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Report and Recommendations: Transmitted to the President and Congress

U.S. Advisory Council on Unemployment Compensation

February 1994

Advisory Council on Unemployment Compensation

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Table of Contents

List of Figures

List of Tables

Letter of Transmittal

February 1, 1994

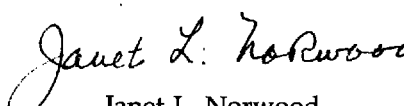
To the President and Congress:

I have the honor to submit the interim Report and Recommendations of the Advisory Council on Unemployment Compensation, transmitted in accordance with the provisions of Section 908 of the Social Security Act, as amended by the Emergency Unemployment Compensation Act of 1991 (P.L. 102-164).

This interim report responds to the questions Congress requested the Council to consider before undertaking a basic review of the Unemployment Compensation system. Although there is much work that remains before the Council, we are in agreement that there is a pressing need to reform the Extended Benefits program and that it requires prompt Congressional consideration.

My fellow members—Owen Bieber, Thomas R. Donahue, William D. Grossenbacher, Robert C. Mitchell, John J. Stephens, and Tommy G. Thompson—and I look forward to continuing this important work.

Sincerely,



Janet L. Norwood
Chair

The President
The President of the Senate
The Speaker of the House of Representatives

Members of the Advisory Council on Unemployment Compensation*

Janet L. Norwood (Chair)
Senior Fellow, The Urban Institute
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Owen Bieber
President, United Auto Workers
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Naperville, Illinois

John J. Stephens
Retired President and CEO, Roseburg Forest Products
Bandon, Oregon

Tommy G. Thompson
Governor, State of Wisconsin
Madison, Wisconsin

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* Four additional members will be appointed to the Council.

Acknowledgments

We wish to thank the Secretary and the Chief Economist of the U.S. Department of Labor for their support during the Council's first year of operation. In addition, we are indebted to the staff of the Unemployment Insurance Service and the Bureau of Labor Statistics for their generous assistance. KRA Corporation has provided valuable research support, for which the Council is grateful. We also thank the many experts on the Unemployment Insurance system who have taken the time to share their insights with us, particularly those who presented testimony at the first Council meeting. Finally, we wish to thank the many individuals, both inside and outside of Washington, D.C., who have assisted in some way in the work of the Council during the last year.

Section I

Recommendations and Findings of the Advisory Council on Unemployment Compensation

Chapter 1

Introduction: Unemployment Insurance in a Changing Economy

THE UNITED STATES' system of Unemployment Insurance, first established in 1935 as a part of the Social Security Act, was intended by its founders to serve both as a countercyclical economic stabilizer for the economy and as a central part of the nation's economic security system for workers. Almost sixty years later, the twin goals of a strong economy and economic security for working Americans are again at the center of the major policy debates in which our nation is engaged. The recent debate surrounding the North American Free Trade Agreement made it clear that the major policy challenge of this decade is to find ways to ensure that working Americans can achieve an acceptable degree of job and income security while simultaneously promoting employers' capacity to compete in an increasingly global economy.

It is likely that the high level of worker dislocation of the past decade will continue in the near future. Defense downsizing will result in the permanent loss of 1.5 to 2 million jobs. The continuing globalization of the economy will cause additional restructuring in the private sector which could result in further worker dislocation. Welfare reform could result in millions of low-wage workers seeking employment. These events require that the nation's Unemployment Insurance system be on solid footing.

The Unemployment Insurance system serves as the foundation of economic security for millions of workers who are temporarily laid off or permanently lose their jobs. This requires that careful consideration be given to the appropriate role for Unemployment Insurance in the changing U.S. economy, particularly in light of the declining percentage of the unemployed who receive UI benefits. Without a system that replaces some portion of unemployed workers' lost earnings, economic

security would prove to be an elusive goal for tens of millions of Americans. At the same time, however, the needs of these workers and their families must be weighed against the costs of the Unemployment Insurance system which are financed through payroll taxes paid by employers.

The Advisory Council on Unemployment Compensation was created by an Act of Congress in November 1991 to provide guidance on this important set of issues. The Congressional mandate was a broad one, instructing the Council "to evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and other aspects of the program and to make recommendations for improvement."

There is broad-based agreement among the members of the Council, who represent the perspective of business, labor, and the States that the ongoing globalization of the economy will place increasing demands on the Unemployment Insurance system. Unemployed workers have a growing need for services and information. Workers need information about what types of jobs are available and where these jobs are located, as well as information about the skill requirements of jobs and the opportunities that are available for acquiring those skills. It is the view of the Council that in addition to providing income maintenance to unemployed workers, the Unemployment Insurance system must develop a capacity to provide this information in an efficient and cost-effective manner. The system must become a facilitator of change, helping to get people back to productive work as quickly as possible.

Although the Council did not hold its first meeting until May 1993, its members have been able to reach substantial agreement on some areas of the Unemployment Insurance system that are in most urgent need of reform. This report, the first of three annual reports, summarizes the preliminary findings and recommendations of the Council.

In light of the failure of the Extended Benefits program to trigger on in a meaningful way during the most recent recession, there is a clear and immediate need for reform of the program. Consequently, the Council has focused most of its deliberations and recommendations to date on that aspect of the Unemployment Insurance system. The Council strongly urges timely Congressional consideration of these

recommendations, because it believes that the country needs a functioning Extended Benefits program. The Council believes that Congressional extension of Extended Benefits to provide assistance to the long as well as the short-term unemployed could reduce the need for emergency extensions of unemployment benefits in the future.

In addition to reform of the Extended Benefits program, this report addresses some specific issues on which Congress asked the Council to comment. In particular, the report makes recommendations on the following: the use of sub-state or regional data for triggering Extended Benefits, the work search requirements of the Extended Benefits program, and the treatment of alien agricultural workers with H2-A visas by the Unemployment Insurance system.

Together, these recommendations represent a first step in a comprehensive rethinking of the Unemployment Insurance system as the foundation of the job and income security for U.S. workers. Much work remains. Over the course of the next year, the Council intends to re-examine the fundamental assumptions on which the Unemployment Insurance system was founded. This reconsideration of the most basic questions regarding the system is especially important, given the profound changes that have taken place in the U.S. economy.

The labor market, in particular, has undergone significant change since the inception of the Unemployment Insurance program. Married men who are the sole breadwinners for their families no longer constitute the majority of the work force. Taken together, women, contingent workers, part-time workers, temporary workers, single heads of households, and single individuals now make up the majority of workers. The Council intends to give careful consideration to the responsibilities that the Unemployment Insurance system has to serve these individuals.

Among the other matters which the Council will address are the following: the experience rating mechanism used to finance the Unemployment Insurance system, the nature of the federal-state partnership upon which the system is based, administrative funding and efficiency within the system, and the extent to which the system can and should be expanded beyond income maintenance for the unemployed and turned toward re-employment of the unemployed. Furthermore, the Council intends to continue its deliberations about the funding and solvency of the Unemployment Insurance system. Future reports will make recommendations to ensure that the solvency of the system, and therefore its ability to provide adequate coverage and benefits to eligible unemployed workers, is ensured.

Chapter 2

Recommendations and Findings

PURPOSE OF THE EXTENDED BENEFITS PROGRAM

Findings

The Council finds that the nature of unemployment has changed since the inception of the Unemployment Insurance system. The length of time that individuals are unemployed, which increases sharply during recessions, has also increased slowly but steadily during non-recessionary times. Workers who have been laid off from their jobs are now less likely to return to their previous jobs than has historically been the case. This indicates an increase in the level of long-term unemployment in the economy.

The Unemployment Insurance system was designed primarily as a means of alleviating the hardship caused by short-term unemployment. The system was never intended to combat long-term unemployment. The purpose of the Unemployment Insurance system, and in particular the Extended Benefits program, must be expanded if the system is to deal effectively with the changing nature of unemployment. In doing so, however, careful consideration must be given to the funding of the system, in order to ensure that expenditures for combatting long-term unemployment do not drain the Unemployment Insurance trust fund reserves. It must also be recognized that while Unemployment Insurance reform is a necessary component of developing effective strategies for dealing with long-term unemployment, other reforms—especially among programs for dislocated workers—will be needed.

Recommendation

The scope of the Extended Benefits program should be expanded to enhance the capacity of the Unemployment Insurance system to provide assistance for long-term unemployed workers as well as short-term unemployed workers. Those individuals who are long-term unemployed should be eligible for extended Unemployment Insurance benefits, provided they are participating in job search activities or in education and training activities, where available and suitable, that enhance their re-employment prospects. To maintain the integrity of the Unemployment Insurance income support system, a separate funding source should be used to finance job search and education and training activities for long-term unemployed workers.[1]

THE TRIGGER FOR EXTENDED BENEFITS

Findings

The Council finds that receipt of Unemployment Insurance benefits by the unemployed has slowly but steadily declined since at least 1947—the first year for which data on the system are available. In addition to the long-term downward trend in receipt of benefits, there was a pronounced decline in the early 1980s, just as the economy entered a recession.

The reasons behind the decline in the Unemployment Insurance system are many. The long-term decline appears to have been caused by the changing demographics of the labor force, the changing industrial and geographic composition of employment, and a decline in the solvency of states' Unemployment Insurance trust funds. The sharp decline in receipt of benefits in the early 1980s appears to be attributable primarily to changes in federal policies which encouraged the states to increase the solvency of their trust funds by restricting eligibility for Unemployment Insurance benefits and/or increasing

[1] One member of the Council emphasizes that an increase in employers' payroll taxes should not be used as the funding source. Another member emphasizes that such a recommendation must be considered in the context of reform of dislocated workers programs.

employers' tax rates, as well as independent state efforts to improve their trust fund solvency.

The utilization of the Unemployment Insurance system is measured by the Insured Unemployment Rate (IUR). The IUR is the number of Unemployment Insurance recipients, relative to the number of individuals in UI-covered employment. Since the inception of the Extended Benefits program in 1970, states have been required to use the state IUR as a "trigger" that determines whether or not individuals who have exhausted their regular UI benefits are eligible for Extended Benefits.

Research has shown that the decline in the utilization of the Unemployment Insurance system has caused the IUR to become a less reliable indicator of economic conditions, reducing the likelihood that Extended Benefits will trigger on in states with high unemployment. In addition, just as the IUR was experiencing a marked decline during the recession of the 1980s, the "trigger" level required to become eligible for Extended Benefits was raised.

The combination of the reduction in the IUR and the increase in the trigger level resulted in the failure of the Extended Benefits program to trigger on as unemployment continued to rise during this most recent recession. As a result, Congress found it necessary to pass a series of emergency extensions of Unemployment Insurance benefits. The Council finds that emergency extensions of Unemployment Insurance benefits are extremely inefficient since they are neither well-timed nor well-targeted. Therefore, it is necessary to reform the Extended Benefits program prior to the onset of the next recession, in order to minimize the need for future emergency legislation.

The Council has considered a variety of measures that could be used to trigger the Extended Benefits program. While no perfect measures exist, the best available evidence about the condition of the overall labor market within a state is the Total Unemployment Rate (TUR), which indicates the supply of individuals who are unable to find work. It should be noted, however, that, beginning in January 1994, the TUR rates will be affected by the redesign of the Current Population Survey. An alternative measure of the labor market conditions that are faced by Unemployment Insurance recipients is the Adjusted Insured Unemployment Rate (AIUR), which is the IUR adjusted to include those individuals who have exhausted their regular Unemployment Insurance benefits.

The Council finds that while substate (or regional) data are available on some measures of local labor market conditions, these data

are extremely unreliable measures of the true conditions that the unemployed face. Furthermore, there would be substantial administrative difficulties in using either substate or regional data for triggering Extended Benefits.

The Council finds that, in addition to problems with the triggers that have been used to determine whether or not Extended Benefits are available within a state, the thresholds built into the triggers have been problematic. These thresholds require that a state's unemployment rate (whether measured by the IUR or the TUR) exceed the level that prevailed over the previous two-year period (by a factor of 120 percent for the IUR or 110 percent for the TUR).

The threshold requirements do not significantly affect the number of states in which Extended Benefits trigger on during a recession. However, the thresholds have the effect of delaying the point at which Extended Benefits trigger on in some states with the highest unemployment, as well as hastening the point at which such states trigger off the Extended Benefits program. As a result, the thresholds have caused dissatisfaction among some with the operation of the program since those states suffering the most economic hardship are triggered on for the shortest period of time. This problem could be addressed by eliminating the thresholds and setting the triggers at a slightly higher level.

Recommendation

The Council is unanimous in the view that there is a pressing need to reform the Extended Benefits program.

The majority of the Council recommends that the Extended Benefits program should trigger on when a state's seasonally adjusted total unemployment rate (STUR) exceeds 6.5 percent as measured before the Current Population Survey redesign.[2] Two members of the Council recommend that each state should have the choice of using either the STUR trigger of 6.5 percent with a threshold requirement of 110 percent above either of the two previous years, or an IUR or AIUR trigger set at 4 percent with a threshold requirement of 120 percent over the previous two year period.

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[2]Two members of the Council recommend that the trigger should be set at 6.5 percent regardless of any changes in the measured unemployment rate that result from the redesign of the Current Population Survey.

The Council hopes Congress can implement these reforms promptly. Although the Council has reservations about the inefficient targeting of emergency benefits, Congress should extend the existing Emergency Unemployment Compensation for a six month period to provide a bridge program until these Extended Benefits reforms can be implemented.[3]

Recommendation

Neither substate nor regional data should be used for the purpose of determining whether or not Extended Benefits are available within a given area.

FINANCING EXTENDED BENEFITS REFORM

Findings

The Council finds that the integrity of the Unemployment Insurance system as well as its capacity to adapt to the changing nature of unemployment are compromised by incorporating its trust funds into the unified federal budget. While the flow of funds into the Extended Unemployment Compensation account may be adequate to finance the recommended Extended Benefits reform, such reform is complicated by the use of dedicated Unemployment Insurance trust funds for the purpose of deficit reduction. Several members of the Council believe that prompt action should be taken to correct this situation. Other members feel that the issue of how trust fund accounts should be treated in the budget is a very complex one, and requires careful consideration within a broader context. The Council intends to revisit this issue in its future deliberations.

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[3]Two members do not agree to the recommendation that Emergency Unemployment Compensation should be extended.

Recommendation

If additional revenue is required to implement the Council's recommendations, such revenue should be generated by a modest increase in the FUTA taxable wage base, to $8,500.[4]

WORK SEARCH TEST UNDER EXTENDED BENEFITS

Findings

The Council finds that another problematic aspect of the Extended Benefits program is the federal requirement that, with some exceptions, those individuals who are receiving Extended Benefits must accept a minimum wage job if one is offered, or become ineligible for benefits. While the Council understands that recipients of both regular and extended Unemployment Insurance benefits have an obligation to search actively for work and accept appropriate job offers, the Council finds the current federal requirements to be excessively onerous. All states use a "suitability" test to determine the jobs which claimants are required to accept to remain eligible for benefits. This test gives states the flexibility to ensure adequate work search by claimants, while protecting unemployed workers' living standards and job skills by permitting them to decline substandard jobs. The states are in a better position to determine appropriate mechanisms for enforcing a work search test, given the particular conditions of their labor markets.

Recommendation

The federal requirement that individuals who are receiving Extended Benefits must accept a minimum wage job if one is offered, or become ineligible for benefits, should be eliminated. Each state should be allowed to determine an appropriate work search test, based on the conditions of its labor market.

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[4]Two members object to this recommendation.

STATE TRUST FUND SOLVENCY

Findings

The Council finds an overall decline in receipt of Unemployment Insurance benefits among the unemployed. This decline is at least partially caused by the inadequate reserves of many states' trust funds. During the past decade, many states with low or negative trust fund reserves have found themselves in the position of either having to increase taxes on employers in the midst of an economic downturn, or having to take measures to restrict eligibility and benefits for the unemployed. Some believe that this reliance on pay-as-you-go funding has worked to the overall detriment of the Unemployment Insurance system.

The Council believes that it would be in the interest of the nation to begin to restore the forward-funding nature of the Unemployment Insurance system, resulting in a building up of reserves during good economic times and a drawing down of reserves during recessions. The Council finds, however, that any move toward creating federal guidelines for states' Unemployment Insurance trust fund accounts must be carefully weighed. Otherwise, there will be a risk of creating undue incentives for the states to restrict the eligibility and level of Unemployment Insurance benefits in order to achieve the solvency guidelines. The Council intends to make specific recommendations on this issue in future reports.

FUTA TAXATION OF ALIEN AGRICULTURAL WORKERS

Findings

The Council was asked by Congress to consider the treatment of alien agricultural workers within the Unemployment Insurance system. Currently, the wages paid to alien agricultural workers with H2-A visas are exempt from the Federal Unemployment Tax Act (FUTA). This exemption is scheduled to expire on January 1, 1995.

The Council finds that there are arguments both for and against continuing this exemption. Under the current exemption, alien agricultural workers are less costly to hire than domestic workers, on whom FUTA taxes must be paid. This cost differential may create an

incentive for substitution of foreign workers for U.S. workers, which argues in favor of repeal of the exemption. Furthermore, the process of certifying workers and issuing H2-A visas imposes costs on the federal and state governments that have the responsibility for overseeing this process. The vast majority (97 percent) of the cost of the certification process is funded through the FUTA tax. Since FUTA serves as the mechanism for funding the costs of the certification process, there is an additional rationale for repealing the exemption of H2-A workers from FUTA taxation.

On the other hand, H2-A workers are ineligible to receive Unemployment Insurance benefits since their visas require that they return to their country of origin within ten days after their employment terminates. Consequently, these individuals cannot meet the "available for work" test of the Unemployment Insurance system. Thus, FUTA taxes would be imposed upon the wages of individuals who cannot receive Unemployment Insurance benefits, which argues against imposing the FUTA tax on their wages.

On balance, the Council finds that the arguments in favor of FUTA taxation of alien agricultural workers outweigh the arguments against continuing that exemption.

Recommendation

As of January 1, 1995, the wages of alien agricultural workers (H2-A workers) should be subject to FUTA taxes.

Section II

Issues and Trends in Unemployment Insurance

Chapter 3

Overview*

THE FEDERAL-STATE Unemployment Insurance (UI) system, created in 1935, is designed to fulfill two primary objectives: (1) to provide temporary wage replacement for unemployed workers who have demonstrated a strong attachment to the labor force and (2) to assist in stabilizing the national economy during periods of cyclical economic downturn. The federal-state nature of the system assigns different responsibilities to the federal and state governments. Although broad federal laws ensure consistency in those areas where uniformity is considered essential, states determine most of the details of program operations and administration. As a result, many features of the system vary greatly across states.

UNEMPLOYMENT COMPENSATION PROGRAMS

Currently, three separate, but interrelated, programs provide income support to qualified unemployed workers: (1) permanent regular state UI programs, (2) the federal-state Extended Benefits program, and (3) the temporary federal Emergency Unemployment Compensation program. The characteristics of the three components of the UI system are discussed in more detail below. Figure 3-1 illustrates the benefits paid under each of the three components of the UI system over time.

Regular State Unemployment Insurance

Regular state Unemployment Insurance programs generally provide up to 26 weeks of benefits to qualified unemployed workers. Eligibility is determined according to specific state laws on an individual basis, with the duration and amount of benefits based upon

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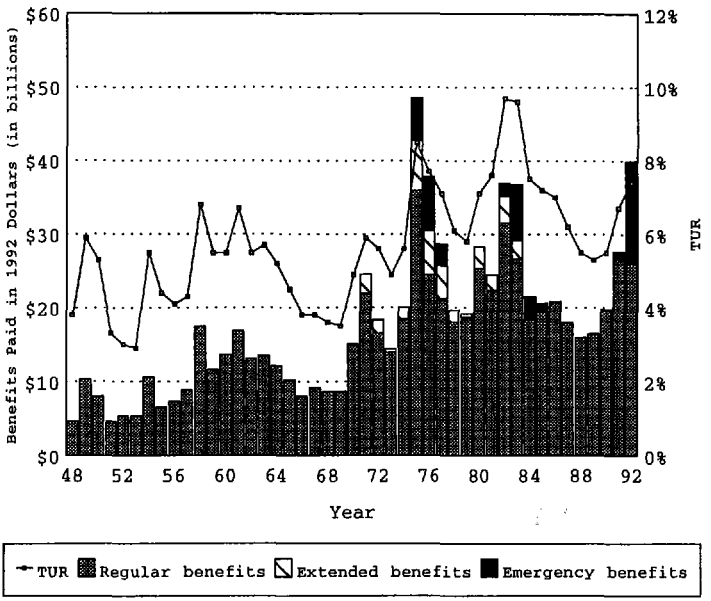
*There are two principal authors of the chapters contained in Section II of this report. Amy B. Chasanov is primarily responsible for Chapters 7 and 8, and Daniel P. McMurrer is primarily responsible for Chapters 4, 5, and 6. They co-authored Chapter 3.

FIGURE 3-1
UI BENEFITS PAID IN CONSTANT 1992 DOLLARS, 1948-1992



Source: USDOL/ETA/UIS/Division of Actuarial Services.

an individual's recent employment and earnings history. State taxes on employers[1] finance most benefits paid under the program.[2] Tax rates vary among employers within the same state and are based partially upon the level of past UI claims that were made by an employer's former employees. Federal taxes imposed under the Federal Unemployment Tax Act (FUTA) pay for the administration of state UI programs (as well as the federal share of the Extended Benefits program). The total amount paid by the regular program is cyclical in nature, with the level increasing as the number of unemployed increase during periods of economic downturn. During 1992, over $25 billion were paid in benefits.

Federal-State Extended Benefits

The federal-state Extended Benefits (EB) program provides up to 13 additional weeks of benefits to individuals who have exhausted their regular UI benefits. Half of the cost of EB benefits is financed by the

federal government, and half is paid by the state distributing the benefits. Benefit amounts under EB correspond to the same level of benefits received in the regular state programs. This extension in benefit duration is available to individuals only when a measure of state unemployment rises above a given level. Most states currently use the Insured Unemployment Rate (IUR) as the only "trigger" for the program. Because the IUR is determined by the number of regular UI claimants in a state, eligibility for EB in most states is affected directly by states' UI eligibility laws. Thus, a decline in the percentage of the unemployed who receive regular UI benefits has directly contributed to the reduction in the number of states in which EB is available.

Emergency Unemployment Compensation

The Emergency Unemployment Compensation (EUC) program is a temporary program similar to a number of past emergency programs enacted during periods of recession.[3] EUC was enacted by Congress in November 1991 and has been extended on a number of different occasions since that time. It is scheduled to terminate in February 1994.

The number of additional weeks of benefits that are made available under EUC depends upon three factors: (1) when the claimant first applied for EUC, (2) the state total unemployment rate, and (3) the national total unemployment rate. EUC claimants must meet state eligibility criteria, as well as additional federal requirements regarding employment history and work search. The EUC program has, in essence, provided states with the opportunity to use EUC in place of EB. Because the costs of EUC benefits are financed entirely by the federal government, and only 50 percent of EB costs are borne by the federal government, all states have taken advantage of the option of providing EUC rather than EB. Thus, in the wake of the most recent recession, EUC has almost entirely supplanted EB. To date, EUC has cost over $23 billion, with a significant percentage of that amount financed out of general revenues.

THE UNEMPLOYED POPULATION

In comparison with the civilian labor force, there are some slight differences in the unemployed (see Table 3-1). In particular, younger individuals, males, and blacks are disproportionately represented among the unemployed. In comparison with the unemployed

TABLE 3-1
DEMOGRAPHIC CHARACTERISTICS IN 1992

		Civilian Labor Force	Total Unemployed	UI Claimants
Age				
	16 to 34	38%	59%	43%
	33 to 54	38%	33%	45%
	55 and over	12%	8%	12%
Gender				
	Men	54%	57%	60%
	Women	46%	43%	40%
Race				
	White	89%	78%	N/A
	Black	11%	22%	

Source: USDOL/ETA/UIS/Division of Actuarial Services.

