

Unemployment Benefits and Job Searches

BY DAVID A. PRICE

In July, President Obama signed legislation to extend the availability of federally funded unemployment benefits for workers who have exhausted their state unemployment benefits. Opponents of the measure, titled the Unemployment Compensation Extension Act of 2010, contend that unemployment benefits are a disincentive for recipients to seek new jobs; extending the benefits, these critics say, prolongs the recipients' unemployment.

How much, if at all, do unemployment benefits affect job searching? Labor economists have studied this question for decades. In 1977 Northwestern University's Dale Mortensen developed a seminal model relating unemployment benefits to job-search effort. Mortensen predicted that although rising benefits would depress job-search effort on the part of those workers eligible for benefits, they would also motivate some workers who have exhausted their benefits to try harder to find a job — because holding a job gives a worker rights in future unemployment benefits, and so increasing benefits makes job-holding more valuable. (Mortensen shared the 2010 Nobel Prize in economics for his work on labor markets.)

Subsequent research has found that hikes in unemployment benefits are indeed associated with longer periods of joblessness and also that the rate at which recipients find jobs goes up when they run out of benefits. Are these relationships the result of incentive effects on the recipients' efforts to find jobs?

Alan Krueger of Princeton University and Andreas Mueller, a Ph.D. student at Stockholm University's Institute for International Economic Studies, looked at the question in a new way by analyzing how much time workers spent on job searching. Krueger and Mueller relied on data from the American Time Use Survey (ATUS) of the Bureau of Labor Statistics and the U.S. Census Bureau. Since 2003, ATUS has measured the amount of time people spend each day in various activities, such as in paid work, child care, household tasks, and shopping. Interviewers collect this information from respondents by telephone. Some activities that the ATUS counts as job searching include researching job openings, completing job applications, sending out resumes, interviewing, and related travel.

The authors looked at ATUS data on 2,171 unemployed individuals whom they divided into four groups: those who had lost their jobs, those who expected to be recalled to

work by their previous employer, those who had voluntarily left their jobs, and those who had newly entered or re-entered the work force. (The first and second of these groups are typically eligible for benefits; the third and fourth generally are not.) They incorporated the data on time usage — specifically, the number of minutes per day spent on job searching — into regression models as the dependent variable. The regressions also included the maximum weekly benefit amount (which varies from state to state), education, gender, marital or cohabitation status, the presence of children in the household, and other independent variables.

For workers who were eligible for unemployment benefits and who were not expecting to be recalled to their jobs, Krueger and Mueller found that they devoted less time to job searching as the maximum weekly benefit amount went up. The search efforts of those workers with more limited financial resources responded more strongly to unemployment benefits: The relationship was stronger for low-income workers (annual household incomes below \$25,000) than for other workers, and it was stronger for workers who did not have work-

ing spouses or partners than for those who did. In contrast, for workers who were ineligible for benefits, the regressions indicated no statistically significant relationship between unemployment benefits and job searching.

The authors also found that the amount of time spent on job searching varied as the end of the worker's eligibility approached, which occurs in most state programs after week 26 of unemployment. For workers eligible for benefits, the time spent on job searching increased dramatically between weeks 15 and 26, from less than 20 minutes per day to more than 70 minutes. And when a worker's benefits expired, the time spent on job searching dropped back to roughly 25 minutes, near their original levels. "One possible explanation," they wrote, "is that the unemployed become discouraged if they fail to find a job despite increasing their search effort before UI benefits run out." For ineligible workers, the time spent on job searching was "fairly flat" over time.

Krueger and Mueller are conducting a follow-up study with a larger sample of more than 6,000 unemployed workers, who are being surveyed on a weekly basis to track how their search time changes over the period of unemployment, how they adjust their reservation wage (that is, the lowest amount they are willing to work for), and whether they receive job offers, among other issues. **RF**

"Job Search and Unemployment
Insurance: New Evidence from Time Use
Data." Alan B. Krueger and Andreas
Mueller. *Journal of Public Economics*.
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