

Coping With Unemployment Among American Households

Richard T. Curtin, Christopher J. Gordon,
and Michael Ponza
Survey Research Center
The University of Michigan

This article summarizes the results from five nationally representative surveys conducted between December 1979 and December 1980 by the Survey Research Center of The University of Michigan.* Two major topics were explored. The first was concerned with the incidence of and response to unemployment among American households, including participation in the unemployment compensation program, job search efforts, and other measures taken to offset income loss during unemployment. The second topic focused on the attitudes of all Americans toward the unemployment compensation program, including whether they viewed the compensation program as earned insurance, what they thought about job requirements for those receiving benefits, and how long they thought benefits should be paid. The purpose of this study was not to duplicate other federal statistics on the level of unemployment or the demographic characteristics of the unemployed. Rather, it was to gain information on how families have coped with unemployment and to provide policy relevant information on public acceptance of and reactions to potential changes in the unemployment compensation program.

Incidence of Unemployment

The data indicate that one or more members of a substantial number of American families have recently experienced unemployment. Approximately one-in-ten households had at least one member unemployed at the time of the surveys, and nearly one-in-four families reported that at least one member was unemployed during the two years prior to the surveys. More than three-fourths of the unemployment spells involved one or more of the major family earners—the single adult head, or one or both married adults—with 11 weeks being the median reported length of unemployment.

Unemployment Compensation Assistance

Among all the unemployed, 28 percent received compensation for all or part of the unemployment spell, while another 9 percent applied for but did not receive benefits. Two-thirds of those receiving unemployment compensation did not exhaust their benefits before they found new jobs. Almost half of the unemployed, however, never applied for benefits, with most stating that they thought they were ineligible for benefits. Only 6 percent reported problems of gaining access to program benefits. Overall, participation in the unemployment compensation program was more frequent by skilled blue collar workers, workers over age 45, and those with a high school education or less.

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A comparison with data on household unemployment collected previously by the Survey Research Center indicates a higher incidence of unemployment among American households in 1980. During the 1958-59 recession, the incidence of household unemployment was about half the level recorded in 1980. Major differences were not found in the unemployment experience of married males and single household heads. Rather, the surveys recorded a more substantial increase in the unemployment experience of married females. A smaller proportion of unemployed married males or unemployed single household heads reported in the 1980 surveys that they received compensation (41 percent) than in the earlier period (58 percent).

Job Search Efforts

Among those currently unemployed, three-in-four respondents mentioned at least one type of effort they were making to find employment. Unassisted job search efforts made by the unemployed individual were the most common, with one-third who said they directly contacted potential employers, and another one-in-five who reported that they read or placed want-ads. Just one-in-ten unemployed people reported that they had obtained help from private or public employment agencies. The data indicated that the role of a personal recommendation was an important factor in finding employment. Among all the unemployed who found jobs, four-in-ten reported that they had received a recommendation for their new job, the majority coming from friends and relatives.

In contrast to the active job search reported by the majority, nearly one-in-four unemployed persons reported that they had made no specific efforts to find employment.

Among those who had been unemployed during the past two years and had subsequently found work, just one-in-four found new jobs that were similar to their old jobs, and even fewer eventually returned to their old jobs. Among those with new jobs, 49 percent reported that their new job paid more than their old job, while 33 percent reported earning less on their new job. Interestingly, when asked how difficult or easy it was for them to find new jobs, half of all unemployed respondents said it was difficult, and the other half said it was easy.

Duration of Unemployment

There is a mutually dependent relationship between the length of an unemployment spell and the receipt of unemployment compensation. Given the initial waiting-period requirements as well as the increasing financial strain of prolonged unemployment, the application for and receipt of unemployment compensation can be expected to increase in frequency along with the length of unemployment. At the same time, the receipt of unemployment compensation may act as a disincentive to finding work

and thus prolong unemployment. The survey data suggest that both factors have played important roles.

