

October 2013

IN THIS ISSUE

- Extended Unemployment Benefits and Unemployment Spells
- The Employment Effects of Changes in Public Health Insurance
- Finding New Ways to Encourage Educational Attainment
- Employment Dynamics and Business Cycles
- Changing Patterns in the Assimilation of Immigrants
- Juvenile Incarceration and Later Criminal Activity

Extended Unemployment Benefits and Unemployment Spells

Extensions of the number of weeks for which unemployed workers were able to receive unemployment insurance (UI) benefits in the previous two recessions caused these beneficiaries to stay unemployed a little longer than usual, according to new research by **Henry Farber** and **Robert Valletta**. In **Do Extended Unemployment Benefits Lengthen Unemployment Spells? Evidence from Recent Cycles in the U.S. Labor Market** (NBER Working Paper No. 19048), the authors report that extended UI benefits did not delay the unemployed from getting jobs. Rather, it delayed them from exiting the workforce entirely. Although this effect is relatively small, it is large enough for extended benefits to make a substantial contribution to the increase in long-term unemployment in recent years.

Since extended benefits

became available in different states at different times, the authors were able to exploit the differ-

“Extended UI benefits in the aftermath of the Great Recession raised the average duration of unemployment by 7 percent and caused the unemployment rate to increase by 0.4 percentage points.”

ences in the timing of extensions, and in their length, to estimate the disincentive effect of UI benefits through late 2012. They conclude that “...extending unemployment insurance benefits in weak labor markets has virtually no effect on the rate of job finding but, on average, unemployment spells are somewhat longer as a subset of UI recipients remain nominally unemployed rather than exit the labor force.”

During the last few years, unemployed workers were eligible to receive UI benefits for an unprecedented maximum of 99

weeks in most states, compared with the normal UI availability of 26 weeks. The study finds that

these extended UI benefits in the aftermath of the Great Recession prolonged the average duration of unemployment by 7 percent and caused the unemployment rate to increase by an extra 0.4 percentage points. The same dynamic occurred during the much milder downturn of the early 2000s, but the effects were smaller because the extension of benefits was not as widespread, or as generous, as in the Great Recession.

Past empirical research has produced a range of estimates regarding the disincentive effects of UI benefits on job search in the

United States. The authors note that extending UI benefits today is probably less of a disincentive to finding a job than it used to be. In the 1970s and 1980s, companies often used temporary layoffs to reduce their workforce during downturns—and sometimes timed their recalls to coincide with the end of unemployment insurance benefits. This is less common now. More generally, job availability during the Great Recession and its aftermath was so limited, and extended benefits were so much more widely available than in previous downturns, that past results regarding disincentive effects may not apply.

The study notes that even in recessions, the vast majority of

the unemployed find jobs relatively quickly. In the aftermath of the mild recession of 2001, for example, only about 10 percent of unemployment spells lasted at least 6 months. The corresponding percentage in the aftermath of the Great Recession was only slightly higher, at 13.7 percent. Thus, extended unemployment benefits affect only a minority of job losers. After the 2001 recession, job losers whose unemployment duration placed them in the top fifth of the distribution were unemployed for an average of 5.4 months. The authors estimate that this group experienced one extra week of unemployment due to extended benefits. By contrast, in the aftermath of the Great

Recession, during 2009–11, individuals in the top fifth of the unemployment distribution were unemployed for an average of 6.8 months, and experienced about two extra weeks of unemployment due to extended benefits.

The study concludes that extended UI benefits boost the unemployment rate slightly, accounting for 0.12 percentage points of the 5.4 percent U.S. unemployment rate in 2003 and 0.40 percentage points of the 9 percent unemployment rate in 2010. However, among unemployment spells that last at least six months, extended UI has a larger effect and may account for up to one quarter of observed long-term unemployment.

—Laurent Belsie

The Employment Effects of Changes in Public Health Insurance

Craig Garthwaite, Tal Gross, and Matthew Notowidigdo study the labor supply effects of one of the largest public health insurance disenrollments in U.S. history. This disenrollment occurred in 2005 in Tennessee. The state, facing mounting deficits, discontinued its expansion of TennCare, the state's Medicaid system. Approximately 170,000 residents abruptly lost public health insurance coverage.