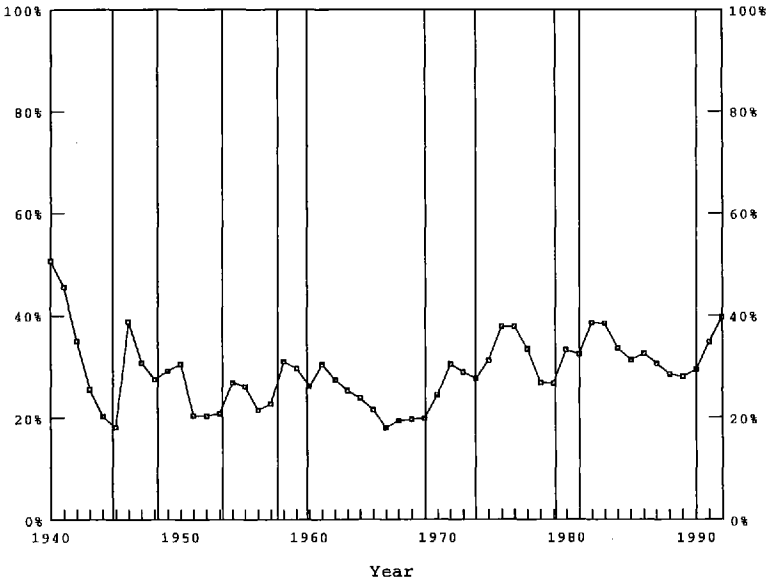
population, individuals who make UI claims tend to be older, with men also represented disproportionately.

A number of trends among the unemployed are evident. The percentage of UI claimants who have exhausted regular UI benefits during recessions has been increasing since 1970 (see Figure 3-2). The average duration of unemployment spells has increased, as has the percentage of individuals experiencing particularly long unemployment spells (see Figure 3-3). With regard to reasons for unemployment, the number of job losers on layoff has increased over time, while the percentage of the unemployed who are new entrants to the labor force has decreased (see Figure 3-4). The impact that broad demographic changes in the labor force have had on the UI system is discussed further in Chapter 4.

TRENDS IN REGULAR STATE UNEMPLOYMENT INSURANCE PROGRAMS

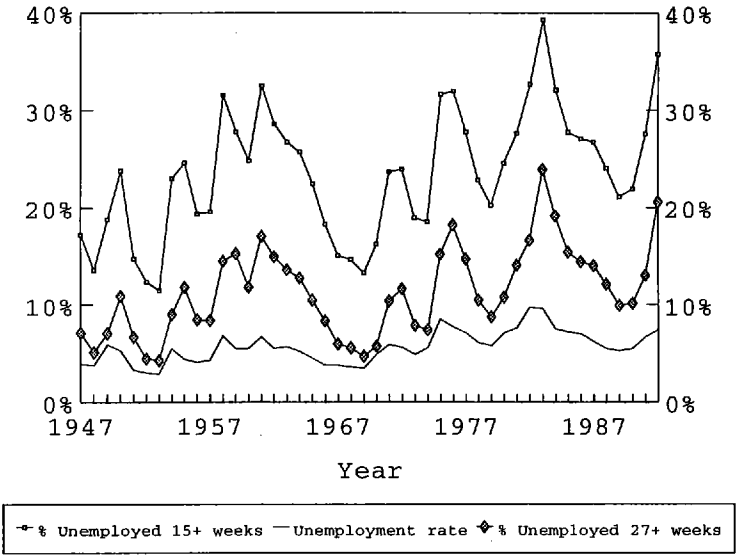
There are a number of dimensions along which the regular UI system can be examined. Included among these dimensions are the following: (1) the percent of the labor force that is covered under the UI program, (2) the standards regarding eligibility for UI benefits among the unemployed, (3) the percent of the unemployed who actually receive UI benefits, (4) the amount of UI benefits received, and (5) the duration of the benefits. Each of these elements are discussed in greater detail below.

FIGURE 3-2
PERCENTAGE OF CLAIMANTS EXHAUSTING REGULAR UI BENEFITS, 1940-1992



Lines represent recessions at peak.
Source: UI Financial Data Handbook.

FIGURE 3-3
EXTENDED UNEMPLOYMENT SPELLS, 1947-1992

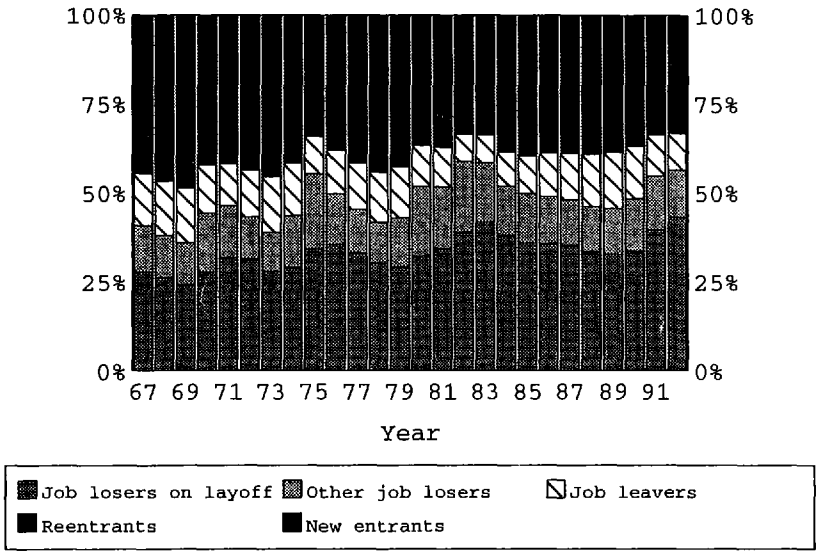


Source: Economic Report of the President (1993).

Coverage

The percentage of the workforce covered by the UI system (i.e., those jobs in which the employer pays UI taxes on a worker's wage) has increased over time (see Figure 3-5). The most recent significant increases in coverage were legislated in the 1970s, when a number of groups were covered for the first time, including state and local government employees, many household workers, and employees of small businesses. Now UI coverage is almost universal, extending to over 90 percent of all civilian employment in the United States. This includes almost all wage and salaried workers, representing 106 million individuals. The only major group that currently remains uncovered is the self-employed.

FIGURE 3-4
UNEMPLOYMENT BY REASON, 1967-1992



Source: Economic Report of the President (1993, Table B-39).

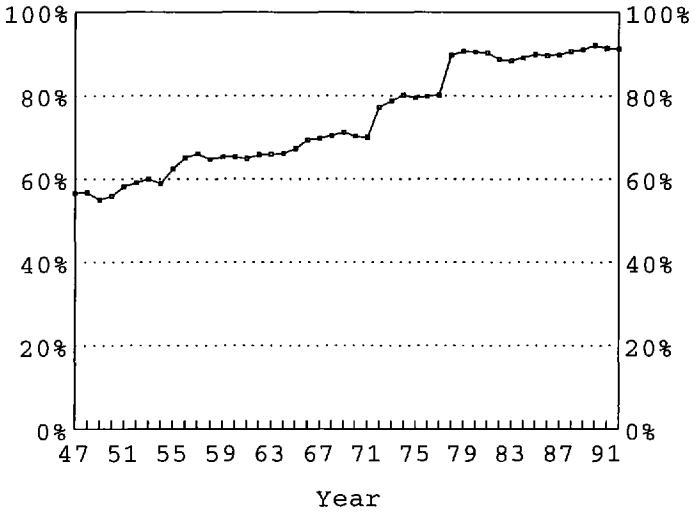
Eligibility

While the eligibility criteria for UI benefits among unemployed workers varies from state to state, there are three general principles that apply in all states: (1) individuals must earn a certain minimum amount in a given period of time in order to be eligible; (2) eligible individuals must be willing and able to work, with most states also requiring that they actively seek work; and (3) eligible individuals must have lost their jobs through no fault of their own. This latter requirement tends to exclude most job quitters and individuals who have been fired for cause.

Although many state policy changes have tended to restrict eligibility, individual wages have simultaneously increased as a result of inflation, thereby allowing more individuals to reach the minimum earnings threshold. Estimates suggest that these two trends have almost canceled one another, with eligibility remaining fairly constant at approximately 43 percent of the unemployed.[4]

almost canceled one another, with eligibility remaining fairly constant at approximately 43 percent of the unemployed.[4]

FIGURE 3-5
ANNUAL COVERED EMPLOYMENT AS A PERCENTAGE OF TOTAL EMPLOYMENT, 1947-1992



Source: Economic Report of the President (1993), and Employment and Wages, BLS/USDOL.

Receipt of Benefits

The percentage of unemployed workers who receive unemployment insurance benefits under regular state programs has exhibited two significant trends: (1) it has declined slowly but consistently since the 1940s; and (2) it dropped dramatically between 1980 and 1984, and has remained at a low rate throughout the 1980s and early 1990s. The causes and implications of these trends are discussed in greater detail in Chapter 4.

Level of Benefits

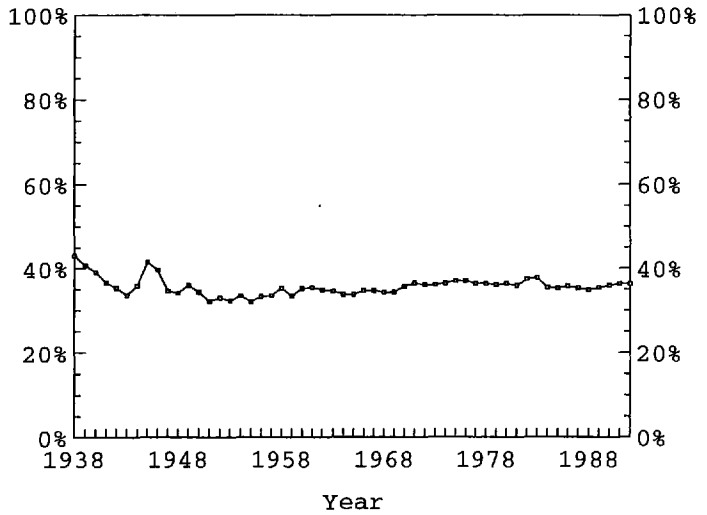
The weekly level of benefits (i.e., the weekly benefit amount) that an individual is eligible to receive is determined by individual state formulae that are based upon the prior recent earnings of that individual. Each state also has a minimum and maximum level of weekly benefits that can be received. The average benefit received by workers in 1992 was approximately $173 per week.[5]

The replacement rate, defined as the level of UI benefits paid divided by wages in UI-covered employment, is often used as a measure of the capacity of the UI system to replace an individual's pre-unemployment wages. The replacement rate has been quite constant over time, remaining around 35 percent (see Figure 3-6). This average, however, masks significant variation across states, with the replacement rate ranging in 1992 from a low of 27.5 percent in California to a high of 49.5 percent in Hawaii (see Table 3-2). In addition, there is significant variation across individuals within states, with UI benefits typically replacing a higher percentage of lost earnings for low-income individuals than for high-income individuals.[6] Similarly, the average level of weekly benefits varies across states, ranging in 1992 from a low of $83 in Puerto Rico to a high of $239 in Hawaii (see Table 3-3).

Duration of Benefits

In most states, the potential duration of benefits for an individual is calculated based upon that individual's recent earnings.[7] There is substantial uniformity across states with regard to the maximum duration of UI benefits, with all but three states providing for a maximum of 26 weeks of benefits in 1993.[8] In general, the national average of potential maximum duration has gradually increased over time, as has the average duration of individual unemployment spells (see Figure 3-7).

FIGURE 3-6
AVERAGE WEEKLY BENEFITS AS A PERCENTAGE OF AVERAGE TOTAL COVERED WEEKLY WAGES, 1938-1992



Source: UI Financial Data Handbook.
1983 and 1984 figures were recalculated and substituted for erroneous data.

TABLE 3-2
AVERAGE WEEKLY BENEFITS AS A PERCENTAGE OF AVERAGE TOTAL COVERED WAGES, BY STATE IN 1992

California	27.5	New Jersey	36.4
Louisiana	27.8	Texas	36.9
Indiana	28.1	Virgin Islands	37.2
Alaska	28.1	Montana	37.2
New Hampshire	28.5	Colorado	37.4
Tennessee	28.7	North Carolina	37.4
Alabama	28.8	South Dakota	37.9
Puerto Rico	31.1	Ohio	38.4
New York	31.8	Oregon	38.5
Georgia	32.0	West Virginia	38.7
Missouri	32.6	Oklahoma	39.1
Arizona	33.4	Arkansas	39.5
Connecticut	33.7	Massachusetts	39.8
Mississippi	33.8	Wisconsin	39.9
District of Columbia	34.0	Idaho	40.0
Nebraska	34.4	Michigan	40.2
Illinois	34.4	Maine	40.6
Kentucky	34.7	Wyoming	40.8
South Carolina	35.2	Pennsylvania	40.9
New Mexico	35.3	North Dakota	40.9
Virginia	35.4	Minnesota	41.0
Maryland	35.5	Utah	42.3
Delaware	35.6	Iowa	42.7
Nevada	35.6	Kansas	42.9
Florida	35.9	Rhode Island	44.6
Washington	36.1	Hawaii	49.5
Vermont	36.2		

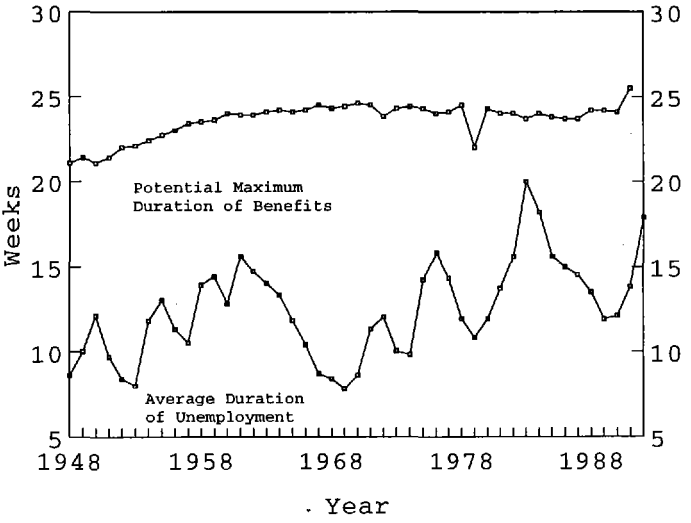
Source: UI Financial Data and Handbook.

TABLE 3-3
WEEKLY BENEFIT AMOUNT, BY STATE IN 1992

Hawaii	$239.80	West Virginia	$162.74
District of Columbia	$227.72	Virgin Islands	$160.58
Massachusetts	$226.31	Oklahoma	$159.50
New Jersey	$224.88	North Carolina	$158.50
Michigan	$211.29	Florida	$158.01
Connecticut	$210.78	Idaho	$156.22
Rhode Island	$206.09	Vermont	$155.31
Pennsylvania	$200.92	California	$152.07
Minnesota	$198.09	Arkansas	$150.63
New York	$197.42	Georgia	$148.17
Illinois	$183.21	Arizona	$146.75
Delaware	$181.02	North Dakota	$146.22
Maryland	$180.25	Missouri	$146.07
Ohio	$179.87	Kentucky	$144.43
Kansas	$179.06	South Carolina	$142.89
Colorado	$177.54	New Mexico	$138.28
Texas	$176.11	New Hampshire	$135.55
Washington	$175,62	Montana	$134.62
Wisconsin	$175.46	Nebraska	$132.95
Utah	$174.49	South Dakota	$127.84
Oregon	$171.81	Indiana	$125.98
Iowa	$170.38	Tennessee	$123.85
Alaska	$169.92	Mississippi	$122.62
Nevada	$167.89	Alabama	$120.95
Maine	$166.73	Louisiana	$118.06
Virginia	$164.15	Puerto Rico	$83.50
Wyoming	$163.42		

Source: USDOL/ETA/UIS/Division of Actuarial Services.

FIGURE 3-7
DURATION OF UI BENEFITS AND UNEMPLOYMENT (IN WEEKS), 1948-1992



Sources: UI Financial Handbook and Economic Report of the President (1993).

Chapter 4

Trends in Unemployment Insurance Recipiency

THE PERCENTAGE of unemployed workers who receive UI benefits under regular state programs has exhibited two significant trends: (1) the national recipiency percentage has declined slowly, but consistently, since the 1940s; and (2) the recipiency percentage dropped dramatically between 1980 and 1984 and has remained at a low rate throughout the 1980s and early 1990s.

These declines have raised considerable concern, in large part because they threaten to undermine the two primary functions of the UI system: to provide partial wage replacement for unemployed workers, and to counter economic downturns by automatically pumping more money into the economy when the unemployment rate is high. Because the Insured Unemployment Rate (IUR) is the primary mechanism through which the Extended Benefits program (EB) is activated during recessions, the decline in the IUR, reflecting the decline in recipiency, has also weakened the countercyclical effectiveness of the EB component of the UI program.

The two declines cited above likely have been caused by a combination of factors that tend to have similar effects upon the UI system. It is probable that the long-term decline partially is a result of broad shifts in the demographics of the labor market, coupled with industrial shifts and increases in UI coverage. To the extent that the percentage of the unemployed receiving UI benefits has decreased over the long term, the UI program has become unresponsive to the needs of a growing portion of the unemployed population.

A number of researchers have worked to identify the causes of the recent, more short-term decline in national UI recipiency. Four factors have been identified as the primary causes, although the results have not been wholly consistent and researchers have had substantial difficulty in separating the effects fully. First, policy changes were made on both the federal and state levels that appear to have reduced recipiency. Second, an increasing percentage of the unemployed live in states where UI recipiency is consistently below the national average.

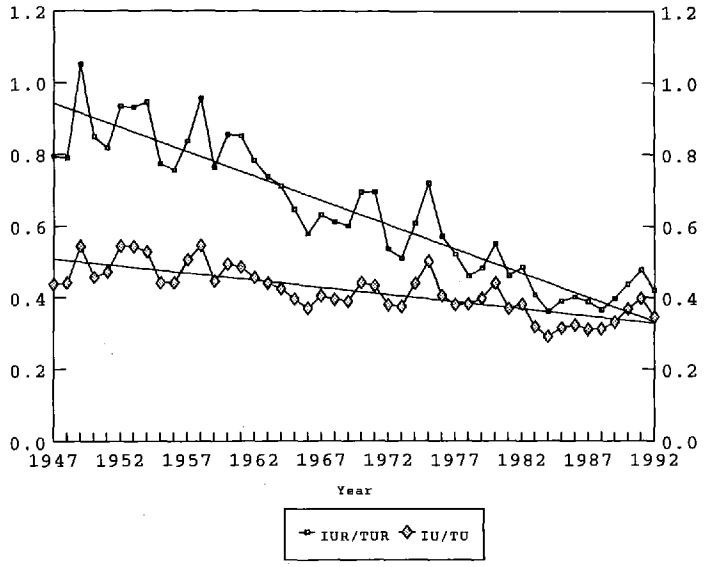
Third, the unionized percentage of the work force, where UI claims rates historically have been high, has declined. Fourth, the percentage of the work force employed in the manufacturing sector, where UI claims rates also have been high, has declined, as well.

RECIPIENCY TRENDS AND IMPLICATIONS

There are two primary measures of recipiency. The first measure is the ratio of the Insured Unemployment Rate (IUR) to the Total Unemployment Rate (TUR),[1] and the second is the ratio of UI claimants (IU) to the total number of unemployed (TU).[2] Both these ratios have shown a long-term decline and a more short-term decline (see Figure 4-1). Recipiency measures also vary considerably across states, with the ratio of claimants to total unemployed ranging from 21 percent in Virginia to 60 percent in Alaska during 1992 (see Table 4-1). An alternative measure of recipiency, the ratio of UI claimants to total job losers, has also demonstrated both long-term and short-term declines (see Figure 4-2).

In an analysis of the characteristics of all unemployed individuals who were not receiving benefits, the Congressional Research Service found that such individuals were typically young, did not head families, and were not the primary source of income within their families. Generally, they have lower than average incomes both before and after the unemployment spell. The study also found that, as expected, as attachment to the labor market decreases, likelihood of receiving UI benefits also falls. Even among those individuals who had been employed full-time for a full year before the beginning of their unemployment spell, however, only 42 percent of such individuals receive benefits.[3]

FIGURE 4-1
RECIPIENCY RATES FOR REGULAR STATE UI PROGRAMS, 1947-1992



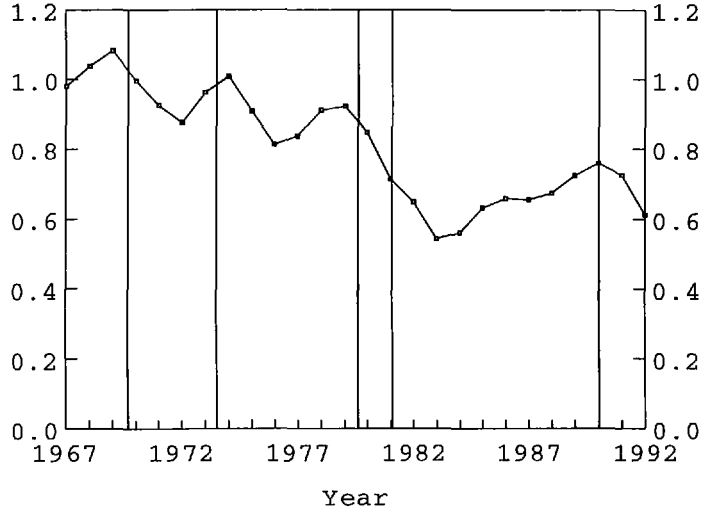
Sources: UI Financial Data Handbook and Economic Report of the President (1993).

TABLE 4-1
RATIO OF UI CLAIMANTS TO TOTAL UNEMPLOYED, BY STATE IN 1992

Virginia	20.7%	Maryland	35.0%
New Hampshire	23.6%	Tennessee	37.2%
Florida	24.5%	Minnesota	37.3%
Texas	24.6%	Iowa	37.4%
Indiana	24.7%	Nebraska	37.6%
West Virginia	24.9%	Massachusetts	38.9%
South Dakota	25.0%	Arkansas	39.2%
Oklahoma	26.4%	Missouri	39.4%
Colorado	27.3%	New York	39.7%
Arizona	27.9%	New Jersey	39.9%
New Mexico	28.4%	California	40.7%
Louisiana	28.6%	Delaware	40.7%
Georgia	28.9%	Maine	43.0%
Alabama	29.0%	Pennsylvania	44.6%
Utah	29.4%	Kansas	44.9%
Mississippi	29.6%	Connecticut	45.2%
Puerto Rico	29.7%	Rhode Island	46.2%
North Carolina	30.6%	Idaho	46.7%
Kentucky	30.8%	Oregon	46.9%
Ohio	33.1%	Nevada	46.9%
North Dakota	33.1%	Washington	47.1%
Wyoming	33.9%	Wisconsin	47.4%
Michigan	33.9%	Vermont	48.3%
South Carolina	34.4%	Hawaii	50.0%
Montana	34.6%	District of Columbia	51.2%
Illinois	34.7%	Alaska	60.0%

Sources: Bureau of Labor Statistics, *Local Area UI Statistics and National Office of Unemployment Insurance, Weekly Report.*
Note: Data for the Virgin Islands are not available.

FIGURE 4-2
RATIO OF UI CLAIMANTS TO JOB LOSERS, 1967-1992

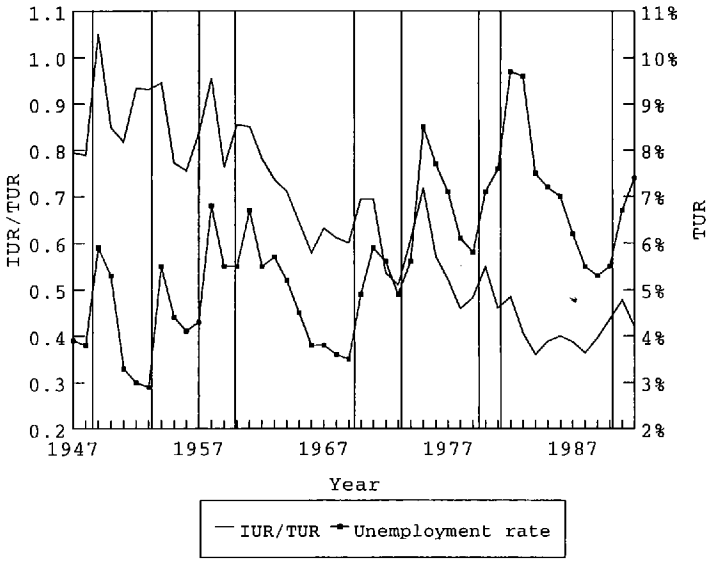


Lines represent recessions at peak.
Source: Economic Report of the President (1993).

