Review of the Book *An Incentives Approach to Improving the Unemployment Compensation System*

**Abstract**

[Excerpt] This volume is the result of over two decades of research by the author on the unemployment insurance (UI) system. It focuses on the overpayment of UI benefits: payments to individuals that are larger than they should be because of miscalculations of benefit levels by administrative agencies or the failure of individuals to meet initial or continuing eligibility requirements for the receipt of benefits.

**Keywords**

unemployment compensation, unemployment insurance, incentives, overpayment, eligibility

**Disciplines**

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**Comments**

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fense of Social Security that has the strengths (as well as the weaknesses) typical of this genre. The senior author gained fame from his pathbreaking *Future of Private Pensions* (written in collaboration with his wife), the publication of which in 1964 stirred great interest in the need for pension reform. In the decades following publication of this book the Bernsteins have had time to form opinions based not only on their (and others') ongoing research, but also on observation of the two pension systems. Their opinions and judgments are soundly based, unlike the mindless ideological twaddle that clutters the op-ed pages of newspapers.

The advantage of the advocacy form is that it allows the authors to air their opinions frankly. It is clear that they admire Social Security—"a program for all seasons" (p. 9). Their explanation of the history and function of Social Security is clear, although sometimes at the cost of simplifying a complex subject. Their two-page account of what went wrong with the system is cursory, but their discussion (in the same chapter) of how the problems were corrected is especially interesting. Merton Bernstein had a ringside seat at the repair shop, the bipartisan National Commission on Social Security Reform. His description of the events surrounding the 1983 amendments appears to be accurate, although some readers might be startled by the notion that the new tax on benefits, the revenues of which revert to the OASI Trust Fund, is not a benefit cut.

The chapter on the outlook for Social Security is cheerfully optimistic. The authors have rediscovered the total dependency ratio (ratio of both pre- and post-working-age persons to working-age population) and the projection that it will not worsen. They use that projection to defang the "dread aged-dependency ratio" so beloved by the system's critics. The authors' optimism regarding future productivity changes is less well grounded. Statements like "the country has real problems. We also have good prospects" are weak tea, indeed.

Part II deals with private pensions. Chapter 6 is a trenchant critique of inadequate coverage, the impact of coverage loss on job losers, and other familiar but important pension issues. Keogh Plans and 401(k) programs are attacked as benefiting mainly high-paid workers.

Part III deals with choices for the future and expresses the authors' preferences. High among these are their preferences for a return of the normal retirement age (age of full benefits) to 65 (it is now scheduled to rise to 67), but with the 8% delayed retirement credit (now scheduled to take effect in 2009). The purpose is to avoid hardship for those who retire because of ill health while keeping intact the incentives to prolong healthy persons' worklives. The Bernsteins also review reforms to make pensions more dependable. The list is familiar: Mandatory Universal Pensions (MUPS), a clearinghouse for vested benefits, earnings sharing for spouses not in the labor market, and so forth.

The last part (IV) treats Medicare and its associated problems. Here, in my opinion, the authors' optimism becomes more forced, and on page 281 we come to the inevitable proposal for higher taxes. The section was written before passage of the new catastrophic illness amendments, which put some real teeth-rattling taxes on the elderly.

The book is not a balanced treatment of retirement income policy, nor does it pretend to be one. It contains no new information for those who have acquired a modicum of expertise in the subject. Nevertheless, the clarity of the presentation and quality of the arguments make it an excellent primer for those who would like to learn and for those in need of ammunition to defend Social Security from the fantasists who prattle about 10% real rates of return on private pension funds. For that reason, I welcome the book.

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This volume is the result of over two decades of research by the author on the unemployment insurance (UI) system. It focuses on the overpayment of UI benefits: payments to individuals that are larger than they should be because of miscalculations of benefit levels by administrative agencies or the failure of individuals to meet initial or continuing eligibility requirements for the receipt of benefits.

The authors argue that the complexities of the UI system, federal administrative funding procedures, federal criteria for state agency performance, incentives in state UI programs,
and the administration of weekly UI eligibility criteria all combined to make overpayment of benefits almost inevitable. They stress that the vast majority of overpayments are not due to fraud but rather to the many opportunities for error and accident.

Burgess and Kingston’s efforts have produced an extraordinarily detailed and useful institutional analysis. Each chapter of their process evaluation is replete with recommendations both about how the administration of the program might be improved and simplified and about how incentives for overpayment might be reduced. The authors assume that the reader has a general knowledge of the UI system—a quite reasonable assumption, given that the book is likely to be of interest only to UI specialists.

Representatives of organized labor were given the opportunity to serve on an advisory panel for the project that led to this book. They refused, and I suspect they did so because the project was funded by the National Chamber Federation of the U.S. Chamber of Commerce. Organized labor is likely to be unhappy with the book not for what it recommends (which in the main are quite sensible changes), but for what the authors do not discuss in detail, the underpayment of UI benefits. As the authors note, data on underpayment of benefits is quite sketchy and underpayment probably arises primarily in cases of eligible workers failing to apply for UI benefits or being incorrectly classified as ineligible to receive benefits. The authors are well aware of the importance of future research addressing the underpayment issue.

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The title of this volume nicely summarizes its 15 chapters. Two dozen contributors focus on potential problems facing the older worker: wage discrimination, the paucity of part-time employment for retirement-age workers, and indirect effects of programs such as Social Security, ERISA, and TEFRA on employment opportunities. “That many work-related problems of older Americans are grounded in causes other than age discrimination,” Sandell writes, “is the theme linking the studies presented here” (p. 23).

The most interesting contributions are empirical studies of the role of age in labor market problems. Each concludes that age discrimination is not an independent factor—whether the focus is earnings growth, losses suffered by displaced workers, low participation rates in federal jobs programs, or the apparent imbalance between the demand and supply of part-time jobs for older workers. The last subject is addressed by Jim Jondrow, Frank Brechling, and Alan Marcus, who conclude that there is no evidence of a market failure. Given fixed costs of employment, part-time work is less productive, and older workers prefer full retirement to part-time work at lower wages. In contrast, two later chapters evaluate how government and private sector policies can overcome an implicitly assumed market failure and increase part-time employment.

The volume is written for the nonspecialist; all econometrics and theory have been summarized. Economists are not likely to find the results surprising, and will have to consult the references for methodological details. The conclusions may, however, be eye-opening to policy-makers and advocates who have assumed that age discrimination is systematic. Sandell points out that although older workers do face problems, these problems are not generally worse, and sometimes are less severe, than the problems faced by younger workers. Ironically, this volume may be useful chiefly for directing attention (a scarce resource) to groups who have more severe labor market problems, such as single-parent women and black teenagers.

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Human Resources, Personnel, and Organizational Behavior


The empirical research reported in this book examines how a number of human organiza-