In **Public Health Insurance, Labor Supply, and Employment Lock** (NBER Working Paper No. 19220), the authors analyze both across- and within-state variation in exposure to the disenrollment. They find an immediate

increase in job search behavior and a steady rise in both employment and health insurance coverage following the disenroll-

ment. The study relies primarily on data from the Annual Social and Economic Supplement of the Current Population Survey to determine which Tennessee residents were insured, what form of health insurance coverage they possessed, whether they were working, and the number of hours they worked. The findings suggest that there is a powerful work disincentive from public health

“There is a powerful work disincentive from public health insurance eligibility.”

insurance eligibility, and also indicate a high valuation of health insurance among the individuals facing disenrollment.

The authors note that their findings may offer some insights on the way the Affordable Care Act may affect Medicaid enrollments, since those who lost TennCare coverage were very similar to individuals targeted by the ACA. The results imply a potentially large increase in Medicaid enrollments from the implementation of the ACA. In 2011, approximately 8.9 million Americans with incomes

below 139 percent of the poverty line were covered by employer-provided health insurance. The

authors estimate that if all states implement expanded Medicaid in response to the ACA, then

approximately 4.2 million of these privately insured individuals will move into public coverage.

— Matt Nesvisky

Finding New Ways to Encourage Educational Attainment

Finding ways to improve school attendance among low-income students in developing countries is a perennial challenge. In **Turning a Shove Into a Nudge? A “Labeled Cash Transfer” for Education** (NBER Working Paper No. 19227), **Najj Benhassine, Florencia Devoto, Esther Duflo, Pascaline Dupas, and Victor Pouliquen** study the results from the Tayssir pilot, a large government-run randomized controlled trial of the influence of small conditional and unconditional grants on school participation in Morocco for the academic years 2007–9. They find that small unconditional cash transfers explicitly labeled as providing for educational support produced large gains in school participation. The gains occurred even when parents knew that the grants would continue whether or not children attended school, and regardless of whether fathers or mothers received the money. The average annual transfer per household equaled about 5 percent of annual

expenditure. The administration costs of the program were kept low by the fact that targeting was

“Small unconditional grants provided an extra year of education for about 89 dollars in cash transfers and 10 dollars in administrative costs.”

community-based: in poor communities selected to receive grants, everyone in the community was eligible. Households only had to sign up at the local school to start receiving the transfers.

Over the two years of the program, the dropout rate for those who received the unconditional grants fell by 70 percent. The program also increased re-enrollment of those who had already dropped out by 85 percent, and cut the share of never-schooled by 43 percent. Scores on a basic arithmetic test improved. One arm of the study included grants that were conditional on school attendance. While those grants also improved participation, their impacts were somewhat smaller. Fewer students who had dropped

out re-enrolled, and there was no improvement in arithmetic scores. The authors estimate that in 2008

dollars, Tayssir’s small unconditional grants provided an extra year of education for about 89 dollars in cash transfers and 10 dollars in administrative costs.

The authors suggest that the strong results from the unconditional grants are due in part to an “endorsement effect” that occurs when a large pro-education government program enters poor communities: survey data show that this led parents to update their beliefs about the returns to education. They also point out that by removing ambiguity about who could receive benefits in a given geographic area, the grants program generated a benefit take-up that ranged between 73 and 97 percent.

— Linda Gorman

Employment Dynamics and Business Cycles

There is considerable debate about how firms of different sizes respond to the business cycle.

Some evidence shows that small firms are more sensitive to cycles, while other evidence finds that

larger firms are more sensitive. In **How Firms Respond to Business Cycles: The Role of Firm Age**

and Firm Size (NBER Working Paper No. 19134), authors **Teresa Fort, John Haltiwanger, Ron Jarmin and Javier Miranda** provide new evidence incorporating a key distinction between firm size and firm age.

Using a database of employer businesses in the United States from 1981 to 2010 along with cyclical indicators such as the unemployment rate, they find that distinguishing between young and old small businesses is of critical importance. Small, young businesses (firms that are less than 5 years old and have fewer than 20 employees) exhibited very different cyclical dynamics than small but older businesses. Older small businesses responded less to an increase in the unemployment rate than younger small businesses. In addition, young, small businesses were more sensitive to the business cycle than older, large businesses—those that are more than 5 years old and have over

500 employees. A rise in the state unemployment rate reduced the

“Young, small businesses were more sensitive to the business cycle than older, large businesses.”

differential in the net job creation rate between small, young businesses and large, mature businesses, and the effect persisted for a number of years. Therefore, young, small businesses were more vulnerable to business cycle shocks. The important decline in net job creation for small, young firms was the result of a fall in gross job creation and a large increase in job destruction. In contrast, among older businesses, the evidence of differences in cyclical dynamics based on size was mixed.