Long-Term Trends

In the long term, the IUR/TUR has dropped approximately 60 percent since 1947, and the IU/TU has declined approximately 40 percent over the same period. Until 1980, both ratios displayed an overall downward trend, with some upward movement during periods of high unemployment. Figure 4-3 illustrates the relationship between the IUR/TUR and the unemployment rate over time. These trends suggest that the UI program has been serving an ever-decreasing percentage of the unemployed, with periodic increases during recessions, largely a result of recessionary increases in the percentage of the unemployed who are job losers.

FIGURE 4-3
RECIPIENCY RATES FOR REGULAR STATE UI PROGRAMS AND TOTAL UNEMPLOYMENT RATE, 1947-1992



Lines represent recessions at peak.
Sources: UI Financial Data Handbook and the Economic Report of the President (1993).

Short-Term Trends

The long-term decline in UI recipiency was combined with a pronounced drop in both measures of recipiency during the early 1980s. By 1984, the number of unemployed collecting UI as a percentage of total unemployment had dropped to 28.5 percent, the lowest recorded percentage since 1947, when such data were first collected. The ratio has increased slightly since 1984, but has remained lower than its historical average. This period is the first one during which recipiency measures did not increase significantly as the unemployment rate peaked. This represents a fundamental shift away from the dynamic trends that had marked the UI program since its inception.[4]

The declines in UI recipiency are potentially significant for a number of reasons. First, they threaten to undermine the two primary functions of the UI system: to provide partial wage replacement for unemployed workers and to counter economic downturns by automatically pumping more money into the economy during periods of high unemployment. The effectiveness of the system in performing these two functions is a direct function of the percentage of the unemployed who are served by the program. To the extent the program serves a decreasing percentage of the unemployed, the system's capacity to perform its two primary functions is eroded.

Further, the decline of the IUR relative to total unemployment has weakened the countercyclical effectiveness of the UI system as a whole, because the IUR is the primary mechanism through which the EB program is activated during recessions. Thus, the decline in the IUR has resulted in a significant reduction in the number of states in which EB is made available during recessions.[5]

CAUSES OF THE LONG-TERM DECLINE IN RECIPIENCY

While there is relatively little research that has examined the long-term phenomenon, the research that does exist suggests that the long-term decline is primarily a result of two factors: (1) changes in the demographic composition of the labor force and (2) increases in UI coverage. It is likely that both of these factors have served generally to reduce the percentage of eligible workers who apply for UI benefits.

Broad Demographic Changes

Burtless and Saks suggest that a primary cause of the decline in the IU/TU before 1980 was the changing demographic composition of the jobless. Throughout the 1960s and 1970s, as many women and young workers from the baby boom generation entered the labor force, they also became a higher percentage of the unemployed. As a result, men of prime working age, who are the most likely to receive UI benefits, declined considerably as a percentage of the unemployed. Burtless and Saks find that such demographic changes explain a large percentage of the decline in the IU/TU ratio before 1980.

While the demographic changes described by Burtless and Saks declined in their impact after 1980, other demographic changes have continued or even accelerated in the 1980s and 1990s. Perhaps the most significant change is the continuing increase in the number of two-earner families. Although no empirical research has addressed this issue, it is likely that the increase in two-earner households has reduced the need of some workers to apply for UI benefits upon becoming unemployed. Thus, it is possible that various broad demographic changes have continued to have a negative impact upon UI recipiency.

Increases in UI Coverage

As noted above, significant increases in UI coverage occurred during the 1970s. It is likely that these newly covered employees were less likely to make UI claims than previously covered groups.[6] If this is true, then, all else being equal, the number of UI claimants as a percentage of UI-covered jobs (i.e., the IUR) would decline simply as a result of the increased coverage of the system. Burtless and Saks suggest that the IUR may have declined by between 0.5 and 0.8 percentage points because of the extensions in coverage in the 1970s. Such a decline would account for a large percentage of the decline in the IUR/TUR over this period.

Decline in Manufacturing

The shift of workers from manufacturing and other industries with high UI recipiency rates was also identified by Burtless and Saks as a primary cause of the long-term decline in recipiency, although they report that it is quite difficult to estimate with precision the magnitude of this effect. As discussed below, the decline in manufacturing also

has been identified as a significant cause of the decline during the 1980s.[7]

CAUSES OF THE SHORT-TERM DECLINE IN RECIPIENCY

Considerable inconsistency continues to exist in the research examining the decline in UI recipiency that occurred in the early 1980s. The variability of the results is a strong indication of the difficulty that researchers have had in quantifying the impacts of various factors. Four primary factors have emerged as the most common explanations of the short-term decline in recipiency: (1) federal and state policy changes, (2) population shifts to states with traditionally low UI claims rates, (3) the decline in the unionized percentage of the work force, and (4) the decline in the manufacturing sector of the economy. It is likely that a combination of some or all of these factors contributed significantly to the short-term decline.

Policy Changes

During the 1980s, a number of changes in federal and state law appear to have contributed to the reduction in the percentage of the unemployed who received unemployment benefits. Overall, the U.S. General Accounting Office (GAO) finds that policies designed to improve the solvency of state trust funds had the effect of reducing UI recipiency among unemployed individuals.[8] Most significantly, numerous state laws were changed to restrict eligibility and reduce benefit levels. In part, these state laws were in response to federal policies that provided incentives to states to adopt more restrictive legislation for regular state unemployment programs. A number of federal laws, most notably the decision to tax UI benefits, directly reduced the value of unemployment benefit levels.

Federal Policies

During the 1980s, a number of significant changes were made in federal regulations governing state UI trust funds. Beginning in 1982, states were required to repay federal loans to their trust funds with interest (previously, the loans had been interest-free and there was some uncertainty regarding whether repayment would be required at all), and states with loans were required to adopt other specific measures to ensure solvency. Overall, these changes provided incentives to states

to avoid the need for future loans by reducing the scope of state programs. In addition, states were given other direct incentives, linked to federal EB funds, to tighten UI eligibility requirements and to reduce UI benefits. Taken as a whole, these federal policy changes were reflected to some extent in the state policy changes discussed below.

Federal laws also were changed in ways that directly affected the recipiency rate. In 1979, UI benefits were partially taxed for the first time, and in 1986, all unemployment benefits became subject to taxation. States also were required to reduce or eliminate UI payments to unemployed workers receiving pensions or Social Security payments. Corson and Nicholson find that, overall, between 11 percent and 23 percent of the total decline can be directly attributed to various federal policy changes. Specifically, between 11 and 16 percent is due to partial taxation of benefits and up to 7 percent to less generous EB programs.[9]

State Policies

During the 1980s, many states adopted tighter monetary eligibility standards or stricter disqualification provisions for their regular UI programs. The GAO reports that 44 states tightened their standards in one or both of these regards between 1981 and 1987. It is likely that many of these state changes came about in response to the federal incentives to tighten eligibility discussed above, although it is impossible to determine the precise impact that changes in federal legislation alone had on the policy decisions of states. Some research has found that these and other changes in state policy account for a significant percentage of the decline in recipiency. Corson and Nicholson find that 21 percent to 54 percent of the decline in recipiency is attributable to state policy changes. Specifically, the decline is due to the following: 9 to 11 percent to increases in denial rates for disqualifying income, 3 to 11 percent to increases in the minimum earnings required to qualify for UI, 2 to 11 percent to increases in the denial rate for misconduct, up to 13 percent to changes in voluntary separation standards, 5 percent to reductions in maximum duration of benefits, and 2 to 4 percent to changes in wage replacement rates.[10] They also find that the IU/TU increased between 1 percent and 13 percent as a result of reductions in work test denials, partially canceling the effects of the other factors.[11]

Burtless and Saks also conclude that state legislative and administrative changes are the primary cause of the decline in recipiency, but they do not present estimates of the magnitude of the effects of these changes.[12]

Baldwin and McHugh's findings suggest that state policy changes account for 54 percent of the decline in recipiency rates between 1979 and 1990.[13] An updated work by Baldwin, however, found sharp reductions in the apparent effects of state policy changes.[14] Baldwin and McHugh suggested that the decline can be attributed to the following: 21 percent to increases in the minimum earnings required to qualify for UI, 16 percent to increases in the earnings required to qualify for the maximum benefit, 8 percent to increases in the number of states with disqualification periods for job quitters, 7 percent to increases in the number of states with disqualification periods for refusal of suitable work, and 1 percent to increases in the number of states with right-to-work laws.[15]

Blank and Card, however, found little evidence that state policy changes had any impact on recipiency. They did find that individual eligibility for UI benefits appeared to decline slightly as a result of tighter state eligibility standards, although these effects were offset by increasing wage levels.[16]

Population Shifts

An increasing share of U.S. unemployment is located in Southern and Mountain states, where the IU/TU ratio consistently has been lower than the national average. Thus, as the percentage of national unemployment located in these states increases, the national IU/TU ratio would be expected to fall accordingly. This is a long-term demographic trend, occurring throughout the last three decades and continuing into the present. Blank and Card found that these regional shifts in population accounted for approximately 50 percent of the decline in the national IU/TU ratio between 1977 and 1987. Vroman asserts that 25 percent is a more appropriate figure, and Corson and Nicholson attribute 16 percent of the variation to geographic population shifts.[17] These analyses do not, however, explain the underlying variations in IU/TU across states that have actually caused the national rate to be affected by interstate migrations. It is quite likely that much of this variation can be attributed to the state policy differences discussed above. The exact extent to which this is the case, however, has not yet been determined.

Decline in Unionization

In recent years, the percentage of workers who are members of unions has declined significantly. Between 1979 and 1988, the unionization percentage decreased 25 percent.[18] Because unions have traditionally represented a powerful source of information regarding available benefits for unemployed workers, it is possible that the decline in union membership exacerbated any existing information problem among the unemployed. In addition, unions have often facilitated the filing of members' UI claims by helping to guide them through the UI system. Finally, many unions' members are only eligible for supplemental unemployment benefits paid by their union if they apply for regular UI.

Blank and Card attribute 25 percent of the decline in recipiency to the decline in unionization. Baldwin and McHugh assign 29 percent of the reduction in recipiency to the decline in unionization. Vroman also points to the potential importance of the unions' information role by noting that the most important reason for nonapplication for UI benefits by unemployed individuals is their belief that they are ineligible for UI. If individuals' understanding of eligibility is incorrect, then eligible workers may not be applying because they believe they are ineligible.[19]

Decline in Manufacturing Sector

As noted above, Burtless and Saks suggest that industrial shifts contributed to the long-term decline in recipiency. This trend continued in the 1980s, as manufacturing as a percentage of total employment fell by 22 percent between 1979 and 1990. This factor has been identified as a significant cause of the short-term decline, as well. Corson and Nicholson find that between 4 percent and 18 percent of the decrease in the UI claims ratio can be attributed to the decline in the manufacturing sector, while Baldwin and McHugh attribute 16 percent of the total decline in IU/TU to this factor. In addition, Corson and Nicholson note that an unemployed worker previously employed in manufacturing is 25 percent more likely to collect UI than a similar worker from another industry. These findings are partially called into question, however, in analyses by Corson and Rangarajan, and Baldwin. Both find that a decrease in manufacturing employment actually leads to an increase in the IUR.[20]

Overall, it should be noted that because unions traditionally have been composed disproportionately of workers in the manufacturing

sector, the decline in manufacturing is closely linked to the decline in unionization. Thus, the effects of these factors may be difficult to separate.

Chapter 5

Dislocated Workers

AS NEW COMMODITIES and technologies develop, the nature of the economy changes, with some individuals losing their jobs as a result. Such workers are termed "dislocated" workers. While dislocated workers come from all fields, individuals who work in declining industries are particularly likely to be dislocated. In addition, workers in fields that are adversely affected by changes in public policy are also vulnerable to dislocation. In the coming years, it is likely that two particular government policies will increase the number of worker dislocations. Some increases in dislocated workers are expected to result from the implementation of the North American Free Trade Agreement (NAFTA). Reductions in spending in the defense sector also are likely to dislocate a significant number of workers.

Economists often argue that some worker dislocation is efficient, because it serves to direct human resources to those areas where they are most useful and valuable. This efficiency, however, imposes a significant burden upon those individual workers who are dislocated. In recognition of the individual costs that are borne by dislocated workers, a number of government programs exist that are designed to meet their needs, providing income support and reemployment services. The UI program represents the primary source of income support. Currently, the Trade Adjustment Assistance program and the Economic Dislocation and Worker Adjustment Assistance program represent the primary complements to the UI program for dislocated workers, providing training and job search assistance, as well as additional income support.

WORKER DISLOCATION: DEFINITIONS

Before beginning a direct discussion of worker dislocation, it is important to recognize that not all analysts agree on how to define dislocated workers. As a result, the number and characteristics of workers who are actually classified as dislocated vary greatly, depending upon the specific definition that is chosen. Some suggest that all workers who lose a job because of a plant closing or permanent

layoff should be considered dislocated, while others believe that a worker must also have had a stable previous employment history in order to be classified as dislocated. This latter definition, with a requirement that a worker has been employed in the previous job for at least three years, is the one generally used by the Bureau of Labor Statistics, as well as many other researchers, in their analyses of dislocated workers.

Nevertheless, it is in many ways instructive to consider all workers who have permanently lost their jobs, regardless of their job tenure, in order to understand the relationship between various lengths of job tenure and the experiences of dislocated workers. Indeed, analysis reveals that half of all dislocated workers were with their previous employer for fewer than three years. Therefore, this chapter considers all dislocated workers, regardless of their job tenure.

EXTENT OF WORKER DISLOCATION

Many have come to believe that the extent of dislocation among American workers has increased in recent years. The long-term shift in employment opportunities from the manufacturing sector to the service sector reflects a turmoil in the labor market that is likely to cause worker dislocations. Further, indirect measures of dislocation have increased in recent years. Both the average duration of unemployment spells and the percentage of unemployed workers who are unemployed for extended periods of time have increased throughout the last decades.[1] At the same time, the unemployment rate has been steadily increasing, with some economists attributing a percentage of this rise to increases in the number of dislocated workers.[2] Indeed, as indicated in Figure 3-3, the relationship between the unemployment rate and the average duration of unemployment is quite a strong one. In addition, the number of permanent separations as a percentage of job losses has increased over time.[3]

In an effort to achieve a direct measure of the number of dislocated workers over time, the Congressional Budget Office (CBO) conducted a major study of the characteristics and the experience of workers who were identified as having been dislocated during the 1980s.[4] The CBO found that approximately two million workers in the United States lost or left a job each year in the 1980s because of a plant closing, an employer going out of business, a layoff from which they were not recalled, or other similar reason. The number of such dislocated workers each year was reflective of the condition of the economy, with

numbers ranging from 1.5 million in the relatively strong labor market of 1988 to 2.7 million in the recession year of 1982.[5] Analysis reveals that much of the cyclical variation over the decade was a result of workers who lost jobs because of "slack work," rather than the closing of plants or abolition of jobs or shifts. Thus, the number of workers who were dislocated because their plant was closed or job abolished remained generally constant throughout the decade, slightly below one million workers per year, despite the variations in the overall unemployment rate.

CHARACTERISTICS OF DISLOCATED WORKERS

Under any broad definition, dislocated workers are a heterogeneous population with varied backgrounds, characteristics, and needs for adjustment assistance. Indeed, the heterogeneity of this population is increasing, as greater numbers of white collar and nonmanufacturing workers are being dislocated. In large part, however, the characteristics of those workers with the greatest need for assistance in finding new employment still can be distinguished from the characteristics of dislocated workers who are unlikely to encounter significant difficulty in finding reemployment.

Dislocated Workers in General

Despite the relationship noted above between the condition of the economy and the number of dislocated workers, the characteristics of dislocated workers tend to remain generally consistent, regardless of the prevailing economic conditions. A high percentage of dislocated workers have lost their jobs in goods-producing industries, although the percentage of service workers who were dislocated increased throughout the 1980s, rising from approximately 40 percent to 50 percent of all dislocated workers. Despite the decrease in the percentage of dislocated workers from goods-producing industries, dislocation among such workers is still twice the rate among workers from other industries. In addition, a number of other individual factors affect the likelihood of a worker becoming dislocated. The CBO notes that workers who have not finished high school are twice as likely to be dislocated as workers with a college degree. Younger workers are more likely to become dislocated than older workers. Overall, despite these differences in risk of dislocation by age, education level, and industry, the characteristics of the population of dislocated workers

generally resemble the characteristics of the civilian labor force as a whole.

Reemployment Difficulty Among Dislocated Workers

It is important to recognize that labor market experiences vary significantly among those workers who become dislocated. Those workers who (1) incur the largest wage losses, (2) are jobless for extended periods, or (3) do not find reemployment at all tend to be disproportionately the least well educated, the oldest, and those with the longest tenure with their previous employer. Statistical analysis to isolate the effect of each characteristic shows that age and years of schooling have the largest effects upon dislocated workers' likelihoods of each of these three forms of reemployment difficulty. In addition, among dislocated workers, females and minorities are significantly more likely to have such difficulties than males and whites, regardless of economic conditions. The variety of difficulties experienced by some dislocated workers is discussed in greater detail in the following section.

CONSEQUENCES OF DISLOCATION

The experiences of dislocated workers varies considerably. Some find new jobs at comparable wages with little difficulty. A significant percentage of those dislocated, however, exhaust their UI benefits, experience long spells of unemployment, and/or receive lower wages in their new jobs. There is evidence that workers who are dislocated from their jobs experience long spells of unemployment and that many suffer significant losses in earnings.[6] The CBO finds that even one to three years after being dislocated,[7] half of the workers who had lost jobs either are not working or have new jobs that pay less than 80 percent of their prior earnings.[8] On the other hand, almost one quarter of dislocated workers receive an increase in earnings of at least 20 percent by that point. Those who suffer lower earnings tended to take longer to find a job than other dislocated workers. While those who receive a significant increase in earnings are unemployed for an average of 14 weeks, those whose earnings decline by more than 20 percent are jobless for an average of 26 weeks. Dislocated workers who eventually find reemployment are unemployed for an average of 20 weeks, while all dislocated workers, including those with continuing unemployment

spells at the time of the survey, are unemployed for an average of 29 weeks.[9]

As noted above, the workers who experience the most difficulty tend to be disproportionately older, less educated, and to have longer previous job tenure. For example,

- Workers over the age of 60 are unemployed for an average of 53 weeks, with only 32 percent able to find reemployment.

- Workers with more than 10 years of job tenure are unemployed for an average of 37 weeks, with only 65 percent able to find reemployment.[10]

- Dislocated workers who have not completed high school (20 percent) are unemployed for an average of 39 weeks, with only 58 percent able to find reemployment.

It is also important to note that the condition of the economy seems to play little role in improving the prospects of comparable reemployment for those workers who incurred substantial decreases in earnings. Although the average duration of unemployment for all workers fell from almost 30 weeks during the recession year of 1981 to 15 weeks in 1988, the percentage of reemployed dislocated workers whose earnings fell by at least 20 percent remained generally constant.

PROGRAMS SERVING DISLOCATED WORKERS

The UI program represents the primary means of income support for covered dislocated workers who are seeking new employment. In order to respond to the more specific needs that these workers have, an array of other programs currently exists; these programs serve primarily either to supplement the UI benefits that are available to dislocated workers or to complement those benefits by providing training or other reemployment assistance. Currently, the Department of Labor is in the process of developing a plan to create a comprehensive worker adjustment program, with existing worker adjustment programs consolidated into one.

Unemployment Insurance

The UI program is the primary source of income support to dislocated workers. In addition, it provides benefits to other workers who lose their jobs. While dislocated workers comprise approximately 20 percent of the unemployed, approximately 80 percent of dislocated workers are served by the UI program.

In general, dislocated workers are much more likely to exhaust their UI benefits before they find a job. During the 1980s, more than half of all dislocated workers who received UI benefits exhausted them, while only about one-third of UI recipients as a whole exhausted benefits. As expected, the characteristics of workers and the circumstances of dislocation that are associated with lengthy spells of unemployment are also associated with a greater probability of exhausting benefits.

Other Programs

Although UI represents the primary source of benefits for dislocated workers, it serves all covered workers who lose their jobs; therefore, it is not tailored to the needs of dislocated workers. Historically, there have been numerous other programs that have been targeted at specific groups of workers. Today, the Trade Adjustment Assistance (TAA) program and the Economic Dislocation and Worker Adjustment Assistance (EDWAA) program represent two significant sources of reemployment assistance for dislocated workers in general. In addition to these programs, programs similar to EDWAA have been implemented to serve workers affected by the Clean Air Act and cuts in defense spending. Further, a number of other smaller programs exist that have eligibility standards restricted to workers who are in a single industry or who are affected by more narrow government policies.[11]

Trade Adjustment Assistance

TAA is the largest of the special programs created to assist displaced workers whose job losses are associated with federal policies, with recent annual expenditures ranging from $150 to $250 million. The program provides assistance to workers who are unemployed as a result of import competition. In order to qualify for assistance, workers from a firm must petition for certification. Certification criteria require that a significant share of the firm be threatened with

dislocation; sales or production have decreased; and increased imports have "contributed importantly" to the reductions in employment, sales, or production. The certification process for TAA services can be a lengthy one, requiring an intensive investigation by representatives of the Department of Labor.[12]

Cash benefits are available under TAA for certified workers after their UI benefits have been exhausted. The weekly TAA benefit level is available for up to 52 weeks after UI exhaustion if the worker is participating in an approved training program. Generally, weekly TAA benefits are equal to an individual's weekly UI benefit level. In 1991, 25,000 displaced workers received cash assistance totalling $116 million, in an average amount of $170 per week and average duration of 23 weeks per individual. More than 85 percent of these recipients came from the manufacturing sector.[13]

In addition to cash assistance, various types of reemployment assistance increasingly have been available since the 1980s, with training now an entitlement for eligible workers and mandatory for those workers who receive cash benefits under TAA and have not received a waiver from the training requirement. A recent evaluation of the TAA program, however, found no statistically reliable evidence that TAA-provided training has a substantial positive impact upon employment and earnings for participants in the first three years following an initial UI claim.[14]

Economic Dislocation and Worker Adjustment Assistance

EDWAA amended Title III of the Job Training Partnership Act (JTPA) in 1988. Under the program, states are allocated federal funds to provide training and related services to dislocated workers. Funds are distributed to states on the basis of various measures of state unemployment. The criteria for being designated "dislocated" (and therefore eligible for services) under EDWAA are quite broad. Generally, the criteria require only that workers be either terminated, laid off, or long-term unemployed and have limited opportunities for future employment in their previous industry, occupation, or community. This assessment is made on the state or local level.

Available funding under EDWAA, however, is insufficient to cover all eligible workers. For 1993, $517 million was appropriated to EDWAA, which is estimated to be sufficient to allow approximately 10 percent of all dislocated workers to receive services.

EDWAA funds are generally used to provide classroom training, on-the-job training, and job search assistance to program participants. Few participants receive income support under EDWAA. Relocation assistance was also authorized by EDWAA, but is offered by very few of the local programs. Overall, no evaluations of the impact of the program have been conducted.

TAA and EDWAA: A Comparison

EDWAA and TAA represent two significantly different approaches to addressing the problem of dislocated workers. TAA targets a more narrow population affected by one government policy. Further, TAA provides cash assistance that resembles an extension of UI payments to affected individuals. EDWAA, on the other hand, primarily provides training and other reemployment services, with little cash assistance.

