

Discussion of “Army Veteran Unemployment Benefits and Transition Assistance”

(Carter and Miller 2015)

Matthew J. Notowidigdo

Northwestern University,
Institute for Policy Research,
And NBER

National Academy of Sciences Symposium
June 2015

Summary

- Large share of eligible departing Army veterans apply for UCX (Unemployment Compensation) benefits, with application rates greater than 50% on average.
- Large share of those who apply end up using them (greater than 80%).
- There are meaningful differences in take-up rates across demographic groups.
- Most of the heterogeneity in application rates is fairly intuitive; the main exception for me is the noticeable heterogeneity by “Branch of Service” and “Last Army Location.”
- Authors speculate that peer effects could play a role in results; similar to mechanism investigated in “Peer Effects in Program Participation”, by Dahl, Loken, Mogstad, *American Economic Review*, 2014.

Feedback on Paper

- Extremely interesting paper! UI continues to be very active literature in labor economics, but I did not know about UCX benefits. It is a very interesting program!
- Authors are very careful about describing distinction between “application” and “usage.” This is not a distinction discussed in the UI literature. Is this something specific to the UCX program? If so, it seems like an interesting distinction that can be “fleshed out” more in paper.
- Theoretical discussion emphasizes classic incentive-insurance trade-off. I suggest that the authors also engage with more recent work on the role of liquidity constraints (Chetty, *Journal of Political Economy*, 2008).
- Cross-state variation in labor market conditions (e.g., unemployment rate) and benefit levels is discussed but not exploited in the regressions (see, e.g., Anderson and Meyer, *Quarterly Journal of Economics*, 1997).

Broader Context (I): Ordeals, Targeting, and Information Frictions

- A broad question in public economics: “What determines take-up of social insurance benefits?” Do people know what they need to know about the program? Are the “right” people applying?
- Classical economic theory: the people who apply for UI are those for whom it is most valuable (Nichols and Zeckhauser, *American Economic Review*, 1982).
- Behavioral economics view: there are lots of “frictions” that prevent people from applying for UI who would benefit from insurance (e.g., lack of knowledge/information, stigma, inattentiveness).
- Some of heterogeneity analysis in this paper would seem to rule out the classical view. For example, “peer effects” can reduce stigma and/or provide information about UI benefits. Heterogeneity in AFQT is plausibly related to expected benefit of UI; “Last Army Location” feels more like heterogeneity in information/awareness.

Broader Context (II): What does UI do? What is supposed to do?

- Clear evidence that UI (1) increases unemployment duration, (2) reduces negative consumption consequences of unemployment (Gruber, *American Economic Review*, 1997)
- Suggestive evidence that UI may improve local labor market outcomes through macroeconomic stabilization (especially in bad times).
- Very little credible evidence that UI improves job matches, and relatively stronger recent evidence that (if anything) UI reduces wages through negative duration dependence (e.g., stigmatization, human capital depreciation).
- The last point strongly suggests that **UI is not a substitute for job training and other transition assistance programs**. The primary social benefit of UI seems to be preventing adverse financial outcomes and reducing the risk of falling into poverty during unemployment. **The UCX program should be primarily evaluated based on how well it protects departing veterans from hardship.**

Thank you!