sup> Leigh, while recommending caution in extending the length of UI benefits generally, suggests that in some circumstances benefits should be extended for “displaced workers engaged in long-term education and training programs.” Leigh, *supra* note 9, at 209, 211-12.

UI recipients can qualify for PRAs,<sup>86</sup> those who want to take advantage of the accounts for training must first qualify for UI benefits. Although individuals involved in training can qualify for benefits under current law,<sup>87</sup> states have rarely approved benefits for those involved in training programs.<sup>88</sup> States should make it easier for those participating in training to receive UI by relaxing the criteria for approved training programs. Also, the federal government should do more to enforce the requirement that states provide benefits to recipients involved in approved training programs (e.g., monitor state compliance or link state receipt of PRA funds to relaxing criteria for approved training).

### **B. Offer Bonuses to Those Who Find Work After Receiving Training**

The current PRA proposal rewards those who quickly find and accept a new job but would not typically reward those who find a job after first completing training that qualifies them for employment in another trade or industry. These imbalanced incentives do not reflect the value of training as an alternative that is beneficial to both individuals and society. While retaining a bonus for those who find a job within the first 13 weeks of receiving benefits, PRAs should also provide a bonus for workers who find a job after completing an approved course of training. One way of doing this would be to “stop the clock” for workers involved in training, so that the time spent in training would not count toward their 13 weeks. This change would still promote reemployment after training is completed, because recipients would still be required to find a job before receiving a bonus.

### **C. Create Separate Bonus Accounts**

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<sup>86</sup> ETA, *Personal Reemployment Accounts*, *supra* note 3.

<sup>87</sup> See Williams & Woo, *supra* note 11, at 484.

<sup>88</sup> See Hildebrand, *supra* note 61, at 550.

Another problem with the current PRA proposal is that any money spent on job search or training reduces the amount available as a cash reemployment bonus. Legislators and program administrators should consider creating a separate bonus account, one that is not linked to the training account. This would encourage workers to use their accounts for job search and training and discourage them from trying to increase their potential bonus by not using the accounts for other purposes. However, due to limited government resources, creating a separate account would probably limit funds for work search and training by tying up available funds in a bonus account. The potential benefits of this recommendation should therefore be carefully weighed against any negative impacts that might result from creating separate accounts.<sup>89</sup>

#### **D. Emphasize Training as an Alternative to Immediate Reemployment**

Finally, One-Stop Career Center personnel administering the accounts should be required to emphasize both alternatives (i.e., immediate reemployment and training) to PRA recipients.<sup>90</sup> The purpose of this would not be to push recipients toward one approach or the other but to allow recipients to make an informed decision based on all of the available alternatives. However, where the recipient is unsure of which path to pursue, administrators could provide information regarding current training opportunities, especially those that would qualify the recipient for jobs in growth industries. The ultimate decision, though, should be made by the PRA recipient.

### **V. Conclusion**

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<sup>89</sup> Another way of encouraging PRA recipients to use the funds for work search and training would be to eliminate the bonus altogether, although this would likely be seen as undermining the goal of promoting reemployment. Also, workers may use their funds more efficiently in qualifying for and finding new work when they know that they will receive a bonus if they succeed in finding a job.

<sup>90</sup> This is a less drastic approach that would likely be insufficient as a way of promoting training without the inclusion of one of the previous recommendations.

My purpose in writing this comment is not to suggest that PRAs should be used exclusively for providing long-term training to UI recipients. I am suggesting a more balanced approach that would take into account the special needs of individual recipients and the social and individual benefits that could be derived in certain cases by pursuing long-term alternatives. The recommendations described in the previous section would help enable PRA recipients to choose training instead of immediate reemployment, thus giving recipients more freedom to pursue the course of action that they feel promotes their best interests. PRAs are a good idea to the extent that they will give UI recipients the means to make this choice without being compelled by financial necessity (or influenced by tempting, but ultimately insignificant, rewards) to settle for work with lower wages, less long-term stability, or fewer opportunities for advancement. Giving this choice back to unemployed individuals is the key to the effectiveness of PRAs.