Responding to a Bush Administration proposal that the two programs be replaced by a single, comprehensive program, the GAO testified that one significant problem in both EDWAA and TAA was their inability to respond to the needs of dislocated workers in a timely manner.[15] Because research indicates that workers who receive timely assistance are more likely to find rapid reemployment, this limitation is significant. Further, the GAO found that coordination between the two programs is limited, despite legislative mandates for such coordination.[16]

Additional Programs

Programs similar to EDWAA also have been enacted under JTPA to serve workers whose job losses are related to the implementation of the Clean Air Act or to cuts in defense spending. The Clean Air Employment Transition Assistance program was authorized under the Clean Air Act Amendments of 1990, with a total of $250 million available for 1992 through 1997. The Defense Conversion Adjustment program of 1990 authorized a total of $150 million to assist dislocated defense workers through 1997. The Defense Diversification Adjustment program also provides reemployment assistance to dislocated defense workers, with $75 million appropriated to the program in 1993. The services provided under these programs are also similar to those provided by EDWAA.

EFFECTIVENESS OF DISLOCATED WORKER PROGRAMS

Three primary types of reemployment services have been made available to unemployed workers: job search assistance (JSA), on-the-job training (OJT), and classroom training. Each of these also has been made available specifically to dislocated workers through various programs, including those discussed above. JSA is designed primarily to assist unemployed workers in developing effective job search skills. OJT provides for the acquisition of firm-specific skills that can only be attained on the job. Finally, classroom training provides formal classroom-style instruction that is intended to assist unemployed workers in the development of skills that are potentially of interest to a variety of employers.[17]

Job Search Assistance

A variety of social experiments, demonstrations, and other projects provide consistent evidence that JSA is the most cost-effective reemployment service. It has positive effects on a number of labor market outcomes, including earnings, placement, and employment rates. As a result, JSA programs typically result in a reduction in the length of time that workers receive UI benefits. JSA has two other significant advantages over classroom training and OJT. First, it allows for quick intervention after a plant closing or layoff. Second, the cost per worker is quite low in comparison with training programs. In view of the difficulty involved in early identification of unemployed workers who are likely to encounter significant reemployment difficulties, the low cost of JSA makes it feasible to provide such services early, even to those workers who prove to have little difficulty in finding new comparable employment.

On-the-Job Training

Findings regarding OJT are somewhat mixed. When provided in programs focused specifically upon worker training, rather than reemployment of unemployed workers, OJT generally has been found to be quite effective, with positive effects upon employment and earnings. When targeted upon the specific clientele of dislocated workers, however, such positive effects are no longer evident. Most

studies do agree that, because of its significantly higher cost, it is not as cost-effective as JSA programs.

Classroom Training

Evidence regarding classroom training suggests that its effects are no greater than those realized through the provision of JSA alone. As a result, the significantly higher cost of classroom training suggests that it is not typically a viable alternative to JSA. A recently completed evaluation of JTPA confirmed the negative findings regarding the impact of classroom training programs, finding clear supporting evidence that such programs do not generally have the desired impact for unemployed workers.[18]

CURRENT PROPOSALS

A number of proposals have been made regarding new programs or techniques for serving workers who are identified as dislocated. Three of these are discussed briefly below.

Comprehensive Worker Adjustment Program

Currently, the Department of Labor is developing a comprehensive worker adjustment program, into which existing dislocated worker programs would be consolidated. Services would be available to all dislocated workers, regardless of the cause of dislocation. In large part, such a program is being developed as an effort to reduce the complexity and fragmentation of the currently existing system. A unified program should be both easier and less expensive to administer, thereby making it possible for more dislocated workers to receive reemployment services.[19]

Profiling

Profiling is a technique designed to identify those new UI recipients who are likely to be dislocated, to encounter reemployment difficulties, and to exhaust their UI benefits. Such workers are then referred to reemployment services by their fifth week after filing for UI benefits. The profiling program serves to link UI with other efforts to assist dislocated workers.

Restructuring the Extended Benefits Program

Finally, dislocated workers could be served through a restructuring of the existing federal-state Extended Benefits program. This option is discussed more fully in Chapter 6.

Chapter 6

Extended Benefits Reform

THERE are four fundamental answers to the question of what the purpose of an extended UI benefits program should be. First, the program could be countercyclical in nature, paying benefits during cyclical economic downturns. This is the current orientation of the program. Second, the program could address some problems associated with structural unemployment, paying benefits to individuals identified as dislocated workers. Third, the program could combine the above goals, paying benefits to both cyclically and structurally unemployed workers. Fourth, it could be determined that there is no need for any form of extended UI benefits.

There are a number of more detailed policy questions that must be answered, with the specific questions dependent upon the particular purpose that is chosen for the program. All of these are discussed in additional detail in the text that follows.

Under a countercyclical extended UI benefits program, decisions must be made regarding the following general issues: (1) the method of determining periods of high cyclical unemployment, (2) the requirements that should be imposed upon benefit recipients, (3) the method of financing the program, and (4) the determination of the potential duration of benefits.

Under an extended UI benefits program directed at dislocated workers, decisions must be made regarding the following general issues: (1) the identification of "dislocated workers" (which can include the issue of requirements imposed upon benefit recipients), (2) the method of financing the program, and (3) the determination of the potential duration of benefits.

If both general goals are pursued in an extended UI benefits program, a decision must be made regarding the relationship between the two components of the program, in addition to the other specific policy options. Finally, if it is determined that there is no need for an automatic extended UI benefits program, then no additional policy decisions must be made.

CURRENT STATUS OF EXTENDED BENEFITS

EB was enacted in 1970 as an attempt to create a permanent program that would automatically provide UI benefits for extended durations during periods of particularly high unemployment in a state. Such a program, when functioning effectively, would make additional benefits available to many regular UI exhaustees and would provide an added countercyclical stimulus for the macroeconomy in periods of recession. As designed, therefore, EB would eliminate the need for the emergency supplemental UI benefits programs that have been enacted by Congress on an *ad hoc* basis during every economic downturn since 1958. Despite the presence of EB, however, the implementation of emergency benefits programs (such as EUC) during recessions has continued. This suggests that the EB program, as currently structured, is incapable of performing its intended function during periods of significant unemployment.

As a result, a number of proposals to reform EB triggers have been put forth. In large part, the impetus for these proposals has come from two factors: (1) the decrease in availability of EB in recent years and (2) the increase in structural unemployment, which has led to suggestions that the EB program be targeted more directly at those workers who were dislocated by structural economic adjustments. These two factors are discussed below.

Decreased EB Availability

Fewer states have been eligible for benefits under the EB program during the last decade. This was particularly evident during the last recession. This has resulted in a decline in the effectiveness of EB as a countercyclical device. Two factors related to the definition of the EB trigger have caused a decline in the availability of EB. First, federal legislation in 1981 required that state IUR triggers be raised from four percent to five percent. Second, a combination of factors during the early 1980s worked simultaneously to reduce the scope of most regular state UI programs.[1] As a result of these changes, the percentage of the unemployed who received benefits decreased, which directly reduced the IUR. Thus, state IURs were generally in decline at the same time the federal government increased the minimum IUR required to be eligible for EB.

Consequently, EB first payments declined dramatically. Estimates suggest that first payments in the recession years of 1982 and 1983

declined by as much as 55 percent from the level that would have been expected based upon the earlier historical relationship between EB and the TUR.[2] During the 1991 recession, EB was activated only briefly in eight states, and then only because high cyclical unemployment coincided with high seasonal unemployment.[3] The Congressional Research Service noted that "the availability of EB in so few states during the trough of the recession indicated to many that the current-law EB trigger was too restrictive."[4] Overall, the increased IUR trigger rate, in combination with lower state IURs, greatly reduced the effectiveness of the EB program.

Increased Structural Unemployment

Policy interest has also turned to the potential use of the EB program as one means of addressing some of the problems associated with increases in structural unemployment and worker dislocation. Figure 3-3 provides additional detail on the increase in the duration of unemployment spells. Triggers could be selected that would increase the targeting of EB benefits to dislocated workers who find themselves unemployed due to structural changes in the economy. This could also allow the variety of existing programs that currently serve various specific dislocated populations to be consolidated.[5]

REFORMING EXTENDED BENEFITS

In considering reform of the EB program, the most fundamental issue that must be addressed is the question of the purpose of the program. The answer to the question has profound implications for all other elements of the program, including its eligibility criteria, financing mechanism, requirements that are imposed upon recipients, and potential duration and amount of benefits.

Although the regular UI program would continue to provide income support to eligible jobless individuals, two primary goals could be pursued in an EB program. First, the program could perform a countercyclical role by paying benefits during cyclical economic downturns. This would provide an added macroeconomic stimulus during such periods. To accomplish such a purpose, determination of eligibility for the payment of benefits would be based upon the condition of the economy in the nation, a region, a state, or a substate area.

Alternatively, the program could address some problems associated with structural unemployment by providing a longer period of UI payments to individuals who have been dislocated from their jobs as a result of structural changes in the economy.[6] In this view of the program, the primary determining factor for benefits would be individual attributes[7] or actions, rather than the condition of the economy. It is true, however, that the capacity of the economy to create new jobs has an effect upon the severity of the dislocated worker problem. A shift of this nature in the EB program would represent a major change in the orientation of the program.

It should be recognized that it is not necessary to select only one of the two program goals described above. There are numerous combinations that could be created that would make possible the pursuit of both of the goals within the same program. For example, one such solution would be a two-pronged extended benefits system, in which extended benefits trigger "on" according to economic conditions, but are made available also to individuals identified as dislocated workers. In order to clarify the issues as fully as possible, however, much of the remainder of this chapter separates the discussion of the countercyclical focus of EB and the dislocated worker focus of EB.

Finally, it should be noted that before determining the goal(s) of an extended benefits program, a basic decision must be made on whether or not UI benefits should ever be extended beyond the basic 26 weeks. The regular UI system itself represents a significant countercyclical structure, pumping billions of additional dollars into the economy during periods of recession. Some analysts question whether any additional unemployment benefit program is required. Further, EB is certainly not the only means through which the economy can be stimulated during recessions, nor is it necessarily the most effective method. Indeed, macroeconomic evidence from past decades indicates that any government efforts to fine-tune the economy through measures such as countercyclical stimuli are usually ineffective. This line of reasoning suggests that individual income maintenance should perhaps be the primary goal of an EB program. If one believes, however, that unemployment is not exclusively involuntary, then even the income maintenance goal can be troublesome, because extended benefits make it easier for a worker to be more selective in considering job offers, and, therefore, increase the likelihood that workers will remain unemployed for longer durations. Evidence regarding the effect of potential benefit

duration on length of unemployment spells is discussed in greater detail below.

Thus, if an extended benefits program is to be maintained, there are primarily two potential targets for benefits: (1) individuals who suffer long unemployment spells during periods of recessionary economic conditions and/or (2) workers who are dislocated. The EB program would be structured and function in a different manner depending upon which group(s) is/are selected as the target population. The principal program goals and policy options that are associated with targeting benefits at one or both of these groups are discussed in greater detail below. In addition, a brief, systematic menu of policy options for EB reform is presented in Appendix A.

EXTENDED BENEFITS AS A COUNTERCYCLICAL PROGRAM

Under the conception of EB as a countercyclical program, extended benefits are targeted to UI recipients who exhaust their regular benefits during periods of economic downturn. Thus, benefits under such a program are contingent upon cyclical changes within the macroeconomy. This provides additional income maintenance for eligible unemployed individuals during those periods and in those areas where jobs are particularly difficult to find. Moreover, if benefits under EB are paid out of a trust fund that was established earlier, a countercyclical EB program provides additional stimulus to the economy.

In shaping a countercyclical EB program, a number of fundamental policy questions must be answered. These questions fall into four broad categories: (1) how should the activation of the program be triggered, (2) what requirements should be imposed upon benefit recipients, (3) how should the program be financed, and (4) how should the potential duration of benefits be determined? Each of these questions is discussed in greater detail below.

Triggers

Under a countercyclical EB program, some method must exist that allows the identification of those cyclical periods when, given the goals that are defined for the system, it is appropriate for the EB program to pay benefits to those individuals who are identified as eligible. Under the current EB program, this has been accomplished through the use of

what is commonly referred to as a "trigger," which is structured to activate the payment of EB benefits when the trigger exceeds a defined level.

Overall, four questions must be answered regarding the triggering mechanism that is selected for a countercyclical EB program: (1) what measure of economic or labor market conditions should be used as the triggering mechanism, (2) at what level should the trigger be set, (3) should the conditions that activate the program be measured absolutely (i.e., without regard to conditions in previous time periods) or relatively (i.e., by taking previous conditions into consideration in determining whether the program triggers "on"), and (4) at what geographic level should triggers be measured and examined? Each of these four questions is discussed in greater detail in the sections below.

It is particularly important to separate the question of the most appropriate triggering mechanism from the question of the level at which that mechanism should be set in order to trigger "on." The first issue is a function of the particular element of the condition of the economy that is deemed most appropriate to measure, combined with the reliability and availability of the data. The second is primarily a function of the desired level of EB availability and the level of benefits that can be financed.

Overall, there is no triggering mechanism that is necessarily incompatible with any given level of either recipiency or program expenditures.[8] It is generally possible to achieve similar levels of recipiency (and, therefore, expenditures) under all potential trigger measures. Because it is, therefore, possible to design a trigger to yield almost any level of recipiency/expenditure, the two issues should be considered independently. The merits and demerits of the each alternative triggering measure should be considered without regard to the desired level of recipiency/expenditure and the desired level of recipiency/expenditure should be determined without regard for the EB triggering mechanism that is selected.

Triggering Mechanism

Currently, the EB program requires states to trigger EB "on" if the IUR exceeds 5 percent and is 120 percent higher than the average IUR during the corresponding time period over the previous two years. The IUR is the required trigger that has been used throughout the history of the EB program. In March 1993, however, states were given the option of triggering EB "on" if the TUR exceeds 6.5 percent and is

110 percent higher than during the same time period in either of the previous two years. Only seven states have currently implemented this optional trigger. It is likely that this is partially a result of the short period of time in which the TUR trigger option has been available, combined with the existence of EUC. EUC is 100 percent funded by the federal government and has therefore rendered EB, which is only 50 percent federally financed, an unattractive alternative from the states' perspective.

In considering the appropriateness of the various possible triggering measures, two requirements must be met: (1) the data must accurately reflect those economic or labor market conditions that have been identified as the proper criteria for determining whether the program should be triggered "on" and (2) the data must be reliable and available on a timely basis.

There are four measures that could potentially meet one or both of the requirements noted above. These measures are as follows: (1) the IUR, (2) the TUR, (3) the percentage of individuals who exhaust UI benefits, and (4) the deviation from the existing employment trend. Each of these is discussed in greater detail below.

Insured Unemployment Rate. For the purposes of triggering EB, the IUR has been defined as the 13-week moving average of continuing regular UI claims divided by the average number of individuals in UI-covered employment over the first four of the last six completed quarters. Thus, this measure is an output of the UI system itself. The IUR could, therefore, be considered an appropriate trigger, if it is determined that the conditions that activate extended benefits should be based on the experience of only the UI-covered population, and that the conditions facing individuals who are not covered by the UI system are different and/or are generally irrelevant for a program covering individuals who are already eligible for UI.

As noted above, it is currently difficult for a state to qualify for EB under the existing IUR trigger. While the significant decline in EB eligibility is primarily a reflection of the level at which the IUR trigger has been set, it is also partially a result of a flaw that renders the IUR an imperfect measure of labor market conditions. The IUR is not exclusively a reflection of the condition of the labor market, but is also affected by factors that can change independently of labor market conditions. Such factors can include changes in state UI eligibility policy, participation rates in the UI program, and various demographic changes.

The potential impact of changes in state UI eligibility policies is a particularly clear example of the ability of factors external to the labor market to affect the IUR. Because the state IUR is directly related to the number of UI recipients in a state, it is affected by state UI policies. States with stricter UI requirements are likely to have fewer claimants, and, therefore, will also have lower IURs, all else being equal. As a result, when state policy changes serve to increase or decrease the level of UI recipiency, then the IUR will change, even in the absence of any change in labor market conditions. Overall, therefore, the capacity of the IUR to reflect general economic conditions is neither constant nor stable.

These problems in using the IUR as a trigger for all states suggest that equity problems could result from different UI policies in different states. Not only would unemployed individuals with similar characteristics have greater difficulty in becoming eligible for UI benefits in a state with stricter UI eligibility standards, but even *eligible* individuals in that state would be affected by the state laws because the state is less likely to trigger EB "on." Thus, the use of an IUR trigger for EB would have the potential to multiply the effects of cross-state differences in the UI treatment of individuals and extend these multiplied effects into the EB program, thereby diminishing the program's countercyclical effectiveness.

With regard to the availability and accuracy of IUR data, the IUR is reported each week for each state. Although it is not currently available at the substate level, it is likely that it could be made available at that level at an increased cost. Because it is derived directly from unemployment claims information and is collected for administrative (rather than statistical) purposes, however, it is subject to measurement error that cannot be quantified. The quality is also likely to vary substantially across jurisdictions. Because the seasonal adjustment of a weekly data series is difficult, the IUR is not seasonally adjusted on a weekly basis at the state level, resulting in higher IURs during winter months. As a result, the IUR at the state or substate level is unable to make a clear distinction between cyclical variation in unemployment and seasonal variation.

An additional problem is that the IUR only includes current continuing claimants and, therefore, does not include exhaustees. The number of UI exhaustees is considered by many to be an important reflection of labor market distress. An alternative IUR measure that does include exhaustees has been termed the "Adjusted IUR" (AIUR), which is defined as the 13-week average IUR plus the exhaustion ratio

for the most recent three month period. This measure is used in the current EUC program. It is not currently available at the substate level.

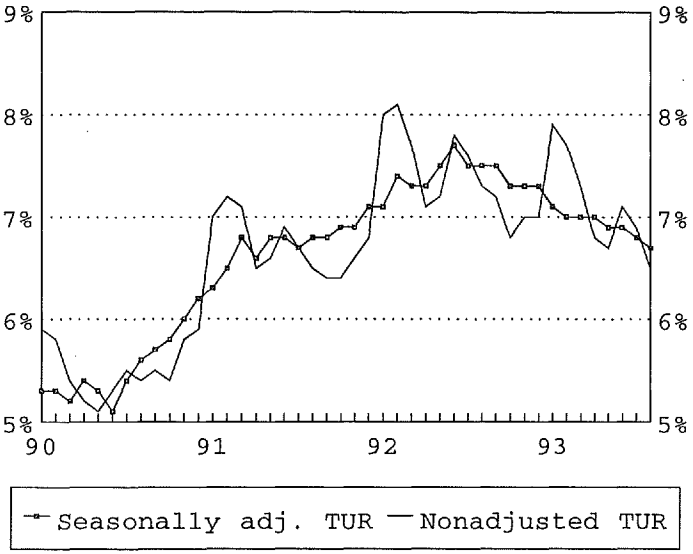
Total Unemployment Rate. The TUR is defined as the number of individuals without jobs who are actively seeking work divided by the civilian labor force. Unlike the IUR, the TUR represents a larger population than that which is covered under the regular UI program. The TUR includes new entrants into the labor force, as well as part-time and contingent workers who are generally ineligible for UI. The TUR is a more inclusive measure than the IUR and is a measure of the supply of individuals in the economy looking for work. The TUR, therefore, is a better measure of the conditions of the economy than the IUR. For this reason, some believe that the TUR would be better than the IUR as an EB trigger. Others, however, believe that the trigger should be closely related to the workers eligible for UI and, therefore, prefer the IUR.

With regard to data accuracy and availability, the TUR is an estimate that is derived directly from the Current Population Survey (CPS) at the state level for the 11 states where CPS sample sizes are sufficiently large, and from a combination of the CPS, UI, and other local data for the 39 other states and for most substate levels. The TUR is, therefore, subject to a methodological rigor on the state level that is absent in the administrative data used for the IUR. It should be noted also that the relationship between the TUR and the condition of the macroeconomy is not affected by external factors, such as changes in state UI policies, that can affect the IUR.

At the substate level, however, the TUR is less accurate than at the state level. Further, it should be noted that the TUR, unlike the IUR, is currently published on a seasonally adjusted basis for each state. Consequently, the TUR is capable of making a clearer distinction between cyclical variation and seasonal variation in unemployment. The difference between monthly seasonally adjusted and nonseasonally adjusted TURs in recent years are illustrated in Figure 6-1. The TUR is available on only a monthly basis. This is not generally considered a significant problem, however, because moving averages are used with regard to other measures, such as the 13-week moving average IUR trigger that is currently in place.

One difficulty with the use of the TUR relates to the redesign of the CPS that is taking effect in January 1994. Preliminary estimates suggest that the national TUR may increase by approximately 0.6 percentage points as a result of the implementation of methodological

FIGURE 6-1
SEASONALLY ADJUSTED AND NONSEASONALLY ADJUSTED TOTAL UNEMPLOYMENT RATES, JANUARY 1990 TO AUGUST 1993



Source: BLS.

changes in the survey. The impact upon individual state TURs is currently unknown, but is expected to vary across states. As a result, any selection of the TUR as the most appropriate EB trigger mechanism will require consideration of the relationship between the "new" and "old" TURs.

Exhaustion Rates. Some have proposed the use of exhaustion rates on the state or substate level. The exhaustion rate is often defined as the number of individuals who have exhausted regular UI benefits in a given week, divided by the number of initial UI claims 26 weeks earlier. Thus, this measure represents a direct measure of job finding difficulty in a state or area. The exhaustion rate may, therefore, represent an appropriate trigger to consider for a countercyclical program. In addition, it allows the condition of long-term unemployed

individuals to be taken into direct consideration. Because the measure is lagged by 26 weeks, however, it is possible that it could be late in reflecting some significant deteriorations in the labor market.

Further, there are serious problems regarding the accuracy and availability of exhaustion data. These data are subject to the same problems with administrative data that mark the IUR. On the substate level, because of the small numbers of individuals involved, it is likely that the validity of this measure would be questionable. In addition, the data are collected by states at the substate level, but often are not saved. As a result, no quantitative analysis could be completed regarding the reliability of exhaustion rates at the substate level.

Deviation from Trend Employment. A final measure of labor market conditions that might be considered as a potential EB trigger is the deviation from the existing employment trend. This is defined as the percentage deviation from the recent employment trend being experienced by a state or a local area. Such a measure could be an appropriate trigger for a countercyclical program because, by measuring the change that is occurring within a state or labor market, it allows the deterioration of the labor market to be taken into direct consideration. Employment data, however, are collected and published first on a preliminary basis with revisions in each of two consecutive months, with a final benchmarked revision in the spring of each year. These data also do not cover agricultural workers and would, therefore, require some form of supplementation for rural states.

Triggering Mechanism Summary. Overall, there are a number of important points that should be taken into consideration in determining the triggering mechanism for a countercyclical extended UI benefits program. First, the TUR measures the total supply of individuals looking for work and, therefore, is a better measure than the IUR of the general state of the economy. Second, the IUR covers only those individuals who are eligible for UI and, therefore, reflects UI eligibility better than the TUR. Third, the TUR is calculated with methods that are aimed at providing data that are consistent across all states, while the IUR reflects rules of eligibility and other factors that differ from one state to another. Fourth, neither the TUR nor the IUR is as accurate at the state level as it is at the national level, but more is known about the quality and reliability of the TUR, which is controlled by statistical techniques, than about the IUR, which is compiled completely from administrative data. Finally, the reliability and accuracy of triggering

mechanisms based upon either exhaustion rates or deviation from trend employment are not yet clear.

Trigger Levels

Overall, two factors should be considered in determining the level at which a trigger should be set. First, the desired level of EB availability should be taken into account. Second, the amount of funding that would be required for a given level of availability also should be a factor in making the decision.

With regard to availability, many agree that an effective countercyclical program would make extended UI benefits available in response to periods of recession. Because the impact of recession is often not geographically uniform, it follows that EB should be available in those states or areas that experience a significant deterioration of labor market conditions. Most such deteriorations occur in the wake of national recession or stagnant regional economic growth.

Cost constraints also must be taken into consideration in setting trigger levels. It may be possible for a certain level of EB recipiency to be deemed appropriate, but for the necessary funds to be lacking. The setting of the triggering level, combined with the determination of the trigger mechanism, is one method for ensuring that scarce resources are targeted to those individuals in those circumstances that are deemed most in need of extended UI benefits.

Table 6-1 reports estimates of the costs of an EB program operating under various triggers between January 1990 and August 1993. The EUC program, which largely supplanted EB since its inception in November 1991, has cost a total of over $23 billion as of August 1993. Thus, it should be noted that the costs of all potential EB triggers included in the table are significantly lower than the costs of the emergency program that was actually implemented. This is largely a result of the improved targeting of benefits that would have resulted.