The authors attempt to explain why young, small businesses were hit especially hard in the Great Recession. Many of the hypotheses about why small firms should be more sensitive to changes in credit conditions than their large

firm counterparts are more relevant for startups and young firms

than for established small firms. Young, small firms typically rely on personal sources of finance, including home equity, to establish credit lines. Therefore, the pronounced variation in housing prices during the Great Recession would be especially pertinent for these firms. Using differences in housing price variations across states, the authors present evidence that the collapse in housing prices accounts for a significant part of the large decline of employment at young, small businesses. In this case, the results are driven by the greater responsiveness of young, small businesses within selected sectors such as construction, finance, insurance and real estate, retail trade, and services.

— Claire Brunel

Changing Patterns in the Assimilation of Immigrants

In The Slowdown in the Economic Assimilation of Immigrants: Aging and Cohort Effects Revisited Again (NBER Working Paper No. 19116), **George Borjas** finds a cohort effect not only in the level of immigrant earnings, with more recent immigrants having generally lower entry wages than immigrants did before the 1980s, but also in their rate of earnings growth, with more recent immigrants having a smaller rate

of economic assimilation compared to earlier immigrants. He suggests that this slowdown in

“Most immigrants arriving after the 1980s had a smaller rate of economic assimilation than those who arrived earlier.”

wage convergence reflects a decline in “human capital accumulation” tied to a decline in the rate at which more recent immigrants are acquiring English language skills.

The issues involving immigrant assimilation, human-capital accumulation, and wage conver-

gence have been widely studied for decades. Initial studies used cross-sectional data to compare the age and earnings profiles of immigrants and natives, and often found a rapid rate of wage conver-

gence with native workers. The difficulty with this approach is that cross-sectional comparisons may misstate the true rate of assimilation when there are substantial differences in earnings potential across immigrant cohorts. The current study uses data from the 1970 through 2010 Censuses to examine the evolution of immigrant earnings, and it focuses on immigrants who were 18 or older when they arrived in the United States.

The analysis finds different levels of earnings between those immigrants who arrived in the United States before and after the 1980s, but it also reveals that most immigrants arriving after the 1980s had a smaller rate of economic assimilation than those who arrived earlier. For immigrants who entered the country before the 1980s, their initial wage disadvantage compared to natives typically narrowed by around 15 percentage points during their first two decades in the United States. In contrast, the immigrants who entered the country after the 1980s have a much lower rate of wage convergence, and the evidence suggests there has not been any economic assimilation at all

for immigrants who entered the United States in the 1990s.

The author considers three factors that might have contributed to the slowing assimilation of immigrants over time: changes in U.S. macroeconomic conditions that affected immigrant and native wage structures differently; changes in the national origin composition of the immigrant population; and changes in the geographic settlement pattern within the United States of more recent versus past immigrants. He concludes that “the data convincingly show that none of these factors can account for the severe decline in the rate of assimilation.” The data instead suggest that part of the decline in assimilation appears to be connected to a discernible decline in the rate of human capital accumulation among recent immigrants. Specifically, immigrants who entered the country prior to the 1980s typically experienced a 15 percentage point increase in their fluency rate during their first two decades, while the cohorts who entered the country after the 1980s show only a 7 percentage point increase.

The study focuses on one fac-

tor that seems to explain part of the decline in the rate of economic assimilation and human capital accumulation: the growth in the size of the national origin groups from which recent, as opposed to historical, immigrants are drawn. The rate of increase in English language proficiency is significantly slower for larger national origin groups. This effect accounts for about a quarter of the concurrent declines in the rate of economic assimilation and the rate of human capital acquisition. Data from a number of immigrant groups — including Chinese, Filipinos, Cubans, Mexicans, and Indians — suggest that all of these large national origin groups exhibited a decline in the rate of assimilation between the cohorts who entered the United States in the late 1980s and the late 1990s. The author notes that the payoff for immigrants to learn English is likely tied to the frequency with which they use their language skills in everyday activities, and that the incentive to learn English is likely to be lower when immigrants find a large, welcoming ethnic enclave in the United States.

