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Personal Reemployment Accounts Tested

By William Conerly

Though been buried by campaign rhetoric, a small but important step has been taken in the right direction toward helping the nation's jobless get back into the work force.

Labor Secretary Elaine Chao has begun a \$9 million test program establishing personal re-employment accounts (PRAs) in seven states -- Florida, Idaho, Minnesota, Mississippi, Montana, Texas, and West Virginia.

PRAs provide benefits above regular unemployment insurance, and can be used by unemployed workers to pay for job training. If the worker gets a job ahead of deadline, a bonus is paid.

Mrs. Chao's PRA program is an alternative that provides more individual choice to workers and re-introduces market forces to the unemployment insurance system. Current unemployment systems in developed countries foster de-pendency on government and reduce self-sufficiency. In fact, all econometric studies on the subject

conclude the U.S. unemployment insurance system induces layoffs. The largest estimate is that during the depths of recession the system causes 50 percent of all layoffs.

Mrs. Chao's PRA initiative recognizes jobless benefits are a disincentive to re-employment. The program also recognizes and adopts the two major initiatives required for meaningful reform: PRAs and privatized unemployment insurance. And research supports the conclusion unemployment benefits reduce the net gain in employment. For example:

- The probability of a jobless person finding work rises dramatically the week before eligibility for benefits ends.

- The more generous benefits are relative to the worker's previous wage, the longer the average unemployment.

- Comparisons of workers with jobless benefits to those without them consistently show benefits increase the average

duration of unemployment.

- Workers offered reemployment bonuses found work faster.

Evidence supporting these conclusions come not only from the United States but also Canada and Europe, in general; specifically, Spain and Sweden. In Chile, both workers and their employers contribute to PRAs, but they are owned by the worker and can only be drawn on during unemployment. At retirement, the PRA is rolled into the worker's individual retirement account (IRA).

Mrs. Chao's program is exciting in three respects. First, it allows states to try different options. Although federal guidelines dictate the broad parameters, the seven states control their own pilot programs.

Innovation by states is a key welfare-reform element but has not been broadly used in unemployment programs.

The second advantage of Mrs. Chao's PRA program is that it incorporates a basic human insight: People respond to incentives. PRAs

prompt jobless workers to find work as soon as they can. By contrast, several studies show traditional unemployment insurance delays re-employment.

Finally, the program is exciting for its use of "One-Stop" centers for processing unemployment insurance claims. Some states have revitalized these centers into work-focused career offices, where rapid re-employment is the primary goal. Under the federally dictated traditional administrative structure, states have little or no incentive to reduce fraudulent claims or to accelerate re-employment.

PRAs are not a panacea for all problems faced by displaced workers, but they constitute an important experiment. Mrs. Chao's PRA initiative recognizes the public's desire for a safety net yet preserves incentives for re-employment without providing artificial incentives for layoffs.

We must be ready to expand PRAs nationwide. Unlike traditional unemployment insurance programs, personal re-employment accounts can enable us to better help the unemployed meet their career goals. One thing is

certain: Continuing a mandatory monopoly entitlement program will go on causing higher unemployment and waste human resources. That's why we must try Mrs. Chao's personal re-employment accounts.

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