Thresholds

In an EB program targeted at cyclical unemployment, threshold requirements (i.e., requirements that the trigger rate in a state or area must exceed not only a certain level but also exceed by some percentage the level experienced in that state or area in recent years) can be used to separate those areas with chronically high unemployment from those that have experienced a recent cyclical

TABLE 6-1
ESTIMATED IMPACTS OF ALTERNATIVE EB TRIGGERS
(JANUARY 1990 TO AUGUST 1993)

Trigger	Estimated Cost (in billions)	Number of States Triggering On at Least Once	Average Total Months in States Triggering On
	Total Unemployment Rate[1]		
6.5% without threshold	$14.0	43	24.4
6.5% with 110% threshold	11.8	43	18.4
6.5% with 120% threshold	9.7	42	14.7
7.5% without threshold	8.5	32	16.5
7.5% with 110% threshold	7.8	32	13.7
7.5% with 120% threshold	6.7	30	11.5
8.5% without threshold	4.2	17	13.7
8.5% with 110% threshold	4.0	17	11.8
8.5% with 120% threshold	3.4	15	10.3
9.5% without threshold	1.1	8	13.3
9.5% with 110% threshold	0.9	8	9.9
9.5% with 120% threshold	0.8	8	7.4

The cost figures should be considered upper-bound estimates, as they assume a uniform benefit cost of $1,810 for each exhaustee of regular UI benefits. The estimates assume that an EB program with a given trigger would have operated in the absence of EUC or any other emergency program. The estimates include the District of Columbia and Puerto Rico, but exclude the Virgin Islands.

* Indicates the current EB trigger.

[1] Three-month moving average of the nonseasonally adjusted state TUR.

[2] Thirteen-week moving average of the state IUR. [Calculations in this table were made on a monthly basis, using monthly averages of weekly moving averages.]

Source: Advisory Council on Unemployment Compensation staff calculations using data from the Bureau of Labor Statistics and the U.S. Department of Labor, Unemployment Insurance Service.

TABLE 6-1 (Continued)
ESTIMATED IMPACTS OF ALTERNATIVE EB TRIGGERS
(JANUARY 1990 TO AUGUST 1993)

Trigger	Estimated Cost (in billions)	Number of States Triggering On at Least Once	Average Total Months in States Triggering On
	Insured Unemployment Rate[2]		
1.5% without threshold	$20.8	51	39.7
1.5% with 110% threshold	12.9	51	21.3
1.5% with 120% threshold	9.9	48	15.7
3% without threshold	11.6	37	21.5
3% with 110% threshold	8.0	37	13.6
3% with 120% threshold	6.3	34	10.9
4% without threshold	5.0	21	15.7
4% with 110% threshold	3.9	21	10.8
4% with 120% threshold	3.2	19	8.8
5% without threshold	1.3	11	11.6
5% with 110% threshold	1.1	11	8.4
5% with 120% threshold[4]	0.9	10	6.2
	Emergency Unemployment Compensation		
	$23.0	52	22.0

deterioration of the labor market. Thresholds under the EB program historically have been set at 120 percent for IUR triggers and at 110 percent for TUR triggers. Without the use of thresholds, there is no way of distinguishing cyclical unemployment from chronically high unemployment. As a result, it is possible that the countercyclical effectiveness of the program would be eroded in the absence of thresholds, as more states or areas triggered EB "on" during periods when there is no actual deterioration in labor market conditions.

As seen in Table 6-1, the threshold requirements do not appear to affect significantly the number of states in which EB eventually triggers "on" with a given trigger level. Within states with particularly high unemployment, however, the analysis suggests that thresholds often have the effect of delaying the point at which EB triggers "on" or

hastening the point at which EB triggers "off." Figures 6-2 and 6-3 compare the effects of a 6.5 percent TUR trigger with 110 percent threshold and 6.5 percent TUR trigger without threshold. With regard to the percentage of total exhaustees who are eligible to receive EB benefits, thresholds have little effect during the highest periods of national unemployment, but reduce the percentage of eligible individuals both before and after the peak of the recession. It also should be noted that EUC did not become available until November 1991, months after an EB program with either 6.5 percent trigger would have been available to a large percentage of exhaustees.

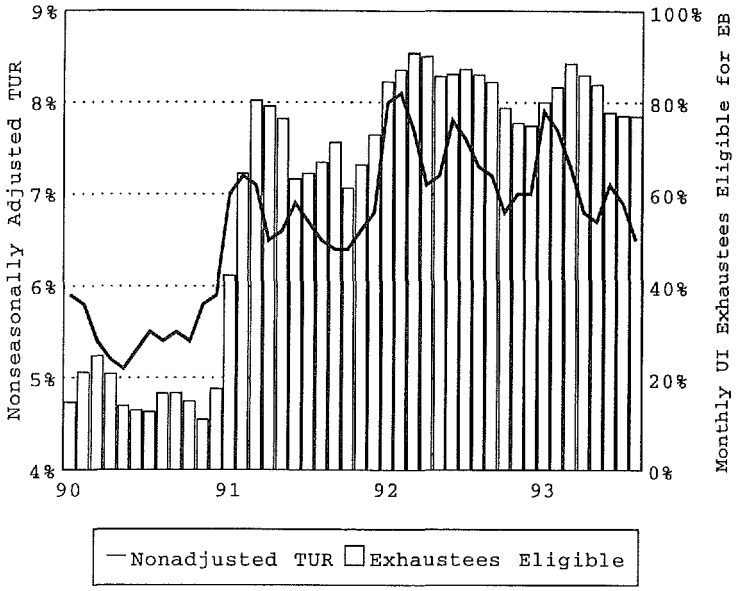
As with trigger levels, cost considerations play a direct role in determining whether a threshold should be used and, if so, what the level of that threshold should be. Overall, the use of thresholds in an EB trigger would have the effect of reducing potential EB expenditures, all else being equal.

Geographic Unit of Analysis

There are a number of different geographical units that can be used as the basis of the triggering measure chosen for EB: (1) national, (2) regional, (3) state, and (4) substate. Each of these is discussed in greater detail below.

National Triggers. From 1970 to 1981, in addition to the state triggers, a national EB trigger was in place. The existence of a national trigger is perhaps particularly appropriate in a countercyclical EB program that is designed to pay benefits during periods of recession, because the very concept of recession is one that continues to be essentially national in scope. Indeed, although there has not been a national EB trigger in operation since 1981, the current EUC program represents, in effect, a program that pays extended UI benefits on a

FIGURE 6-2
NONSEASONALLY ADJUSTED TUR AND ESTIMATED PERCENT OF MONTHLY UI EXHAUSTEES ELIGIBLE FOR EB UNDER 6.5% TRIGGER, NO THRESHOLD, JANUARY 1990 TO AUGUST 1993

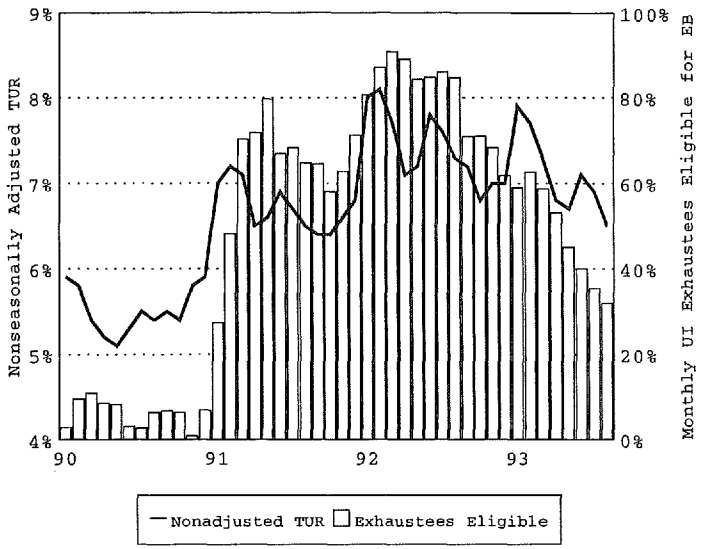


All regular UI exhaustees were eligible for EUC as of November 1991.
Source: BLS.

national level. While EUC has provided for some differentiation across states with regard to the potential duration of benefits (because economic conditions within each state partially determine the maximum potential duration of EUC benefits in that state), the program still has made some form of extended benefits available to individuals in all states during the most recent recession and its aftermath.

There also exist a number of arguments against national triggers. Because recent recessions have been regional in impact (the most recent one was concentrated in the Northeast and in the West), paying benefits to individuals who reside in states that are relatively unaffected by a "national" recession is likely to result in the payment of scarce extended benefit funds to some individuals who do not face severe

FIGURE 6-3
NONSEASONALLY ADJUSTED TUR AND ESTIMATED PERCENT OF MONTHLY UI EXHAUSTEES ELIGIBLE FOR EB UNDER 6.5% TRIGGER, 110% THRESHOLD, JANUARY 1990 TO AUGUST 1993



All regular UI exhaustees were eligible for EUC as of November 1991.
Source: BLS.

labor market conditions. Targeting EB benefits on the state or substate level alone is likely to direct benefits more efficiently to those individuals who are most affected by poor or deteriorating labor market conditions.

Regional Triggers. Some have suggested the creation of regional triggers for the EB program. Under such a system, the country would be divided into a number of geographic regions, within which EB triggers could operate to activate the program for the entire region. The use of regional triggers may represent an appropriate response to the apparent increase in the regionalization of recessions.

It is likely, however, that the use of regional triggers would result in a poor targeting of benefits. Because it is possible for economic

conditions to vary across states within the same region, it would be expected that the use of a regional trigger would result, at times, either in the payment of extended UI benefits in states that are not experiencing serious labor market difficulties or in the absence of benefits in a state that is experiencing such difficulties. Further, there is the problem of defining the boundaries of the regions to be used.

State Triggers. Currently, all EB triggers operate at the state level. This allows greater differentiation in the targeting of benefits than would exist under a national or regional trigger, but it does not allow direct targeting at the level of specific labor markets. With regard to data issues, many relevant data sets are focused already at the state level, allowing greater flexibility in determining triggers, as well as greater confidence in the accuracy of the data that are used.

Substate Triggers. Some have suggested that triggering benefits at the substate level would allow for a more effective targeting of benefits toward those individuals who are experiencing significant difficulties in finding a new job in their labor market.

Although the idea of targeting benefits based upon local area economic conditions is a conceptually attractive one, a number of administrative, logistical, and statistical problems combine to make the use of substate triggers quite problematic. Among the administrative issues often cited by opponents of substate triggers are difficulties in determining the appropriate level of geographic disaggregation and the proper locational assignment of individuals (i.e., by residence or by place of work). These issues also create equity concerns, as the possibility increases that similar individuals within geographic proximity will receive different treatment under the EB program.

A number of recurring statistical problems also occur that are difficult or impossible to resolve. Data for some measures are simply not available on the substate level or the data are not saved by the states, rendering statistical analysis of this data impossible. Even for those data that are available (i.e., substate TUR estimates and estimates ofemployment levels in metropolitan areas), there are a number of obstacles. There is no way of determining the accuracy of substate TUR estimates, because there is no other available periodic data source that would enable the data to be benchmarked. Officials of the Bureau of Labor Statistics voiced skepticism over the reliability of these data as an EB trigger.

Estimates of employment, on the other hand, can be validated, but are only available for 250 metropolitan areas in the country. In order for a trigger to be politically feasible, it would require that all regions have the possibility of triggering "on." To ensure this possibility with the use of employment statistics, so-called "balance of state" measurements would need to be created, and such statistics are typically marked by significant accuracy problems.

Geographic Units of Analysis Summary. There are a number of important points that should be taken into consideration in determining the geographic unit of analysis for a countercyclical extended UI benefits program. First, the ability to target benefits generally increases as smaller geographic units are used as the basis for determining benefits, but the reliability of the data decreases as smaller units are used. Second, data at the substate level present particular problems with regard to reliability and, for some measures, availability.

Requirements Imposed Upon EB Recipients

Currently, the requirements that EB recipients search for work and accept so-called suitable work have been suspended by the Congress. The suitable work provision requires that those individuals who are receiving EB must, with some exceptions, accept a minimum wage job if one is offered, or become ineligible for benefits. In most cases, this requirement is stricter than the state standards that govern the work search activities of regular state UI recipients. Many have advocated the elimination of this federal provision. Currently, it has been suspended until 1995.

With regard to work search generally, there is little evidence that directly addresses the impact of work search during periods of economic downturn, when jobs are relatively scarce. The existing research tends to analyze one of two related categories: (1) the effect of work search requirements upon individual search efforts and (2) the effect of the potential duration of unemployment benefits upon the duration of unemployment. The results of this research are discussed below.

A study of the effects of varying work search rules and enforcement across states found that claimants from states where work search rules are strict are more likely to search for work, devote more hours to work search, and make contact with more potential employers than claimants in other states.[9] An experiment in Tacoma,

Washington, found that stricter work search requirements reduced unemployment spells for UI recipients, although the impact upon employment and earnings was less clear.[10] Thus, there does appear to be evidence that the nature of work search requirements has an impact upon the behavior of UI claimants.

In addition, there is evidence that individuals' rates of reemployment are much higher in the weeks just after exhaustion of UI benefits than just before. For example, existing research suggests that during periods of economic expansion, 25 percent to 40 percent of workers who exhaust their UI benefits find reemployment within four weeks of benefit exhaustion.[11] This is far higher than the rate at which jobless workers become reemployed in the four weeks before exhaustion of benefits; only about ten percent of workers drawing benefits four weeks before their benefits are scheduled to end become reemployed before they exhaust their benefits.

Further, three reemployment bonus experiments have suggested that when UI recipients are offered a cash bonus to become rapidly reemployed, they do become reemployed more quickly. There is no evidence that individuals accepted lower-paying jobs as a result of the bonus offer.[12] Thus, existing research suggests that unemployed workers' job search behavior can be changed by job search requirements and monetary incentives.

Finally, there is evidence that increases in the potential duration of UI tend to lengthen the duration of time out of work. A number of researchers have estimated the impact of adding a week to the potential duration of benefits on the duration of both unemployment (time out of work spent searching for work) and joblessness (time out of work spent either searching for work *or* out of the labor force). While there appears to be agreement that longer benefit durations have an effect, the existing research has produced a range of estimates. Researchers have estimated that adding a week to the potential duration of benefits adds from one-tenth to over four-tenths of a week to the duration of unemployment.[13] It also has been estimated that adding a week to the potential duration of benefits adds from four-tenths to over sixth-tenths of a week to the duration of joblessness.[14]

Financing

There are two significant policy decisions related to EB financing: (1) whether there should be experience rating in the EB program and

(2) the proportion of the benefits paid by the federal and state governments. Each of these is discussed in more detail below.

Experience Rating in EB

An additional policy option that could be considered is mandating either that all states use experience rating in the EB program or that no states use experience rating. Currently, 34 states experience rate benefits under EB, meaning that some percentage of EB benefits paid are ultimately charged back to the employer.[15] In large part, the experience rating of the EB program is consistent with one of the perspectives that distinguishes the UI program as a whole: employers should bear some degree of responsibility for their former employees who are UI claimants. It is unclear, however, that increases in EB experience rating would have any significant effect upon employer behavior, because EB costs represent such a small percentage of overall UI taxes.

There are a number of arguments that can be made against the experience rating of EB. While an individual employer may be deemed partially responsible for the initial consequences arising from the layoff of an employee, an individual's eligibility for countercyclical extended benefits may be viewed as an indication that the unemployment spell is no longer the responsibility of the previous employer. Under such a perspective, extended benefits should be paid by society as a whole and there may be little justification for continuing to charge EB payments back to the previous employer.

Further, because the experience rating of an employer already increases following a layoff, some may consider additional increases to be an undue burden. EB experience rating is felt only by those employers in states that have triggered EB "on," who are among the most likely employers to be facing severe economic problems. Thus, experience rating EB would disproportionately affect those employers who are least able to pay the costs.

Federal-State Shares of EB

Currently, the costs of EB benefits are shared equally by the federal and state governments. The EUC program, however, is fully federally funded. As a result, states have chosen to make EUC available to long-term eligible unemployed, and the 50 percent state-funded EB program

has been little-used in the most recent recession. Proposals have been advanced to change the funding mix in EB, with such changes tied to the adoption of a new EB trigger. Most such proposals have centered upon shifting 75 percent of the costs to the federal government, since EB eligibility (and therefore state costs) would be expected to increase dramatically under most new triggers.

Determining Duration of Benefits

In determining the maximum potential duration of benefits, there are three primary options: (1) the maximum duration can be fixed, (2) the duration can be determined by economic conditions within the state or area, or (3) the duration can be determined by the efforts of the individual. Both of these options are discussed in greater detail below.

Fixed Duration

The maximum potential duration of benefits can be fixed, as it is under the current EB program, which extends benefits for up to 13 additional weeks.

Duration Determined by Economic Conditions

The maximum potential duration of benefits can be determined by economic conditions, under a provision that would be similar to the current EUC program, in which benefits are available to be paid for a longer period of time in states with particularly high unemployment rates. Such a determination may be most appropriate under a national trigger, in which economic conditions across eligible states would, perhaps, be the most varied. Under the current EB program, all states that trigger "on" have slack labor markets, and differentiating among them may not be productive.

Duration Determined by Individual Actions

It is also possible to determine maximum potential duration according to individual participation in job search activities and/or education and training programs. Because such programs may increase the likelihood of eventual reemployment, increased potential durations

may be justified for those individuals who participate in such programs.

EXTENDED BENEFITS AS A PROGRAM TARGETED TO DISLOCATED WORKERS

An alternative orientation of an extended UI benefit program would target benefits at dislocated workers. Although some worker dislocation is part of the normal working of the labor market because it serves to direct human resources to those areas where they are most valuable, the individuals who are dislocated often suffer greatly. As discussed in Chapter 5, there is evidence that workers who are dislocated from their jobs experience long spells of unemployment and that many suffer significant losses in earnings. As a result, programs designed to provide additional income maintenance to such individuals may be justified. There are a number of different ways in which such efforts could be folded into an extended UI benefits program.

There are three significant policy decisions that must be made to determine the shape of a dislocated worker EB program. The most fundamental issue to be resolved is the identification of those workers who are designated "dislocated" and are, therefore, eligible to receive dislocated worker extended UI benefits. Second, the method governing the duration of eligibility for EB also must be determined. Third, a decision must be made regarding the method of financing the program.

Determining Eligibility

There are two primary methods for determining eligibility for dislocated worker extended benefits. These potential methods are as follows: (1) a determination of dislocated worker status by the individual him/herself, as manifested by a willingness to participate in some public program targeted at dislocated workers; or (2) an external determination of the characteristics that identify dislocated workers, combined with participation in some dislocated worker program. Each of these options is discussed below.

Requiring Participation in Dislocated Worker Program

It would be possible to pay extended benefits to those individuals who choose to participate in programs targeted at dislocated workers. Research evidence suggests that job search assistance and job search

clubs are particularly effective in assisting individuals in a timely return to work.[16] It is possible that those individuals who perceive a potential benefit from programs such as job training, job search assistance, or job search clubs are the most likely actually to have been dislocated from their jobs. The participation requirement would help to screen out those who do not believe that they would benefit from participation. Conversely, however, such a requirement would encourage individuals to participate solely in order to be eligible for benefits.[17] One possible way to help ensure that only those individuals participate who would benefit would be to require that participants agree to repay some percentage of the training costs after becoming reemployed. Such payment could be structured in such a way that it would be spread over a lengthy time period, in order to ensure that it not represent an undue burden for participants.

Designating Workers as "Dislocated"

It is possible to determine eligibility for the program based partially upon some set of "dislocated worker" characteristics. For example, some simple screens for eligibility (e.g., a certain period of job tenure in previous job combined with no recall status with previous employer) could be used together with participation in a dislocated worker program, as described above. Such participation would help to ensure that those who are self-identified as most in need of assistance receive extended benefits, but would impose some limitations upon the characteristics of those individuals who are given the option of determining whether or not to participate in such a program.

Financing

A determination must be made regarding the share of program costs that should be borne by the federal and state governments. As noted above, the costs of the current EB program are shared equally between the federal and state governments.

It should be recognized that it is quite possible that the costs of such a program would increase over spending levels on EB in the past. While the program would represent, to some extent, a consolidation of UI with existing training programs, other elements of it would likely represent an expansion of those concepts. In particular, it would be expected that demand for education and training programs would increase if participation were a requirement for the receipt of extended

UI benefits. As noted above, some percentage of this cost could be defrayed by requiring recipients to agree to repay in the future some percentage of their training costs. If overall costs still represent an increase over historic levels, it would be necessary to identify some appropriate funding mechanism.

Determining Duration of Benefits

For options, see the subsection of the same name in the section discussing countercyclical EB options.

EXTENDED BENEFITS AS A PROGRAM AVAILABLE BOTH TO CYCLICALLY AND STRUCTURALLY UNEMPLOYED WORKERS

An additional alternative is to target both the cyclically and structurally unemployed populations for extended UI benefits. One logical means for accomplishing this end would be to combine the elements of both the countercyclically focused concept of the program and the dislocation-targeted program in a two-pronged program. Such a program could allow extended benefits to be paid during periods of high cyclical unemployment, as identified by a trigger at some geographic level of analysis. In addition, such a program could allow benefits to be paid to workers who are in some way identified as dislocated.

The specific programmatic features of each of the two segments of the program generally could be determined independently, based upon the options presented in the above sections. Indeed, many of the policy decisions apply only to one of the two segments. Triggering mechanisms and levels apply only in the countercyclical portion of the program. The definition of a dislocated worker applies only in the structural segment. Other policy issues, such as the financing of benefits, the potential duration of benefits, and the requirements imposed upon recipients, could be applied either uniformly or differently under the two segments, depending upon the desired features of the program.

One additional decision that would need to be made concerns the relationship between the two segments of the program. The dislocated worker segment could be in effect at all times in all areas, even in the absence of high cyclical unemployment. Alternatively, the dislocated

worker segment could be available only as a supplement for EB exhaustees in states or areas that have triggered EB "on."

Chapter 7

State Trust Fund Solvency

THE LEVEL of trust fund reserves available to pay UI benefits declined significantly in the 1970s and early 1980s due to high and prolonged unemployment. As a result, the federal government enacted legislation to encourage state solvency. The federal government has taken the following actions: (1) raised the federal taxable wage base, (2) raised the federal tax rate, and (3) changed the loan and repayment provisions for those states that borrow from the federal loan fund in order to pay UI benefits. The states, in response to federal legislation and to their trust fund solvency problems, also enacted legislation. Many of the states passed legislation that focused upon one or more of the following: (1) increasing the state taxable wage base, (2) increasing employers' tax rates, (3) implementing solvency surtaxes that trigger on when a state experiences solvency problems, (4) tightening eligibility requirements, and (5) decreasing the maximum potential duration of benefits. The impact of this federal and state legislation has been a significant decline in the proportion of the unemployed who receive UI benefits.

A number of policy options are available to provide additional encouragement for states to improve their trust fund solvency. Among the broad categories of policy changes that have been proposed are the following: (1) changes in the existing taxable wage base, (2) changes in the existing tax rates, and (3) new initiatives to encourage state solvency.

UNEMPLOYMENT INSURANCE FINANCING

The UI program is funded through a combination of federal and state UI payroll taxes on employers based on separate taxable wage bases and tax rates. These various taxes are discussed below.