Among those who have been unemployed during the past two years, the median length of the unemployment spell was 11 weeks, with just 15 percent reporting unemployment spells of 24 weeks or more. Multivariate analysis found that the duration of unemployment had a significant influence on the receipt of unemployment compensation, with that receipt being twice as frequent among those unemployed for 20 weeks or more (47 percent) as among those unemployed for less than 12 weeks (23 percent). A multivariate analysis of the length of reported unemployment spells found that households who received unemployment compensation, other things equal, were unemployed for an average of 19 weeks—4 weeks more than the overall average. These data are not sufficient to disentangle this simultaneous, interdependent relationship, but they do indicate the importance of this area for further research.

An increase in the duration of unemployment associated with the receipt of unemployment compensation is not unexpected. Some work disincentive effects are inherent in the compensation system, since it reduces the immediate need to accept a job, especially when work skills exceed the minimum requirements of available jobs. The search time supported by the compensation program allows workers the opportunity to search for a more appropriate job. In some cases, compensation during unemployment allows experienced workers to return to their prior jobs. This benefits employers, since it reduces the cost of recruitment and training, as well as any consequent decline in productivity. For unemployed workers, the ability to return to their prior jobs provides greater continuity of work life and avoids more drastic long term personal economic adjustments. It is not so much a question of whether the unemployment compensation program incorporates work disincentive effects, but whether the extent of the disincentive effects is judged acceptable considering its cost and benefits.

Lowest Acceptable Wage

In general terms, unemployment is often viewed as the result of either the lack of employment opportunities (demand for labor) or the lack of willing workers at available wages (supply of labor). In order to assess whether unemployment spells were more the result of voluntary labor supply decisions or whether they were due to labor demand conditions, respondents who were unemployed at the time of the survey were asked to state the lowest wage they would be willing to accept to find regular employment, and whether there were any suitable jobs currently available, but at wages below what they were willing to accept. In early 1980, the median lowest acceptable wage was \$3.50 per hour. Overall, about one-in-four unemployed people mentioned wages of less than \$3.10 (the then current minimum wage), and about one-in-four said that \$5.00 or more per hour was the lowest minimum wage they would be willing to accept. Unemployed respondents were also asked whether there were any suitable jobs available for them but at wages they would not accept. The vast majority (70 percent) responded that there were *no* suitable jobs available that they would not accept. Among those who did indicate that other jobs were available, the median wage of the suitable but not accepted jobs was \$3.10 per

hour (the then minimum wage). The gap between acceptable and unacceptable wages was small in absolute terms—the median difference was 50¢ per hour, amounting to a 16 percent wage gap. These results suggest that it was more the lack of available jobs than high reservation wages which acted to prolong unemployment.

Other Responses to Income Loss

Families were asked to identify the specific types of budget adjustments they had made to offset the loss of income due to unemployment. In order of frequency, the most important adjustments were using savings (57 percent), delaying major purchases (49 percent), borrowing money (26 percent), delaying regular payments (17 percent), having another family member go to work (17 percent), cancelling medical insurance policies (15 percent), receiving welfare (14 percent), postponing medical treatment (13 percent), and moving (8 percent). In addition, one or more general cost-cutting measures, such as shopping less and buying fewer and less expensive items, were reported by the majority of all unemployed households.

As the duration of unemployment increased, families shifted from more frequent reports of borrowing money, to delaying regular payments, and finally, among those unemployed the longest, to having another family member go to work. In addition, the long-term unemployed were more likely to postpone medical treatment, with medical and dental care being postponed with equal frequency.

Since the earlier survey of unemployed households conducted in 1958, significant increases in the use of most of the identified measures to offset income loss have been recorded. The use of savings, the most frequent measure reported in each survey, rose from 43 percent among the unemployed in 1958 to 68 percent in 1980, recording the largest gain. While 41 percent of households with an unemployed married male or single household head reported that they had delayed major purchases in 1958, 53 percent did so in 1980. A somewhat larger increase was recorded in the receipt of welfare in 1980 compared with the earlier survey (from 5 to 19 percent). The only measure to decrease in frequency was delaying payment of regular bills, which fell from 27 percent in 1958 to 17 percent in 1980.

Unemployment Compensation: Earned Insurance Versus Welfare

In order to investigate how Americans perceive the purpose of the unemployment compensation program, respondents were asked whether unemployment compensation could be more accurately described as “earned insurance” or as “part of the welfare system that provides for the jobless.” This difference in perception is important since it not only reflects citizen attitudes toward the unemployment compensation program, but also reflects the attitudes of individuals toward their own participation in the program.

