



# Out of work and into school: Labor market policies and college enrollment during the Great Recession <sup>☆</sup>



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## ABSTRACT

The Great Recession brought large increases in unemployment and college enrollment; we examine how changing state labor market conditions and state-specific variation in Unemployment Insurance (UI) interact to affect enrollment outcomes. We identify a substantial role of the UI program in affecting post-secondary enrollment choices. We provide some of the first evidence that the duration of UI affects a displaced individual's propensity to enroll, and suggestive evidence that these effects are larger in states with more inclusive approved training laws. These findings identify a substantial overlap between UI policy and post-secondary enrollment decisions, indicating the potential importance of UI in not only providing income but also facilitating investments in skills.

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## 1. Introduction

During the Great Recession, unemployment spiked to a nearly three-decade high, Unemployment Insurance (UI) was expanded to the highest maximum number of weeks ever, and post-secondary participation increased substantially. Notably, many of the additional participants in post-secondary education were somewhat older than recent high school graduates, as 87% of the increase in enrollment of 1.9 million students between 2008 and 2010 was among students 20 years of age and older (Digest of Education Statistics, 2012, Table 224). The sharp cyclical increase in enrollment is consistent with large increases in enrollment among those individuals who lost jobs, as well as those who were unable to find work. In turn, the availability of UI may allow unemployed workers to avail themselves of post-secondary educational opportunities. That there has been little attention to the postsecondary participation of the young unemployed in the economic analyses of student or social insurance

programs is somewhat surprising given that roughly 15 to 20% were enrolled during the Great Recession.<sup>1</sup>

Variation in state-specific program parameters of UI can provide unemployed workers with markedly different incentives to enroll in post-secondary programs. Using the timing and magnitude of expansions to UI during the Great Recession, we examine whether variation in the number of weeks of UI offered to unemployed workers affected rates of college enrollment. This variation in UI policies was driven by state Extended Benefit (EB) program parameters, federal changes in the provision of Extended Unemployment Compensation (EUC) and the triggering on and off of UI benefit tiers (see Section 2 for details). We find that an additional 10 weeks of UI benefits increase enrollment likelihoods by around 1.8 percentage points, or by about 20%. These effects are driven primarily by enrollment in two-year institutions. This is the first evidence of which we are aware that expected benefit durations affect unemployed workers' propensities to enroll in school.

There is considerable variation across states in the type of post-secondary programs that are approved for individuals to pursue while maintaining UI eligibility. Some states limit approved training to explicitly vocational programs tied to specific occupations, while other states allow for the inclusion of broad academic courses of study in the definition. We are interested in understanding whether the impact of the length of unemployment insurance duration on the propensity to enroll in college

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<sup>1</sup> Statistics from the CPS indicate that roughly 13% of unemployed individuals aged 20–30 were enrolled in college between 2008 and 2011, while calculations from the SIPP suggest that between 15 and 20% of UI recipients aged 20–30 enrolled within 6 months of initial UI receipt over a similar period.

depends on the range of courses that UI recipients can enroll in without losing benefits. We find suggestive evidence that the enrollment effects of UI benefit durations were larger in states with less strict approved training rules.

In the next section, we outline the overall variation in unemployment and UI policies, specifically considering the state-level variation of UI benefit durations and the types of post-secondary programs included in approved training for UI eligibility. In the third section, we describe the individual-level microdata from the October CPS and the information on UI approved training and UI benefit durations that we link with these data. In section four, we outline our empirical strategy. The fifth section presents results, and the final section concludes.

## 2. Unemployment, active labor market policies and policy variation

There is little question in the research literature that a variety of negative consequences follow from job loss (Jacobson et al., 1993; Couch and Placzek, 2010). In addition to losses in income, there is evidence that individuals are more likely to suffer health issues, end up on the disability rolls, or die following job loss (Sullivan and Von Wachter, 2009; Autor and Duggan, 2003). The losses in income themselves have been shown to be large and long lasting, with one study suggesting a 20% reduction up to two decades after job loss (Von Wachter et al., 2009).

The purpose of UI, which dates to state and federal programs introduced in the 1930s, is to relieve near term credit constraints and facilitate job search. Given the potential moral hazard associated with UI receipt, much research has focused on the effect of UI benefit extensions on the search effort and unemployment duration of UI recipients. While evidence from the 1970s and 1980s suggests a sizable positive effect of UI extensions on unemployment duration, most recent evidence finds, at most, small effects (Meyer, 1990; Katz and Meyer, 1990; Card and Levine, 2000; Rothstein, 2011). Furthermore, some researchers have argued that effects on job search reflect the relaxation of credit constraints rather than disincentives to search (Chetty, 2008).

While UI compensation may have a role in extending unemployment durations, the sharp and persistent rise in unemployment associated with the Great Recession suggests that several deeper issues may be at play. In particular, trends in the distribution of jobs since the 1990s have resulted in weak demand for workers and managers in blue collar occupations. One avenue for these individuals to improve their job prospects is through retraining and skill acquisition. Evaluations of a number of job-training and education programs indicate that they can help displaced workers successfully reenter the labor force (Meyer, 1995; Jacobson et al., 2005, 2011). In particular, the returns to high-quality community college training have been shown to be high (Jacobson et al., 2005).