Federal Tax

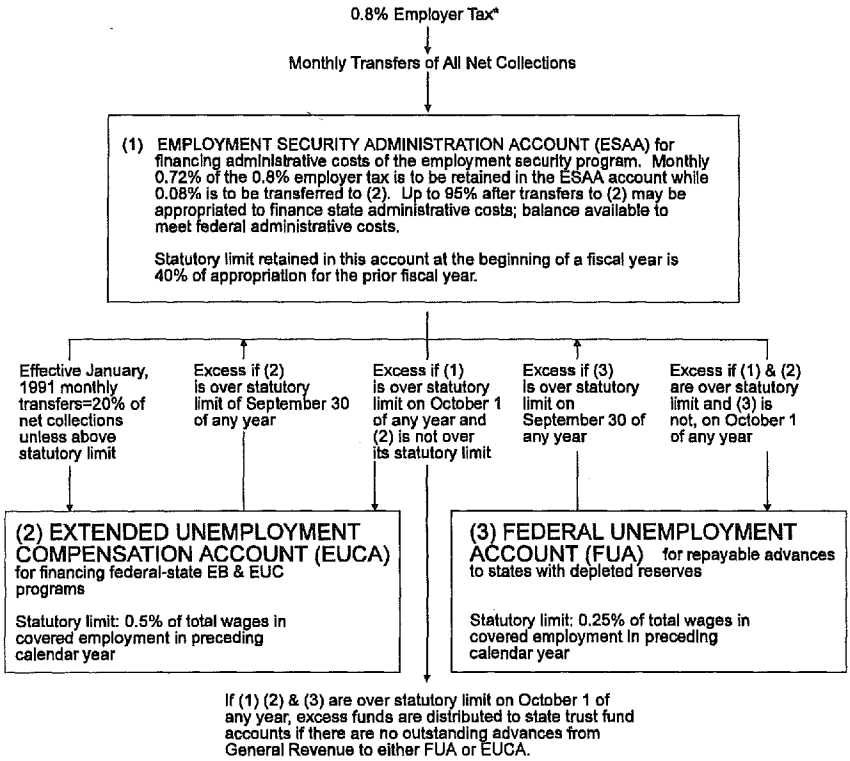
Currently, the Federal Unemployment Tax Act (FUTA) gross tax is 6.2 percent on the first $7,000 of an employee's salary. Since the UI system's inception, the federal government has generally given the states the freedom to determine their own policies regarding UI taxation and benefits. The federal government, however, offers a 5.4 percent credit on the 6.2 percent FUTA tax to employers in those states with federally approved UI plans and no outstanding federal loans for the program. The potential net tax rate of 0.8 percent ($56 per worker) provides states with a strong incentive to comply with federal requirements, since in the absence of compliance, the 6.2 percent tax would cost employers $434 per worker.[1]

Revenue from the federal tax is allocated to three federal UI funds: the Employment Security Administration Account (ESAA), which finances both state and federal administrative costs; the Extended Unemployment Compensation Account (EUCA), which pays 50 percent of EB payments; and the Federal Unemployment Account (FUA), which provides loans to states experiencing insolvencies in their accounts.[2] Figure 7-1 illustrates the flow and allocation of FUTA funds received. Figures 7-2 and 7-3 illustrate the historical levels of FUTA tax collections and the net balances of the associated federal UI trust funds.

State Tax

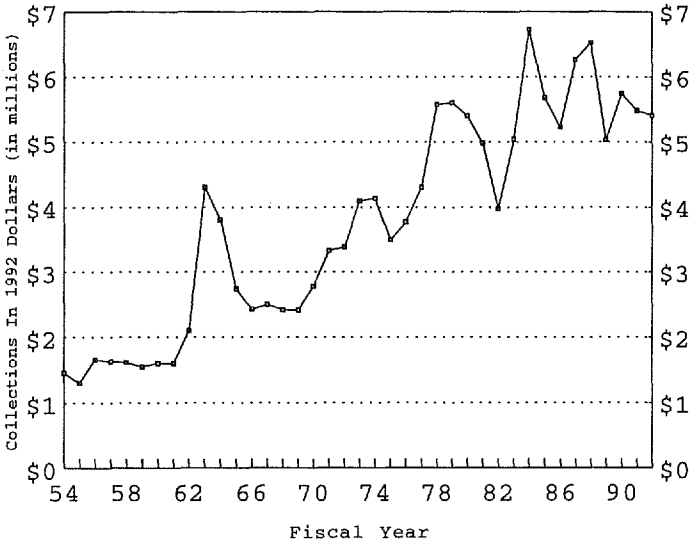
Each state is responsible for providing regular UI benefits for its own residents. To finance these payments, states levy payroll taxes on covered employers, as does the federal government through the FUTA tax. Taxes collected per worker vary significantly across states, ranging in 1992 from $42 in South Dakota to $493 in Alaska (see Table 7-1). Because of the financial incentive outlined above, all states comply with the $7,000 federal wage base requirement; 40 states have established state taxable wage bases higher than the federal level. During recessionary periods, because increases in the number of claimants tend to drain trust funds, states often shift the entire schedule of tax rates upward, charging more of all employers to replenish their UI trust fund balances. Conversely, during periods of low unemployment, states tend to shift their tax schedules downward. States are required to deposit all employer tax revenues with the Federal Treasury, which credits individual state accounts. As needed, funds are disbursed to

FIGURE 7-1
FLOW OF FUTA FUNDS UNDER EXISTING FEDERAL STATUTES



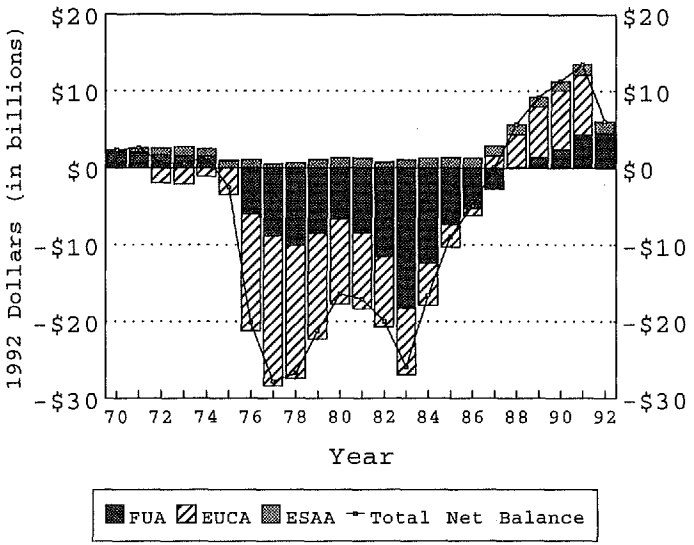
* Effective tax, after 5.4% is offset against 6.2% federal unemployment tax. Current law value will drop to 0.6% on January 1, 1997.

FIGURE 7-2
FUTA TAX COLLECTIONS IN CONSTANT 1992 DOLLARS, FISCAL YEARS 1954-1992



Source: USDOL/ETA/UIS/Division of Actuarial Services.

FIGURE 7-3
NET BALANCE IN FEDERAL TRUST FUND ACCOUNTS IN CONSTANT 1992 DOLLARS, 1970-1992



Accounts are measured at the start of fiscal year and are adjusted for loans from general funds. Accounts are Federal Unemployment Account (FUA), Extended Unemployment Compensation Account (EUCA), and Employment Security Administration Account (ESAA). Source: USDOL/ETA/UIS/Actuarial Services.

TABLE 7-1
PER WORKER STATE TAXES COLLECTED, BY STATE IN 1992

Alaska	$493	Minnesota	$173
Rhode Island	$436	Louisiana	$166
New Jersey	$384	Iowa	$164
Massachusetts	$382	New Mexico	$158
Michigan	$374	Montana	$152
Washington	$325	New Hampshire	$144
Pennsylvania	$316	Missouri	$142
Oregon	$295	North Dakota	$141
District of Columbia	$268	Colorado	$137
Maryland	$250	South Carolina	$132
New York	$245	Nevada	$132
West Virginia	$243	Mississippi	$130
Virgin Islands	$240	Georgia	$127
Ohio	$228	Tennessee	$125
Maine	$227	Texas	$124
Illinois	$223	Utah	$120
Wyoming	$216	Florida	$107
Connecticut	$210	North Carolina	$105
California	$208	Oklahoma	$102
Vermont	$204	Hawaii	$101
Wisconsin	$195	Alabama	$98
Puerto Rico	$185	Indiana	$93
Arkansas	$185	Nebraska	$92
Delaware	$181	Arizona	$87
Idaho	$179	Virginia	$78
Kansas	$177	South Dakota	$42
Kentucky	$173		

Source: USDOL\ETA\UIS\Division of Actuarial Services.

states for UI benefits payments. Federal loans are available from the FUA to cover revenue shortfalls.

Experience Rating

The UI payroll tax is "experience rated," meaning that the tax paid by employers is determined, at least in part, by either the actual or potential benefits that are collected by former employees. Experience

rating is intended to discourage layoffs, provide for an equitable allocation of the costs of UI benefit payments across employers, and give employers an incentive to challenge unjustified benefit claims. In an experience rated system, employers who frequently lay off employees are taxed at a higher rate than those who infrequently lay off employees. As a result, experience rating causes employer tax rates to vary greatly across industries, with those industries with the fewest layoffs also paying the lowest average UI taxes (see Figure 7-4).

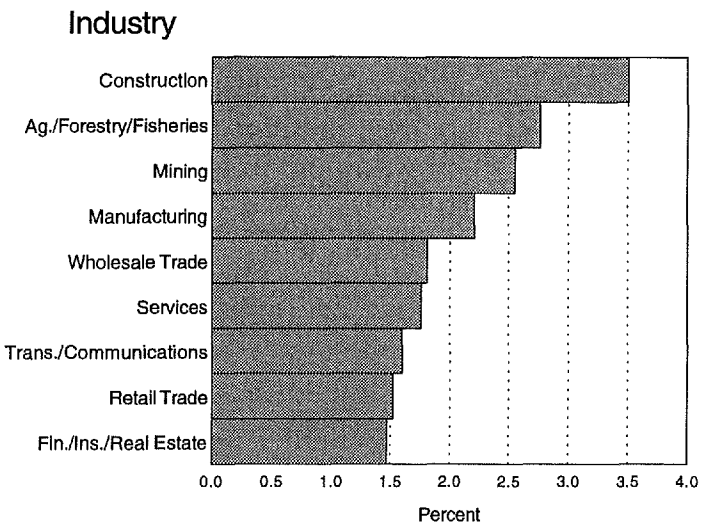
Some UI benefit payments, however, do fall outside the scope of experience rating. Cases in which benefit outlays cannot be or are not assigned as the responsibility of an active employer are categorized as one of the following: (1) noncharged benefits, which occur when benefits originate from an employer who did not cause the job termination; (2) benefits charged to inactive employers, which occur when former employees continue to collect benefits although an employer has become inactive; or (3) ineffectively charged benefits, which occur when the revenues that an employer has paid into the system do not cover the benefit charges originating with that employer. Ineffectively charged benefits are, in large part, the result of maximum tax rates within most of the states' systems. Thus, those employers who are at the maximum tax rate (because of layoffs) generate costs to the UI system that must be partially funded by other employers.

The term "perfect" experience rating describes a system in which each extra dollar of benefits payments causes an employer to be charged an additional dollar in taxes. Because noncharges, charges to inactive employers, and ineffective charges diminish the effect of the experience rating system, experience rating is termed "imperfect."

The Experience Rating Index (ERI) provides a measure of the degree of experience rating in a state. The ERI is a proportion calculated by (1) totaling all noncharges, ineffective charges, and charges to inactive employers; (2) subtracting this sum from total benefit payments; and then (3) dividing this difference by total benefit payments and multiplying by 100. An ERI of 60, therefore, indicates that these three types of charges represent 40 percent of total benefit payments. In the period between 1988 and 1992, the average state ERI was 63. In 1992, ERIs ranged from a minimum of 31 in Oklahoma to a maximum of 83 in Louisiana.[3] Table 7-2 illustrates cross-state differences in ERIs.

Four problematic consequences are commonly attributed to experience rating. The first is interindustry cross-subsidization, which results from imperfect experience rating. UI payroll taxes generally

FIGURE 7-4
UI TAXES PAID AS PERCENT OF TAXABLE WAGES, BY MAJOR PRIVATE INDUSTRY, 1991



Source: BLS.

TABLE 7-2
EXPERIENCE RATING INDEX, BY STATE IN 1992

Louisiana	83	Montana	55
Illinois	79	New Hampshire	55
Indiana	78	South Carolina	54
Iowa	74	Vermont	54
Tennessee	71	Florida	53
Arizona	69	California	52
Utah	68	Georgia	52
Ohio	65	Virginia	51
Maryland	65	Mississippi	51
Wisconsin	65	Texas	51
Colorado	64	New York	51
Wyoming	63	Oregon	51
New Jersey	63	Alabama	49
Michigan	63	South Dakota	49
New Mexico	62	Idaho	44
District of Columbia	62	Massachusetts	43
North Dakota	60	Connecticut	42
Minnesota	58	Maine	41
Kentucky	58	Nevada	41
Arkansas	58	North Carolina	37
Nebraska	57	Hawaii	32
Kansas	57	Oklahoma	31
Washington	57	Alaska	a
West Virginia	56	Puerto Rico	b
Pennsylvania	56	Virgin Islands	N/A
Rhode Island	55	Delaware	N/A
Missouri	55		

(a) index cannot be computed due to type of experience rating system.
(b) all employers taxed at uniform rates in these years.
N/A indicates data are not available.

Source: Vroman, 1993.

exceed benefit charges in those industries with traditionally low unemployment, resulting in employers in those industries subsidizing traditionally high unemployment industries, in which benefit charges usually exceed taxes. In order to counter the effects of industrial cross-subsidization, some have suggested that employers be fully experience

rated or, alternatively, that the system should be redesigned to prohibit interindustry cross-subsidization, but to allow cross subsidies to exist within particular industries.[4]

A second concern, which also results from imperfect experience rating, is that experience rating does not prevent layoffs when employers are taxed at the maximum rate. Because additional layoffs do not cause an increase in the employers' UI taxes in this situation, imperfect experience rating may result in higher unemployment. In order to reduce this effect, some have suggested increasing the maximum experience rating tax. An additional concern that has been expressed about experience rating is that it imposes high taxes on declining industries. These taxes may, in turn, contribute to further declines in employment.

Finally, experience rating has been faulted for creating an overly adversarial relationship between employers and claimants. Experience rating gives employers a financial incentive (reduced taxes) to contest former employees' UI claims. While this incentive encourages self-policing, the level of contentiousness in the system exceeds that found in other industrialized nations. Indeed, about 30 percent of the administrative costs associated with paying UI benefits are the result of administrative processes that decide appeals and nonmonetary issues.[5]

REVIEW OF THE FINDINGS

This section describes the linkages between economic conditions, state trust fund solvency problems, changes in federal and state legislation, and declines in UI recipiency. It examines trends in trust fund reserves and UI recipiency within the context of recent economic conditions; discusses the options available to states when they are faced with solvency problems; and points to potential conflicts between states' objectives and federal goals for the UI program.

Decline in Trust Fund Reserve Adequacy

A number of different measures indicate that the adequacy of state trust funds has declined over time. This evidence is discussed below.

Trust Fund Balances

Since the inception of the regular UI program in 1939 until the 1960s, the program operated on a forward-funded, or pre-funding basis. States set their tax rates and benefit levels to accumulate adequate trust fund reserves during times of economic expansion, which allowed them to pay UI benefits from their reserves in periods of economic downturn. Unusually high and prolonged unemployment during the 1970s drained many states' trust fund reserves. As a result, many states had to rely for the first time on automatic federal loans in order to make UI payments (see Figure 7-5).

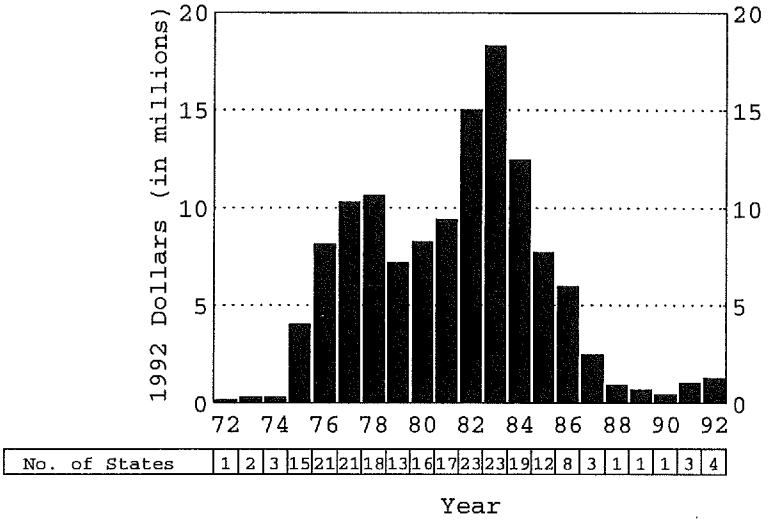
In 1972, only two states needed loans from the federal government, totaling $100 million. By the end of 1979, however, 25 states had borrowed more than $5.6 billion, with $3.8 billion still owed by 13 states.[6] The peak in state debt occurred in 1983 at $13.4 billion. Benefit payments in 1982 and 1983 exceeded tax receipts by $9.5 billion in 1982 and $4.1 billion in 1983.

This situation began to reverse itself between 1984 and 1989, as the economy improved. As a result, fewer states required loans. After 1989, the situation once again deteriorated; in 1990, 1991, and 1992, outlays surpassed UI tax revenues by $3 billion, $10 billion, and $8 billion, respectively.[7] Recent state borrowing, however, has been at fairly low levels; only four states had loans outstanding at the end of 1992 for a total of $1.1 billion.

High Cost Multiple

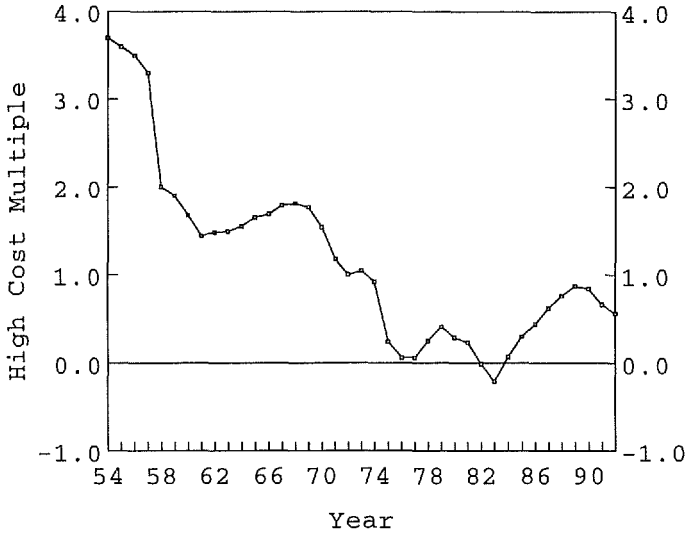
The high cost multiple (HCM), which measures how long recession-level benefits could be paid from a state's current trust fund balance, is the most common measure used to indicate a trust fund's solvency (or adequacy).[8] The HCM is calculated by comparing two ratios: (1) the ratio of current net trust fund reserves to current year total wages earned in insured employment divided by (2) the ratio of the largest amount of total state benefit payments experienced in any 12 consecutive months to the total wages in insured employment during those 12 months. Historically, the Interstate Commission of Employment Security Administrators has endorsed a high cost multiple of 1.5. Others, however, have advocated a standard of 1.0 as adequate.[9] Figure 7-6 illustrates how the HCM for the overall UI system has changed over time. Between 1954 and 1969, the average HCM was 2.1. It declined steadily during the 1970s and was actually

FIGURE 7-5
AMOUNT OF FEDERAL LOANS AND NUMBER OF STATES WITH OUTSTANDING LOANS, 1972-1992



Source: USDOL/ETA/UIS/Division of Actuarial Services.

FIGURE 7-6
HIGH COST MULTIPLE FOR THE OVERALL UI SYSTEM, 1954-1992



Sources: GAO (1988) and ET Handbook.

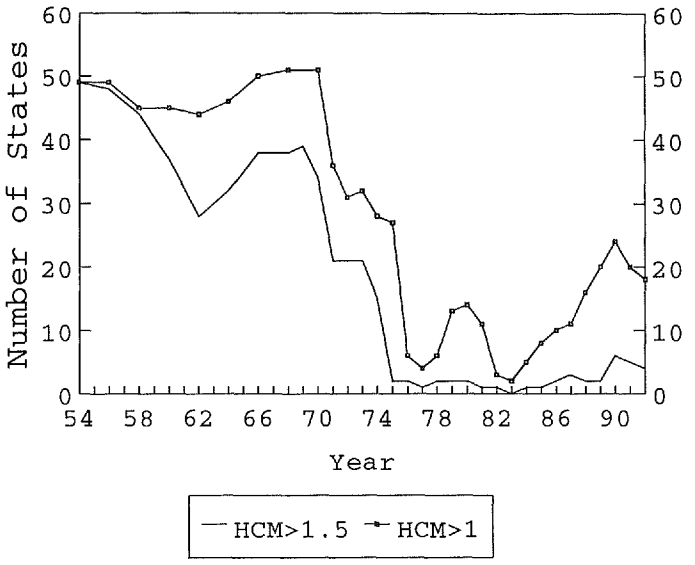
negative in 1982 and 1983. The HCM rebounded somewhat in 1989 and 1990, but has been in decline since the most recent recession. The number of states maintaining adequate reserves, as measured by an HCM of 1.5 has declined between 1972 and 1983 and remained fairly low thereafter. Using a less conservative HCM standard of 1.0 provides a somewhat more positive picture of state solvency. Table 7-3 illustrates 1992 state HCMs and Figure 7-7 illustrates the number of states with adequate HCMs over time. Nevertheless, many policymakers fear that states' trust funds are currently unprepared for a serious recession. This view is supported in simulation models performed by the GAO and by Vroman.[10]

TABLE 7-3
HIGH COST MULTIPLE, BY STATE IN 1992

Virgin Islands	3.21	Louisiana	0.72
Puerto Rico	2.15	Tennessee	0.69
New Mexico	1.69	North Dakota	0.65
Oklahoma	1.53	Nevada	0.65
Oregon	1.47	Montana	0.62
Kansas	1.47	South Carolina	0.60
Utah	1.40	New Hampshire	0.55
Vermont	1.37	Arizona	0.55
Hawaii	1.35	Kentucky	0.54
South Dakota	1.29	California	0.42
Mississippi	1.26	Texas	0.36
Wyoming	1.23	West Virginia	0.35
Iowa	1.21	Rhode Island	0.32
Idaho	1.16	Illinois	0.28
Wisconsin	1.13	Minnesota	0.27
Delaware	1.13	Pennsylvania	0.25
Indiana	1.11	Ohio	0.21
Alaska	1.06	Arkansas	0.20
Washington	0.99	Maryland	0.17
North Carolina	0.98	Maine	0.15
Nebraska	0.97	Michigan	0.05
Alabama	0.90	New York	0.05
Colorado	0.87	Missouri	0.00
New Jersey	0.85	Massachusetts	0.00
Florida	0.80	Connecticut	0.00
Georgia	0.79	District of Columbia	0.00
Virginia	0.74		

Source: USDOL/ETA/UIS/Division of Actuarial Services.

FIGURE 7-7
STATES WITH ADEQUATE RESERVES AS MEASURED BY HIGH COST MULTIPLE, 1954-1992



Sources: GAO (1988) and ET Handbook.

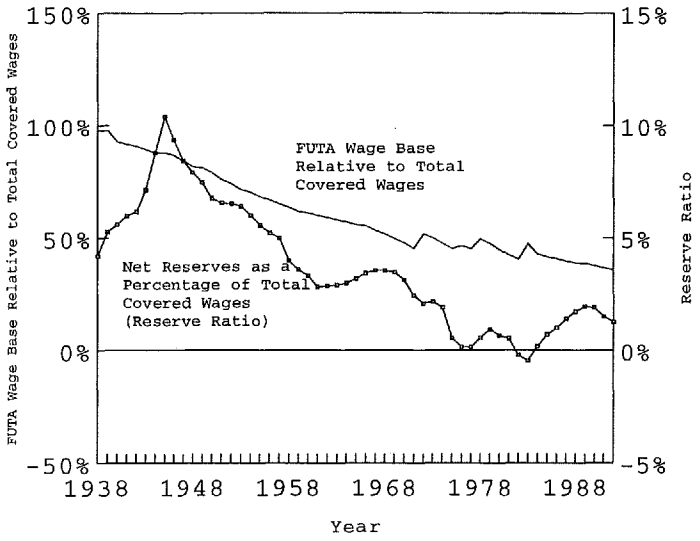
Reserve Ratio

The reserve ratio is another measure of trust fund solvency. Beginning with the steady increases in employment and inflation in the 1950s and 1960s, the reserve ratio (net reserves as a share of total covered wages) has declined. From a maximum of 10.4 percent of covered wages in 1945, the reserve ratio declined to 6.8, 3.3, and 3.1 percent in 1950, 1960, and 1970, respectively. Continuing its decline, the reserve ratio dipped below zero in 1982 and 1983; by 1990, however, it had risen to 1.9 percent of covered wages. Despite this recovery, many analysts consider the current reserve to be unacceptably low.