Among all American families, twice as many thought that the unemployment compensation program could be more accurately characterized as “earned insurance” (61 percent) rather than as “part of our welfare system” (30 percent). The majority view of unemployment compensation as earned insurance was shared by all major socioeconomic and demographic subgroups. Despite the few

differences found across these subgroups, multivariate analysis indicated that the earned insurance viewpoint was significantly more common among households that had recently experienced unemployment. Households in which one or more members were unemployed at some time during the two years prior to the surveys more frequently viewed unemployment compensation as earned insurance, especially if the unemployed household member actually received unemployment compensation. The proportion who viewed unemployment compensation as earned insurance fell from 78 percent among those who experienced unemployment *and* received compensation, to 68 percent among those who experienced unemployment but did not receive compensation, to a low of 56 percent of the households who had no unemployment experience during the prior two years.

Job Requirements

Support for the view that people should be allowed some time to search for a job while receiving unemployment compensation was nearly unanimous among American households (88 percent). Despite this favorable view toward job search, the majority supported some job requirements. The majority of respondents felt that people who receive unemployment benefits should be required to take any suitable jobs which were available (63 percent). In contrast, the notion that people should be required to take only those jobs particularly matched to their training and experience was rejected by the majority (56 percent).

Few differences in these attitudes toward job requirements were found across major socioeconomic and demographic subgroups. There were, however, systematic differences in attitudes toward job requirements that were related to the respondent's characterization of the unemployment compensation system. Respondents who viewed unemployment compensation as earned insurance were more likely to allow time for job search, and more likely to prefer that people be required to take only those jobs particularly matched to their training and experience. Respondents who viewed unemployment compensation as part of the welfare system were the most likely to favor the requirement that the unemployed accept any suitable job. Interestingly, differences in the household's experience with unemployment and the compensation program, the most important correlate of the view of compensation as earned insurance, did not have a significant net direct impact on attitudes toward job requirements. These results suggest that experience with unemployment acts to direct people's views of unemployment compensation toward the "earned insurance characterization," and, in turn, this viewpoint lessens the appeal of mandatory job requirements. Similarly, families who did not experience unemployment were more likely to view unemployment compensation as welfare for the jobless, and, in turn, this viewpoint hardened their feelings about job requirements.

Preferred Duration of Benefits

When asked how long an unemployed person who is seeking work should receive compensation, the median response was that benefits should be limited to 26 weeks—currently the usual benefit duration, excluding extensions. In a multivariate analysis, the education variable documented the largest differences among demographic subgroups in the preferred duration of benefits: fully 25 percent of those with 8 grades or less of education preferred that no limit be placed on the duration of benefits, compared with just 5 percent of college graduates. This difference may reflect the increased risk of long term unemployment among workers with comparatively few work skills. Few other significant differences were found across major population subgroups, although households with members who were currently unemployed and receiving compensation at the time of the surveys were more likely to favor longer benefit periods (a median length of 52 weeks).

Summary

The data reveal these widely-held opinions about the unemployment compensation program: that it is a form of earned insurance, that people who receive compensation should be given adequate time for job search while receiving benefits, and that duration of benefits should be approximately 26 weeks. In large part these opinions closely reflect the current program.

Direct experience on the part of households with unemployment was associated with a more widespread belief in the insurance aspect of the compensation program. In turn, those who viewed unemployment compensation as insurance felt that less stringent job requirements should be made of program participants. In contrast, households who had not experienced unemployment in the two years prior to the survey were more likely to regard compensation as welfare for the jobless and to favor greater program restrictions.

The major factor contributing to prolonged unemployment was a general lack of available jobs, not an insistence by the unemployed on a higher wage level than was being offered. Although the receipt of unemployment compensation was associated with longer unemployment spells, there is no evidence supporting the view that this lengthening of unemployment was unwarranted. In comparison to studies conducted more than two decades earlier, the 1980 study documented a greater incidence of unemployment among American households, less participation in the unemployment compensation program, and families' taking more varied and more frequent measures to offset income loss due to unemployment.