Despite the large bodies of research that explore the effects of UI and training on job search, reemployment, and later labor market outcomes, there is little research on how the state-level parameters of the UI system affect the decision to pursue post-secondary enrollment. While there is a substantial focus in the economics of education on how student aid policies affect college enrollment (Dynarski and Scott-Clayton, 2013), much of this analysis focuses on recent high school graduates rather than individuals with some labor market experience.<sup>2</sup> There has been very little work that addresses how UI program parameters affect post-secondary enrollment.<sup>3</sup> We explore the effects of two types of variation in UI programs: (1) variation in UI benefit durations, and (2) variation in approved training provisions.

<sup>2</sup> Notable exceptions are Barr (2014) and Barr (2015), which focus on veterans, and Seftor and Turner (2002), which focuses on older independent students.

<sup>3</sup> We note that Stafford loans and Pell grants may also play an important role in easing credit constraints and subsidizing the college enrollment of those displaced from their jobs. Increases in the generosity of these programs and a presidential initiative to promote the use of Pell grants among workers displaced from their jobs likely also contributed to the rise in enrollment of the unemployed over this time period (Barr and Turner, 2013, Barr and Turner, 2014).

### 2.1. UI benefit duration

The expected length of UI coverage likely impacts decisions to pursue post-secondary training. With an extended UI benefit duration, an individual can plan a training investment with reduced concerns about credit constraints impeding his or her capacity to finish the program. While one would generally be concerned that the extension of benefits is correlated with other state economic conditions, there is also a substantial “haphazard” component to the rollout of additional weeks of benefits. Laws predating the Great Recession generally provided 26 weeks of benefits with an additional 13 or 20 weeks of Extended Benefits (EBs) in high unemployment circumstances. Beginning in June 2008, a relatively ad hoc set of Congressional authorizations eventually raised statutory maximum benefit durations as high as 99 weeks in some states. Emergency Unemployment Compensation (EUC), which provided these additional benefits at the federal level, added a series of benefit “tiers”. In November 2008, EUC was extended to 20 weeks for all states with an additional tier of 13 weeks of benefits for individuals in states with unemployment rates over 6%. In November 2009, the second tier was extended from 13 to 14 weeks and made available in all states, regardless of unemployment rate. In addition, a third and a fourth tier were added to the EUC program. The third tier provided an additional 13 weeks of benefits in states with unemployment rates over 6%, while the fourth tier provided an additional 6 weeks in states with unemployment rates over 8.5%. So, for example, by December 2009 individuals in states with unemployment rates over 8.5% were available for Tiers I–IV for a total of 53 weeks of EUC benefits (in addition to the 26 weeks of regular benefits and up to 20 weeks of EB benefits). Table 2 summarizes how the number of tiers and weeks available evolved over time.<sup>4</sup>

In addition, the American Recovery and Reinvestment Act (ARRA) provided full funding for EB. As states had initially shared the cost of this program, this led to a number of states altering their participation and trigger decisions. Different decisions on trigger conditions resulted in states with similar labor market conditions having different durations of UI benefits.<sup>5</sup> For example, both Alabama and Mississippi had unemployment rates over ten percent and insured unemployment rates under four percent during January of 2010. However, because Alabama chose a more generous trigger option, individuals in Alabama were eligible for an additional 20 weeks of benefits. Combining EUC (up to 53 weeks) and EB (up to 20 weeks) with regular benefits (usually 26 weeks), statutory benefit durations were extended to as long as 99 weeks in a number of states. Fig. 1 illustrates the variation in benefit duration generated by changes in the EUC and EB programs and state unemployment rates crossing program trigger thresholds.<sup>6</sup>

### 2.2. Approved training

Because UI program parameters are determined mainly at the state level, different states not only have different benefit levels but also employ varying criteria for the determination of approved training. Approved training rules determine whether a beneficiary would be allowed to enroll in college or job skills training while also receiving benefits. UI benefit recipients who choose to enroll in non-approved programs will forfeit benefit receipt regardless of whether or not they meet other search and work availability requirements. While virtually any undergraduate

<sup>4</sup> At several points, the EUC program expired and was subsequently reauthorized. As the EUC was always reauthorized and benefits paid retroactively, it is likely that individuals anticipated their reauthorization. The periods of EUC expiration only lasted 2, 10, 50, and 18 days. In the main analyses, we assume that individuals anticipated EUC reauthorization, but we also explore the robustness of the results to the assumption that individuals expected the EUC program to disappear permanently at the expiration date.

<sup>5</sup> Triggers are rules that determine what labor market thresholds (e.g., unemployment rate) must be crossed before Extended Benefits are provided.

<sup>6</sup> While Congress also expanded funds available through the Workforce Investment Program during this time period, we largely ignore the program as only a small share of WIA recipients receive formal college training.

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