Figure 7-8 illustrates that, with the exception of some minor upturns during periods of growth, the reserve ratio fell between 1945 and 1983. The reversal of this long-term trend in 1983 appears to be attributable, at least in part, to the growing number of states that raised

their taxable wage base above the federal level. Table 7-4 illustrates the variability of reserve ratios across states in 1992.

FIGURE 7-8
RESERVE RATIO AND FUTA WAGE BASE, 1938-1992



Source: UI Financial Data Handbook.

TABLE 7-4
RESERVE RATIO, BY STATE IN 1992

Puerto Rico	9.05	Tennessee	1.50
Virgin Islands	7.33	Kentucky	1.49
Oregon	4.71	Florida	1.47
Alaska	4.57	Nebraska	1.46
Vermont	4.45	Rhode Island	1.41
Washington	4.18	West Virginia	1.38
Wyoming	3.71	New Hampshire	1.38
Idaho	3.67	Arizona	1.36
Hawaii	3.57	South Dakota	1.34
Iowa	3.16	Colorado	1.10
Delaware	3.04	California	0.98
Wisconsin	2.90	Virginia	0.96
Kansas	2.89	Pennsylvania	0.84
Utah	2.83	Illinois	0.74
New Jersey	2.83	Ohio	0.66
New Mexico	2.77	Arkansas	0.55
Mississippi	2.48	Minnesota	0.54
North Carolina	2.25	Maine	0.44
Louisiana	2.22	Texas	0.41
Oklahoma	2.10	Maryland	0.37
Indiana	1.99	Michigan	0.17
Alabama	1.96	New York	0.12
Montana	1.87	Missouri	0.01
Nevada	1.79	Massachusetts	0.00
South Carolina	1.73	Connecticut	0.00
Georgia	1.68	District of Columbia	0.00
North Dakota	1.51		

Source: USDOL/ETA/UIS/Division of Actuarial Services.

Decline in Unemployment Insurance Recipiency

Chapter 4 reviews the decline in the percentage of unemployed workers who receive regular UI benefits, a decline that was especially pronounced during the early 1980s. Researchers have focused on the relationship between state trust fund solvency (as expressed by the HCM) and UI recipiency. A state's HCM could be low in a given year for a number of reasons, including the level of the HCM in previous years, small tax collections, and large benefit outlays. A recent GAO report indicates the decline in recipiency is often the direct consequence of state legislation designed to improve their solvency status. Table 7-5 illustrates changes in recipiency during the recessionary period of 1980 to 1985, based on the level of a state's HCM in 1980. Those states with lower HCMs in 1980 experienced larger declines in recipiency in the years between 1980 and 1985 than those states with higher than average HCMs in 1980.[11] The correlation between the decline in trust fund adequacy and the decline in UI recipiency can be seen in Figure 7-9.

This decline in recipiency is important. When the number of recipients declines, the UI program loses its effectiveness as a countercyclical stimulus tool and as a temporary wage replacement for the unemployed. A 1990 GAO report estimates that if recipiency rates were similar to those in the mid-1970s (before states began experiencing solvency problems), then an additional $20 billion in UI benefits would have been available to the economy during the most recent recession.[12]

Tradeoff Among Borrowing, Taxation, and Benefit Levels

A variety of alternative legislative responses are available to states that face solvency problems. One option is to take out loans from the federal government. Another option is to increase reserves by raising or restructuring employers' UI tax rates.[13] The third option is to limit the benefits either by restricting the number of individuals eligible for UI, or by decreasing the payments that UI claimants receive. Each of these options is discussed below.

Borrowing

In order for states to ensure they are always solvent and never need to borrow from the federal government (i.e., no risk of insolvency), states would require either very large trust fund reserves

TABLE 7-5
RELATIONSHIP BETWEEN THE HIGH COST MULTIPLE AND CHANGES IN UI RECIPIENCY

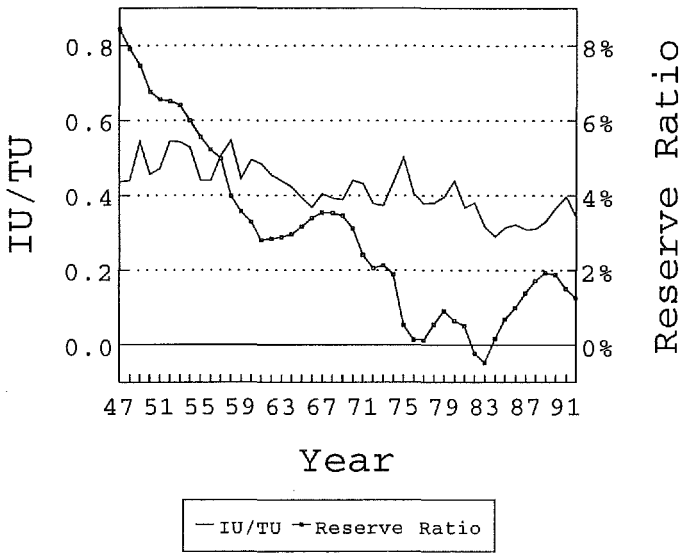
Quintile (Ranked by HCM in 1980)	Average HCM in 1980	Average Decline in UI Recipiency Rate, 1980-1985 (percentage points)	Average Decline in UI Recipiency Rates, 1980-1985 (percent)
Lowest 10 states	-0.49	-13	-28
Next lowest 10 states	0.11	-11	-26
Middle 11 states	0.52	-11	-28
Next highest 10 states	0.92	-7	-18
Highest 10 states	1.27	-7	-18

Source: GAO (1993), Table 2.1, p.31

or very responsive tax systems. Under the present law, reserves can be used only to pay cash benefits to UI claimants; therefore any funds collected are not transferable for other purposes. As a result, states fear that high trust fund balances will result in increased pressure for benefit liberalization.

Borrowing from the federal government lessens the need to maintain excessive balances or impose high tax rates during recession. States' willingness and ability to borrow from the federal government has varied over time because of federal policy changes. For example, when the federal government began charging states interest on loans, the increased costs of borrowing caused many states to either raise UI taxes, reduce benefits, or both. The changes in federal legislative policy regarding trust fund insolvency are discussed in more detail in a later section.

FIGURE 7-9
RELATIONSHIP BETWEEN TRUST FUND SOLVENCY AND UI RECIPIENCY, 1947-1992



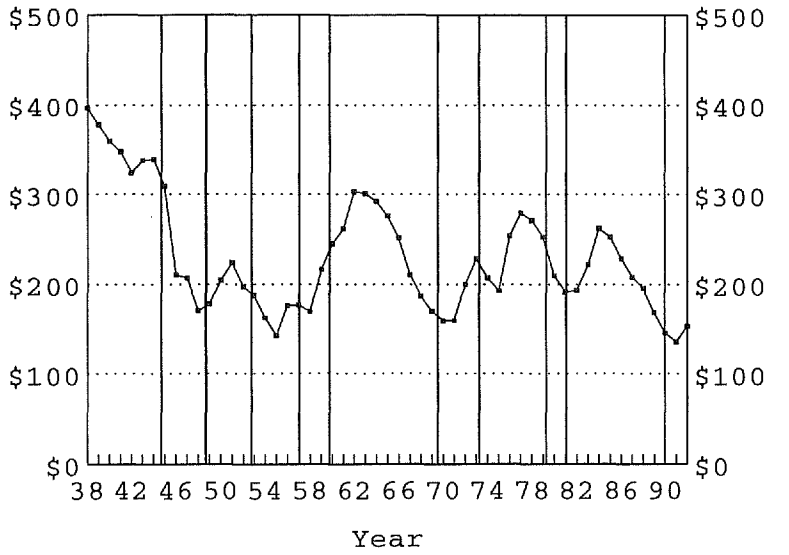
Source: UI Financial Data Handbook.

Employer UI Taxes

States' determination of employers' tax schedules, the amount of experience rating, and the taxable wage base reflect their implicit choice of a funding mechanism, which can be either forward-funding or pay-as-you-go. A pay-as-you-go funding mechanism can either be automatic or discretionary.

The UI program generally operated on a self-financing, forward-funded basis during its first four decades. The past decade has seen the system move to pay-as-you-go funding. Under automatic pay-as-you-go funding, states build mechanisms into their tax structure that automatically increase tax receipts by raising employers' tax rates when the trust fund balance declines.[14] Under discretionary pay-as-you-go funding, states enact changes in their UI laws to raise the effective tax rate on employers or the taxable wage base when the trust fund balance becomes too low. As a result of this system, UI taxes collected per worker vary with the economic cycle (see Figure 7-10).

FIGURE 7-10
STATE UNEMPLOYMENT INSURANCE TAX COLLECTIONS PER WORKER
IN CONSTANT 1992 DOLLARS, 1938-1992



Lines represent recessions at peak.
Source: USDOL/ETA/UIS/Division of Actuarial Services.

Benefits

States can take a number of steps to decrease the number of individuals eligible to receive benefits, as well as the benefit amounts paid to UI recipients. There are a number of eligibility conditions that a UI applicant faces; these conditions often overlap with factors involved in determining the duration and amount of weekly benefits. Among the important factors involved in determining benefit outlays are the following:

- Minimum earnings and duration qualifying requirements
- Minimum and maximum weekly benefit amounts
- Method of computing weekly benefit amounts
- Indexation of the maximum weekly benefit amount
- Minimum and maximum duration of benefits

- Method of computing duration of benefits
- Waiting period requirements
- Allowances for dependents
- Disqualifying income
- Definition of disqualifications and the associated penalty in terms of benefit amount and duration

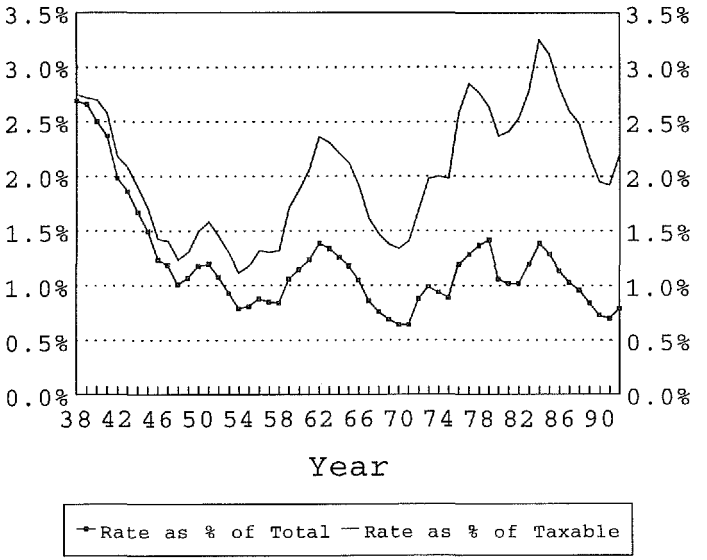
Conflicting Objectives of States and Federal Government

The federal-state nature of the UI system allows states to retain flexibility in the design of their programs, while maintaining, albeit loosely, a national unemployment insurance policy. The system, however, suffers from some inherent conflict between the objectives of the federal government and those of the states.

The federal objectives under the UI program are to provide economic stability,[15] provide income maintenance to unemployed workers, and prevent unemployment. Erosion in the effectiveness of the UI program, as evidenced by declining recipiency and state trust fund solvency problems, results in fewer resources being put back into the economy. In order to ensure that broad program goals are met, therefore, the federal government seeks to ensure that recipiency rates and benefit payments are adequate and that states are able to remain solvent.

States, on the other hand, are justifiably concerned with prevailing economic and political conditions, the alleviation of economic suffering among the unemployed, as well as the state business climate. The regionalization of economic distress in recent years has left states with concerns about placing their employers at a competitive disadvantage and questions about their ability to foster economic growth within their state boundaries. To compete for industry, new investment, and jobs, states may seek to keep their UI taxes low in order to provide additional incentives for businesses to locate in their state. States seek to maintain autonomy over UI to ensure their capacity to respond to their own economic situation however they see fit, whether it is by controlling the size of the eligible population, the amount of benefits paid, or the amount of taxes collected. Over time, however, tax rates as a percentage of total and taxable wages have declined (see Figure 7-11). These rates vary significantly across states (see Table 7-6).

FIGURE 7-11
AVERAGE EMPLOYER TAX RATE (AS PERCENTAGE OF TAXABLE AND TOTAL WAGES), 1938-1992



Source: USDOL/ETA/UIS/Division of Actuarial Services.

TABLE 7-6
AVERAGE EMPLOYER TAX RATE AS A PERCENT OF TOTAL WAGES AND TAXABLE WAGES, BY STATE IN 1992

	Total	Taxable		Total	Taxable
Rhode Island	1.95	3.51	District of Columbia	0.75	2.91
Alaska	1.71	2.65	California	0.73	2.61
Oregon	1.59	2.63	Louisiana	0.72	1.87
Puerto Rico	1.51	3.06	Delaware	0.71	2.20
Virgin Islands	1.45	1.96	Mississippi	0.71	1.81
Michigan	1.37	4.03	Minnesota	0.68	1.44
Washington	1.32	2.26	Connecticut	0.66	2.74
Pennsylvania	1.30	4.01	South Carolina	0.64	1.81
Massachusetts	1.28	3.23	Missouri	0.62	2.00
Idaho	1.16	1.74	New Hampshire	0.60	1.96
Maine	1.12	3.18	Nevada	0.56	0.99
West Virginia	1.12	3.01	Tennessee	0.56	1.68
Wyoming	1.04	2.19	Utah	0.56	1.01
Arkansas	0.99	2.36	Colorado	0.55	1.36
Ohio	0.96	2.80	Texas	0.53	1.45
Maryland	0.95	3.24	Georgia	0.51	1.42
Vermont	0.93	2.49	Florida	0.50	1.46
New Jersey	0.90	2.03	North Carolina	0.50	0.98
Wisconsin	0.87	2.04	Oklahoma	0.46	1.04
Kentucky	0.82	2.19	Nebraska	0.46	1.28
Iowa	0.81	1.53	Alabama	0.43	1.14
Illinois	0.81	2.46	Hawaii	0.42	0.61
Montana	0.81	1.18	Indiana	0.42	1.34
Kansas	0.81	1.85	Arizona	0.38	1.13
New Mexico	0.81	1.53	Virginia	0.33	0.97
North Dakota	0.78	1.46	South Dakota	0.24	0.60
New York	0.76	3.26			

Source: USDOL/ETA/UIS/Division of Actuarial Services.

The federal-state nature of the program also raises two equity issues. First, two individuals in precisely the same job-loss circumstance may face very different eligibility, benefits, and job search requirements based on their state of residence. While this always has

been true, state formulae for calculating eligibility and benefits have become increasingly complex and more diverse over time.[16] Second, unemployment is often concentrated geographically, which places an uneven financing burden on the states.

FEDERAL ACTIONS TO ADDRESS STATE SOLVENCY

Congress has responded to the deterioration of states' UI trust fund solvency by passing legislation that combined fiscal relief with pressure to initiate improvements in states' trust fund solvency. This section outlines the most important aspects of this legislation.

FUTA Taxable Wage Base

At the inception of the program (in 1939) the federal taxable wage base was 100 percent of payrolls. This was changed starting in 1940 to tax only the first $3,000 of a covered worker's earnings, which covered 93 percent of all wages at that time. With each passing year, the $3,000 wage base limit covered a smaller and smaller percentage of wages as the general wage level rose. By 1948, about 82 percent of all covered payrolls were subject to the tax; whereas in 1969, only about one-half of covered payrolls were subject to the tax. Federal legislation increased the taxable wage base to $4,200 in 1972, $6,000 in 1978, and $7,000 in 1983. These increases in the taxable wage base have not, however, kept pace with the increase in covered wages. By 1992, the ratio of taxable wages to covered wages had eroded to 36 percent, the lowest level in history.[17] In addition, the taxable wage base is significantly below the average annual wage, which was approximately $25,500 in 1992.

FUTA Tax Rate

The federal unemployment gross tax under FUTA applies to the federal taxable wage base. The federal government, however, offers employers within a state an offsetting credit provided that the state's UI program (1) has a taxable wage base at least as high as the federal tax base, (2) has a maximum employer tax rate under experience rating of at least 5.4 percent, and (3) does not have outstanding loans. The offsetting credit provides such a strong financial incentive that every state complies with the federal wage base.

Table 7-7 illustrates the change in the FUTA rate and the inflation-adjusted per-worker cost over time. The table includes information on the year the change became effective, the gross FUTA tax rate, the tax credit offset, the potential net tax rate on employers, the federal taxable wage base, and the inflation-adjusted per-worker cost. Increases in the net tax rate have been adopted to cover administration costs due to inflation and to support the EB program. Tax rate increases also were used to encourage states to raise the upper limits of their tax schedules and to encourage increased tax revenues for reserve funds. The inflation-adjusted per-worker UI cost illustrates how program administration funds have fluctuated with changes in the tax rate and federal wage base over time.

Federal Loan and Repayment Provisions

A federal loan fund account was first established by legislation in 1944; the provision expired in 1952. No states needed loans during the eight-year period. At that time, loans were interest-free and states with insolvent trust funds were allowed to repay their loans slowly or not at all. In 1954, the Reed Act reactivated the loan fund and instituted "penalties" for late repayments. Penalties are assessed when loans are not repaid within two to three years after they are made.[18] These penalties require increased taxes on employers, which are used to repay the loan debts and are assessed until the loan is repaid. The penalties take the form of graduated reductions in the federal unemployment tax credit allowed to employers: 0.3 percent of taxable payrolls was assessed in the first year, 0.6 in the second, 0.9 in the third, and so on. Because of severe unemployment, Congress allowed a three year deferral of these penalties for states that met certain tax structure criteria between 1975 and 1979.[19] Congress passed a law that temporarily capped the reduction in the federal tax credit at 0.6 percent in 1981; this law was made permanent, provided that a state met conditions regarding tax effort and indebtedness.[20]

TABLE 7-7
FEDERAL UNEMPLOYMENT TAX RATE, WAGE BASE, AND PER-WORKER COST

Year Effective	Gross FUTA Tax Rate	Offsetting Credit	Potential Net Tax Rate	Federal Taxable Wage Base	Inflation-Adjusted Per Worker Cost (1992 Dollars[1])
1939	3.00%	2.7%	0.30%	$3,000	$91
1960	3.10%	2.7%	0.40%	$3,000	$57
1970	3.20%	2.7%	0.50%	$3,000	$54
1972	3.20%	2.7%	0.50%	$4,200	$70
1973	3.28%[2]	2.7%	0.58%	$4,200	$77
1974	3.20%	2.7%	0.50%	$4,200	$60
1977	3.40%[3]	2.7%	0.70%	$4,200	$68
1978	3.40%	2.7%	0.70%	$6,000	$90
1983	3.50%	2.7%	0.80%	$7,000	$79
1985	6.20%	5.4%	0.80%	$7,000	$73
1992	6.20%	5.4%	0.80%	$7,000	$56

[1] The calculation of the 1992 price index is based on 11 months of data.
[2] Reflects a 0.08 percent increase in federal unemployment tax in 1973 only to pay for additional benefit costs.
[3] A temporary surtax of 0.2 percent was enacted in 1977, and was extended in 1987, 1990, and 1993. It is now scheduled to expire in 1997.

Source: USDOL/ETA/UIS/Division of Actuarial Services.

Congress passed legislation to revise federal loan provisions and to charge interest on loans to states that borrowed after March 1982 and that do not repay the loan during the same fiscal year in which the money is borrowed.[21] These interest payments cannot be made directly from a state's benefit reserves or indirectly through a change in a state's UI tax rate.[22] Legislation passed in 1983 allowed debtor states completely to avoid penalty taxes on employers if they paid an amount equivalent to the penalty taxes from their reserves and met other conditions.[23] This practice allows states to finance repayment through experience rating, as opposed to a flat tax on all employers.

Thus, as of 1983, states can defer interest payments on UI loans for up to four years, provided that (1) their insured unemployment rate was at least 7.5 percent for the first six months of the calendar year preceding the interest due date (under the Tax Equity and Fiscal

Responsibility Act of 1982) or (2) their taxes were at least 2 percent of payroll in 1982 (under the Social Security Amendments). Under this scenario, states can pay 25 percent of their annual interest payment when due and 25 percent of the interest in each of the following years.[24] States can also reduce their interest rates on loans and partially freeze employer tax credit deductions.[25] To requalify for annual relief, states usually had to maintain previously enacted cost-cutting and tax-increasing measures, as well as initiate new steps.[26]

While these laws did encourage states to reverse their negative trust fund balances, the laws have not yet resulted in a restoration of the high reserves or HCMs (1.5 or higher) that characterized the program in earlier years.

STATE RESPONSES TO FEDERAL ACTIONS AND SOLVENCY ISSUES

During the 1980s, states changed their regular UI laws, often in direct response to federal legislation and trust fund insolvency. Overall, these changes were designed to increase the revenues collected by the UI system, while decreasing the benefits paid by the system. In particular:

- Most states now set their wage base above the current federal minimum of $7,000, and 18 states index their wage base with the change in state annual wages.

- During the early 1980s, those states that experienced the largest decreases in their trust fund solvency also experienced the largest increases in their effective employer tax rates.

- Since the early 1980s, a number of states have implemented solvency surtaxes that are triggered during times of trust fund solvency problems. While these surtaxes do not eliminate the need for borrowing, they can reduce the scale of borrowing and slightly affect trust fund balances.

- During the 1980s, it became harder for unemployed workers to qualify for UI. States increased the minimum earnings requirements to qualify for UI, imposed stiffer qualification requirements, and increased the penalties related to disqualifications.

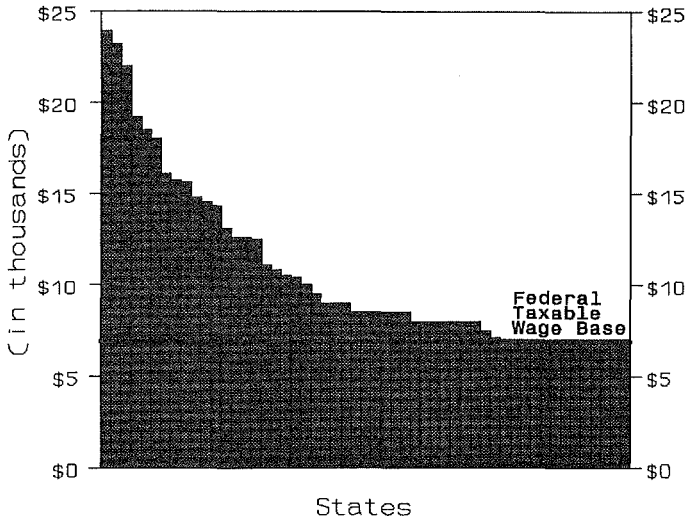
- Many states decreased their maximum potential benefit duration and the majority of states have either increased or not changed their minimum potential benefit duration.

The remainder of this section discusses each of the specific state UI law changes that have been made (primarily in the 1980s) in response to federal legislation and trust fund insolvency and the impact of these changes on the availability and receipt of UI.

State Taxable Wage Base

As noted above, in order to allow its employers to receive the maximum credit against the federal tax, each state must currently have a taxable wage base of at least $7,000. In 1981, 31 states set their taxable wage base as low as the federally mandated level (then $6,000); by 1987, however, only 17 states set their taxable wage base as low as the federally mandated level of $7,000. Many states with levels above the 1981 federal taxable wage base of $6,000 had increased their wage base above $7,000 by 1987, with the average change among the states that increased their base above $7,000 being 39 percent. Between 1987 and 1993, the overall increase in states' taxable wage base was 12 percent. Figure 7-12 illustrates the distribution of state taxable wage bases, with only 12 states currently setting their base at the federal minimum. In 1993, the state bases ranged as high as $23,900 in Hawaii in 1993.[27] Some states have incorporated an automatic adjustment for wage increases in the form of a flexible taxable wage base. Under this method, states calculate the wage base as a fixed percentage of the average annual wage in their state. Currently, 18 states calculate their taxable wage base using between 50 to 100 percent of average wage.[28]

FIGURE 7-12
STATE TAXABLE WAGE BASE, 1993



Source: U.S. Department of Labor (1993b).