— Jay Fitzgerald

Juvenile Incarceration and Later Criminal Activity

In 2010, there were 70,792 incarcerated juveniles in the United States, a rate of 2.3 per 1,000 aged 10–19. Including those under correctional supervision, the United States has a juve-

nile corrections rate that is five times higher than the next highest country. In a life-cycle context, incarceration during adolescence may interrupt human and social capital accumulation at a criti-

cal moment, leading to reduced future wages and further criminal activity. More generally, interventions during childhood are thought to have greater impacts compared to interventions for

young adults due to propagation effects. Juvenile incarceration is also expensive, with expenditures on juvenile corrections totaling \$6 billion annually in the United States, and the average (direct) cost of incarcerating a juvenile equivalent to \$88,000 for a 12-month stay.

In **Juvenile Incarceration, Human Capital and Future Crime: Evidence from Randomly-Assigned Judges** (NBER Working Paper No. 19102), authors **Anna Aizer and Joseph Doyle, Jr.** estimate the effects of juvenile incarceration on human capital accumulation, as measured by high school completion and recidivism as an adult. The policy analysis of juvenile incarceration hinges in part on whether it enhances human capital accumulation or deters future crime and incarceration.

The study finds that for juveniles on the margin of incarceration, detention leads to both a decrease in high school com-

pletion and an increase in adult incarceration. The authors point out that there are a number of alternatives to juvenile incarceration. For example, Illinois has an array of such policies, including electronic monitoring and well-

“For juveniles on the margin of incarceration, detention leads to both a decrease in high school completion and an increase in adult incarceration.”

enforced curfews. Indeed, these substitutes for juvenile incarceration have been growing in popularity. The authors’ results suggest that their continued expansion could increase high school graduation rates and reduce the likelihood of adult crime still further.

The authors used a unique source of linked administrative data for a period of more than 10 years that covered over 35,000 juveniles who came before a juvenile court in Chicago, Illinois. These data were linked to both public school data for the same city and adult incarceration data

for the same state to investigate effects of juvenile incarceration on high school completion and adult imprisonment.

To consider the full set of costs and benefits of juvenile incarceration policies, the authors point out,

one must also consider the potential reduction in crime due to the incapacitation effect of incarceration as well as the deterrent effects of strict punishment on the criminal activity of other youths. They note that recent evidence suggests that juveniles’ criminal propensity is largely unaffected by penalties, which implies that this may be of second-order importance compared to the large decrease in high school completion and increase in adult incarceration associated with juvenile incarceration.

— Les Picker

NBER

The National Bureau of Economic Research is a private nonprofit research organization founded in 1920 and devoted to objective quantitative analysis of the American economy. Its officers are:

*James M. Poterba — President and
Chief Executive Officer
Kathleen B. Cooper — Chairman
Martin B. Zimmerman — Vice
Chairman*

The NBER Digest summarizes selected Working Papers recently produced as part of the Bureau’s program of research. Working Papers are intended to make preliminary research results available to economists in the hope of encouraging discussion and suggestions for revision. The Digest is issued for similar informational purposes and to stimulate discussion of Working Papers before their final publication. Neither the Working Papers nor the Digest has been reviewed by

the Board of Directors of the NBER.

The Digest is not copyrighted and may be reproduced freely with appropriate attribution of source. Please provide the NBER’s Public Information Department with copies of anything reproduced.

Individual copies of the NBER Working Papers summarized here (and others) are available free of charge to Corporate Associates and to the affiliates of other organizations, such as universities and colleges, with subscriptions. For all others, there is a charge of \$5.00 per downloaded paper or \$10.00 per hard copy paper. Outside of the United States, add \$10.00 per order for postage and handling. Advance payment is required on all orders. To order, call the Publications Department at (617) 868-3900 or visit www.nber.org/papers. Please have the Working Paper Number(s) ready.

Subscriptions to the full NBER Working Paper series include all 1000 or more papers published each year. Subscriptions are free to Corporate Associates. For others within the United States, the standard rate for a full subscription is \$8320; for academic libraries and faculty members, \$6760. Higher rates apply for foreign orders. The on-line standard rate for a full subscription is \$2000 and the on-line academic rate is \$940.

Partial Working Paper subscriptions, delineated by program, are also available. For further information, see our Web site, or please write: National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398.

Requests for Digest subscriptions, changes of address, and cancellations should be sent to Digest, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Please include the current mailing label.