Employer UI Tax Rates

Revenues from collections of state UI taxes are used to pay UI benefits for both the regular UI program and one-half of the EB program. States usually structure their employer UI taxes to include several tax rate schedules. Ranging from the least favorable schedule (which applies when trust fund balances have fallen below a specific level) to the most favorable schedule (which applies when trust fund balances are above a specific level), the schedule that is in effect depends on a measure of the state's trust fund solvency. Within a given tax schedule, there is a range of rates, with the assessed rate for each employer varying according to the firm's unemployment experience rating.

Declining high cost multiples have led to increasingly higher effective tax rates on employers. Table 7-8 demonstrates that those

states experiencing the greatest decreases in their HCMs between 1980 and 1983 also experienced the highest increase in their effective employer tax rate. Conversely, states that experienced modest increases in their HCM had only minor increases in their effective employer tax rates.

TABLE 7-8
RELATIONSHIP BETWEEN CHANGES IN TAX RATE AND MINIMUM EARNINGS AND CHANGES IN HIGH COST MULTIPLE

Quintile (ranked by change in HCM)	Change in HCM, 1980-1983	Change in Effective Tax Rate, 1980-1984 (percentage points)	Change in Minimum Earnings Requirement, 1980-1984 (1990 dollars)
Lowest 10 states	-1.17	+0.87	+811
Next lowest 10 states	-0.69	+0.41	+350
Middle 11 states	-0.43	+0.30	+179
Next highest 10 states	-0.17	+0.25	+185
Highest 10 states	+0.18	+0.04	-5

Source: GAO (1993), Table 2.4, p.37.

State Solvency Surtaxes

Solvency surtaxes represent a mechanism for increasing trust fund balances and avoiding or minimizing borrowing. These surtaxes are triggered in a number of different ways, with the three most common triggers being tied to one of the following: (1) a percentage of payroll, (2) the reserve ratio, or (3) a specific trust fund dollar amount. These surtaxes are paid in addition to the regular UI tax and have the effect of putting a state's funding on a pay-as-you-go basis.

In 1978, only seven states had a solvency surtax; by 1983, however, 24 states had a solvency surtax. Currently, 27 states have a solvency surtax.[29] The results from a simulation model of seven states indicate that, while surtaxes do not prevent insolvency or even eliminate the potential need for heavy borrowing, surtaxes can reduce the scale of borrowing and have a modest impact on trust fund balances.[30]

Tightening Eligibility Requirements

Each state determines what requirements must be met by unemployed workers in order to be eligible for the state's UI program, as well as the amount and duration of benefits to be paid. Three factors are common to most state program eligibility standards: (1) monetary standards (i.e., minimum level of recent employment and earnings to qualify); (2) availability for work; and (3) quit, job offer refusal, or misconduct benefit denials. States can opt to tighten eligibility requirements by increasing the minimum earnings requirements level, increasing the minimum required number of weeks worked, adding restrictions on the types of earnings that qualify, or expanding the severity and type of disqualifications. Each of these activities is discussed below.

Minimum Qualifying Requirements

Qualifying requirements usually specify the minimum earnings and/or employment duration needed to be eligible for UI benefits.[31] As either or both of these minimum levels increase, fewer people become eligible to receive UI. Federal legislation in 1981 imposed a minimum federal qualifying requirement of either 20 weeks, 1.5 times high quarter wages, or 40 times the weekly benefit amount to be used in the EB program.[32] This action may have spurred some states to adopt identical standards in their regular UI program. Between 1981 and 1987, 18 states changed their earnings distribution formula to reduce the number of unemployed eligible for benefits. Overall, there has been a tendency for states to (1) impose stiffer qualification requirements, as reflected in greater use of the weeks-of-work and high-quarter wage tests that better reflect actual employment than the flat earnings test, and (2) increase the minimum requirement levels. For example, in 1971, 11 states used flat annual earnings and 12 states used a multiple of high-quarter wages; in 1990, however, seven states used flat annual earnings and 24 states used a multiple of high-quarter wages. State qualifying formulae have become more complex, often to screen out those individuals with weak attachment to the labor force.

States calculate a minimum earnings level each year based on their formulae. Between 1981 and 1987, 35 states increased the minimum earnings requirements (in inflation-adjusted terms) needed to qualify for UI benefits; the average increase among these being 63 percent. The

average decline in the remaining 15 states, where minimum weekly earnings requirements decreased in inflation-adjusted terms, was 18 percent.[33]

The relationship between changes in solvency and changes in the minimum earnings requirements is shown in Table 7-8. Those states with the largest drop in their HCM had an increase in their earnings requirement of $811 in 1990 dollars, whereas those states with an increase in the HCM decreased their minimum earnings requirement by an average of five dollars.

Disqualifications

Between 1978 and 1990, 20 states increased the penalties for one or more disqualification reasons (quitting without sufficient reason, firing for misconduct, or refusal to accept suitable employment).[34] The penalties imposed usually specify a period of benefit ineligibility and the earnings required to requalify. In some cases, benefit rights associated with the most recent employment were significantly reduced, or even canceled. The increasing use of harsher penalties makes it more difficult for potential claimants to requalify for benefits. States have significantly increased the instances when benefits are postponed for the entire duration of unemployment. In 1971, for example, only 28 states postponed benefits for the duration of unemployment for voluntary leaving, but, in 1990, 50 states had implemented that practice.[35]

Duration of Benefits

The maximum potential duration for a UI recipient varies with the wage credits or weeks of employment. A decrease in the maximum potential benefit duration results in some claimants exhausting benefits earlier and therefore no longer being included in the insured unemployed. Between 1978 and 1990, eight out of the ten states with a maximum duration of benefits greater than 26 weeks decreased their maximum duration to 26 weeks.[36] Approximately 22 states increased their minimum benefit duration between 1978 and 1990, eight states decreased their duration, and 21 states remained unchanged.

While the minimum and maximum benefit duration are designated by state law, the actual average benefit duration is another measure of how these laws actually affect claimants.[37] Between 1978 and 1990, 18 states experienced a decline in actual average benefit duration, which

averaged 13.6 percent. Thirty-four states had an increase in actual average benefit duration, which averaged 13.3 percent. Thus, the combination of decreases in the maximum benefit duration and modest increases in the minimum benefit duration, along with changes in the calculation of duration, have resulted in a national increase in average duration of 0.8 percent. This increase could be explained by a change in the characteristics of the unemployed receiving benefits (e.g., reduced recipiency may result in the possibility that those individuals eligible for benefits have stronger ties to the labor force than in earlier years). Some increase in the average benefit duration is expected because the average duration of unemployment spells and the percentage of unemployed workers who are unemployed for extended periods of time have increased throughout the last decades.[38] When examining changes in actual duration, it is important to recognize that even if average duration remains stable over time, the decline in recipiency results in an overall decline in UI outlays, since fewer of the unemployed are receiving benefits.

Benefit Levels

Many states have allowed the value of their minimum and maximum benefits to decline, or at least not keep up with inflation. Between 1978 and 1990, inflation-adjusted minimum weekly benefits decreased an average of 33 percent in 30 states. In 10 of these 30 states, nonadjusted minimum weekly benefits did not change between 1978 and 1990. In four states the benefit level has kept up with inflation and, in 18 states, the minimum benefit level has increased an average of 52 percent. Between 1978 and 1990, the maximum weekly benefit level, adjusted for inflation, has increased in 21 states an average of 13 percent and has decreased in 31 states an average of 14 percent.

Another measure of benefits is the average weekly benefit amount, which has fallen slightly nationwide from $169 in 1978 to $162 in 1990 (a 3.6 percent decline), after adjusting for inflation. Fourteen states have experienced a decline of 8 percent on average, and the remaining 38 states have had an increase of 18 percent on average. Overall, as discussed in Chapter 3, replacement rates have remained fairly constant over time.

Impact of State Law Changes

As discussed more fully in Chapter 4, analysts have tried to quantify the extent to which changes in state policy account for declines in UI recipiency. Corson and Nicholson found that 21 to 54 percent of the recipiency decline between 1980 and 1986 was attributable to state policy changes, and Baldwin and McHugh's results indicate that state policy changes account for 54 percent of the decline in recipiency between 1979 and 1990, although more recent research by Baldwin found substantially smaller effects of state policy changes. A number of significant state policy changes were cited in these studies, including the following: increases in monetary eligibility requirement formulae, changes in monetary eligibility standards for minimum benefits, increases in disqualification penalties, declines in the maximum duration of benefits, and increases in the earnings to qualify for the maximum benefit.

A GAO report, released in September 1993, also analyzes the effect of state policy changes by using a combination of statistical techniques and in-depth case studies of seven states. GAO assumed that laws do not change instantaneously with economic conditions or changes in the trust fund status, but that existing laws do affect current solvency. GAO modeled the interaction among state trust fund solvency, UI recipiency rates, state law changes, and the demographics of the unemployed.[39] GAO's analysis found that states with declining or insolvent trust funds took a number of legislative actions that made it difficult for the unemployed to qualify for benefits and, consequently, reduced recipiency.

Using different statistical and regression techniques, the staff of the Advisory Council on Unemployment Compensation have analyzed the database used by GAO. In general, their findings support the conclusion of the GAO that declining trust fund solvency leads to reductions in the percentage of the unemployed who receive UI benefits.[40]

POLICY OPTIONS

There are three basic policy approaches the federal government could pursue to encourage states to improve their trust fund solvency and maintain adequate reserve balances: (1) establish specific uniform standards of financing and/or benefit eligibility and amount, and require that the states achieve these standards; (2) establish broad

financial and/or regulatory goals, and provide incentives for states to meet those goals; or (3) do nothing. Each of these three approaches reflects a different philosophy about the level of involvement the federal government should have in state UI programs.

In the past, the federal government has focused primarily on a combination of the latter two approaches. It has, for example, used financial rewards and penalties in a number of instances to influence state behavior. Foremost among these are (1) providing large offsetting tax credits to employers in states that meet certain federal criteria and (2) providing loans to states with insolvent trust funds, but charging interest on those loans and levying tax penalties on employers in states with delinquent loans. These financial incentives are often so significant that the result is effectively a mandate, although the activity is not legislatively required. The federal government has not, however, mandated many detailed changes in states' eligibility requirements, benefit levels, disqualification penalties, or other aspects of states' UI programs. Nor has the federal government required states to maintain specific reserve balances or high cost multiples.

This section discusses the following general policy options: (1) changes in the taxable wage base, (2) changes in tax rates, and (3) new initiatives to encourage state solvency. Under the first two of these options, the federal government essentially mandates the specific changes that states must make to improve their trust fund solvency. Under the last option (initiatives to encourage state solvency) the federal government sets broad goals or incentive structures, but does not dictate specific requirements of the states.

In addition to the options discussed here, there are other requirements the federal government could mandate that indirectly affect trust funds solvency, such as establishing uniform eligibility requirements or establishing minimum benefit levels across states. Since these options would affect trust fund solvency only indirectly, they will be addressed in a future report. Each of the policy options discussed below vary in terms of their funding strategy (forward or pay-as-you-go). States often prefer flexible financing options because they allow the states to maintain lower trust fund reserves, while responding to trust fund solvency problems. Many analysts believe, however, that there are strong arguments against flexible financing, including (1) the effects of the flexible policies are usually not large enough to prevent insolvency in recessions and (2) employers are likely to be hit with increased taxes precisely when a recession is driving

down firm profits.[41] These analysts tend to prefer options that would restore the UI system to a forward funding mechanism.

Changes in the Taxable Wage Base

Three primary options exist regarding changes in the taxable wage base: (1) the federal taxable wage base could be raised, (2) the federal taxable wage base could be indexed, and (3) the state taxable wage bases could be indexed. Each of these options is discussed in more detail below.

Raise the Federal Taxable Wage Base

One option is to raise the absolute level of the federal taxable wage base. The current federal taxable wage base is set at $7,000, with states encouraged to adopt a state taxable wage base of at least $7,000 through the use of the offsetting tax credit. Increases in the taxable wage base have been legislated over time. These increases, however, have been relatively small, and the taxable wage base has continued to decline relative to covered wages.

An increase in the federal taxable wage base would serve to increase state tax collections, except when (1) states already have wage bases above the new federal level (39 states have a wage base above $7,000 in 1993) or (2) states decrease their employer tax rates in response to increases in the federal wage base.[42]

Index the Federal Taxable Wage Base

A second option, which could be applied independently or in combination with an increase in the federal taxable wage base, is to index the federal taxable wage base. Increasing the federal base in proportion with a measure of wages, such as the national average annual wage, would provide an automatic mechanism to account for wage increases over time.[43] An alternative option is for the indexation to be based on individual state wage increases. A similar practice is already followed by the 18 states that currently have a flexible state wage base automatically linking annual increases in the taxable wage base to state wage increases.

Index the State Taxable Wage Base

The federal government could encourage states to index their state taxable wage bases. For example, a larger offsetting tax credit could be offered to states whose taxable wage base is indexed to annual wage changes in the state. This option might be particularly appealing if the federal wage base is not indexed and/or remains relatively low compared to covered payroll.

Changes in the Tax Rates

States currently have latitude in setting the range and conditions of their employer tax rates, with the exception of having a maximum employer tax rate of 5.4 percent (to qualify for the offsetting tax credit). The federal government could be more prescriptive in what rates states must charge their employers. For example, a federally set minimum employer tax rate is a forward-funding option that could push states to increase their reserves. States could also be encouraged to adopt flexible financing provisions in the form of (1) timely adjustments to employer tax rates given changes in the state's trust fund balance or (2) wide minimum ranges for experience rating tax rates.

New Initiatives to Encourage State Solvency

There have also been a number of proposals made regarding methods of encouraging state solvency. Five of these proposals are the following: (1) national solvency standards, (2) increased interest payments on state reserve balances, (3) new loan and repayment provisions, (4) allowing some alternative uses of state trust funds, and (5) permitting pooling of state trust fund reserves. Each of these options is discussed in greater detail below.

National Solvency Standards

A number of analysts have suggested that implementing trust fund reserve standards would improve state trust fund adequacy and decrease the scale of future borrowing.[44] The most likely solvency standard is adopting an HCM standard. There is some controversy, however, regarding the most appropriate target level (1.0, 1.5, or some other multiple).

Interest Payments on Reserve Balances

The federal government has paid interest on positive state UI trust fund balances since the inception of the UI program.[45] To encourage states to maintain higher reserves, the government could provide supplemental interest payments on a portion of reserve balances in states that maintain "large" trust fund balances or achieve designated solvency standards. For example, a state could receive an interest rate supplementation (such as one percentage point) on those reserves in excess of a 0.5 HCM.

Loan and Repayment Provisions

To discourage borrowing by the states, the federal government could increase the interest rate assessed on loans not repaid in a timely manner. The government could also change the structure or types of penalties assessed on employers in states that do not meet certain loan repayment conditions.

Alternatively, preferential interest rates could be offered to states that need to borrow when they have maintained "adequate" solvency prior to a recession. For example, a state that maintained a specific solvency standard could be charged a lower interest rate on borrowing than that charged to states that failed to maintain a specific solvency standard.

Alternative Uses of State UI Trust Funds

Allowing alternative uses of UI trust funds in states maintaining "large" balances could encourage states to build their reserves. Any such policy would have to be explicit about allowable expenditures (e.g., education, training, job search assistance, UI administration, Employment Services) and the amount of funds that could be used.

Pooling of Trust Fund Reserves

Some analysts believe that states should be allowed to pool their trust funds so that those states that are experiencing insolvency could borrow from those states that are not.[46] There are two basic types of pooling. Both types, cost reinsurance and cost equalization, would alleviate excessive costs to those states experiencing to economic factors beyond their control. Under cost reinsurance, states would pay into a

common fund and those states that experience solvency problems beyond their control would receive payments from the fund to cover part or all of their "excess" costs. Past benefit payments would be used to identify reimbursable costs that are above those costs that could have been reasonably expected. Under cost equalization, states that have costs (or perhaps unemployment rates) above an absolute threshold would be partially or fully reimbursed by payments from either the current federal trust fund accounts or some other account established for this purpose. These additional costs could be funded through federal UI taxes.

Chapter 8

Alien Agricultural Workers

ALIEN AGRICULTURAL WORKERS include legal permanent residents, legal temporary residents (e.g., aliens receiving H-2A visas), individuals residing under color of law (e.g., refugees), and illegal aliens. Currently, FUTA taxes are *not* paid on H-2A workers or illegal aliens, and these workers are virtually never eligible for UI benefits.[1]

The payment of FUTA taxes on H-2A workers is currently scheduled to go into effect on January 1, 1995. Congress requested that the Advisory Council on Unemployment Compensation recommend whether or not employers should continue to be exempt (on either a permanent or temporary basis) from paying FUTA taxes on H-2A workers.

TREATMENT OF AGRICULTURAL WORKERS UNDER UNEMPLOYMENT INSURANCE

Agricultural workers were originally excluded from UI coverage; however, there have been a number of legislative amendments that have affected their participation in the UI program. The current law (based on the 1976 amendments) extends UI coverage to employees of farms that either (1) paid wages in cash of $20,000 or more for agricultural labor in any calendar quarter in the current or preceding calendar year or (2) employed 10 or more workers on at least one day in each of 20 different weeks in the current or immediate preceding calendar year.[2]

The Immigration Reform and Control Act of 1986 (IRCA) was passed to control unauthorized immigration into the United States. It contained employer sanctions requiring all employers, including agricultural firms, to hire only U.S. citizens and any others with the right to work in the United States.[3] Additional provisions in IRCA were designed to (1) ensure an adequate supply of agricultural

workers; (2) provide certain undocumented foreign farmworkers with legal immigrant status; and (3) streamline the existing nonimmigrant program, while continuing to protect U.S. farmworkers from displacement and depression of wages and working conditions. While IRCA did not extend UI coverage to any additional classes of workers, it extended coverage indirectly by changing the status of many agricultural workers so that they fell into covered classes for the first time.

RELEVANT CATEGORIES OF ALIEN AGRICULTURAL LABOR

H-2A Agricultural Workers

An H-2A agricultural worker, as defined by the 1986 amendments to the Immigration and Nationality Act, is an alien who comes to the United States to perform agricultural work of a temporary or seasonal nature when agricultural employers anticipate a shortage of domestic workers. An alien worker can be used only when an employer submits an application and the U.S. Department of Labor approves the certification.[4] Employment for H-2A workers is temporary, where the employer's need to fill a position will last no longer than one year, and H-2A workers must leave the country when the time specified on their visa expires.[5]

Special Agricultural Workers

IRCA legalized many aliens who had worked illegally in agriculture in the U.S. by granting them lawful temporary resident status and, after a period of time, lawful permanent resident status under the Special Agricultural Worker (SAW) program.[6] SAWs were included in IRCA in order to allow farm owners to hire legal workers, rather than illegal labor.

Undocumented Aliens

Some estimates indicate that approximately 10 percent of agricultural workers are undocumented and in the United States illegally.[7] Many others believe that this figure is much higher.

NUMBER OF H-2A WORKERS AND SPECIAL AGRICULTURAL WORKERS

Approximately 20,000 H-2A job certifications were granted by the Division of Alien Labor Certification in the U.S. Department of Labor in 1992. Table 8-1 provides a description of the number and type of jobs certified under the H-2A program. There were 16,385 H-2A workers actually admitted by the Immigration and Naturalization Service (INS) in fiscal year 1992. Early projections had estimated that the H-2A program would expand rapidly after IRCA. Because of the large number of SAWs legalized (over one million to date) and continued illegal immigration (despite IRCA's more aggressive employer sanctions for hiring illegal immigrants), the number of H-2A workers has remained at a low, stable level.

POLICY CONSIDERATIONS

Arguments for levying the FUTA tax on H-2A workers are that the tax (1) currently serves as the primary source of funds to cover the costs of the H-2A certification process, (2) would increase the costs of H-2A workers, thereby decreasing the incentive for employers to prefer H-2A workers over U.S. workers, and (3) may increase revenues for the UI system.

Arguments against paying the FUTA tax are that the tax would pose additional costs on employers and, at the same time, would undermine the insurance nature of the UI program, since taxes would be collected even though H-2A workers are technically unable to receive UI benefits.[8] Some also allege that the application of this tax would increase the number of illegal aliens hired, rather than the number of U.S. workers. It is difficult to evaluate these arguments on economic grounds because they are based on employers' behavior.

It is unclear whether assessing a FUTA tax on H-2A workers would, on the margin, encourage farmers to hire U.S. workers over H-2A workers. First, employers already face significant costs when deciding to apply for H-2A workers; these costs include transportation to and from the home country, housing during employment, a flat certification fee of $100 plus $10 per worker, and increased oversight by state agencies.[9] Second, making H-2A workers more expensive to employers may encourage the substitution of illegal immigrants, rather than U.S. workers, for H-2A workers. The extent to which this would

occur would depend on the level of INS enforcement, employers' willingness to ignore the IRCA legislation, and the extent to which employers can identify illegal aliens when hiring.

If policymakers seek to ensure that employers will only seek H-2A certifications when U.S. workers are unavailable, then the issue should be addressed more directly than through the FUTA tax. Instead of levying UI payroll taxes, for example, the H-2A certification process could be made more difficult, higher certification fees could be imposed, or immigration reform and/or enforcement could be promoted.[10]

TABLE 8-1
JOBS CERTIFIED BY CROP OR ACTIVITY AND COUNTRY OF ORIGIN OF H-2A WORKERS IN 1991

State	No. of Jobs	Crop or Activity	Origin of Foreign Workers
Alaska	1	Farmworking (General)	Scandinavia
Arizona	191	Citrus (Hand Harvest)	Mexico
	79	Sheepherding	Chile, Mexico, Peru 2/
	11	Vegetable (Harvest)	India
Arkansas	26	Vegetable (Harvest)	Mexico
California	1	Horticulture	China
	457	Sheepherding	Chile, Mexico, Peru 2/
	10	Sheepshearing	Australia, New Zealand

TOTAL JOBS:
ALL STATES - 25,702

1/ Work pattern for majority of custom combine crew members is to start work in Oklahoma or Texas, and move north into other central states.

2/ Majority of sheepherders work in ten (10) western states, and are primarily from Mexico and Peru. Some workers are from Chile and Spain, with a few from China, Mongolia and Portugal.

3/ BWI - British West Indies. In New England states only Jamaican workers are employed, although in 1991 some workers from the Dominican Republic were reported. Elsewhere, the majority of BWI workers are from Jamaica. Also included in the BWI category are workers from most of the other countries in the British West Indies island chain.

Source: USDOL, Employment Service, Division of Foreign Labor Certificates (1992), Table 3, pp. 9-11.

TABLE 8-1 (Continued)
JOBS CERTIFIED BY CROP OR ACTIVITY AND COUNTRY OF ORIGIN OF H-2A AGRICULTURAL WORKERS IN 1991

State	No. of Jobs	Crop or Activity	Origin of Foreign Workers
Colorado	6	Custom Combining	Canada 1/
	164	Sheepherding	Chile, Mexico, Peru 2/
	21	Sheepshearing	Australia, New Zealand
Connecticut	198	Apple (Harvest)	BWI 3/
	9	Christmas Tree (General)	BWI 3/
	61	Diversified Crops (General)	BWI 3/
	148	Nursery (General)	BWI 3/
	6	Poultry	BWI 3/
	2	Sod	BWI 3/
	1,323	Tobacco (Harvest)	BWI 3/
	8	Vegetable (Harvest)	BWI 3/
Florida	7,978	Sugarcane (Harvest-Manual)	BWI 3/
	20	Sugarcane (Harvest-Mech.)	Australia
Georgia	152	Greens (Harvest)	Mexico
Hawaii	8	Farmworking (General)	Nicaragua
Idaho	709	Irrigating	Mexico
	264	Sheepherding	Chile, Mexico, Peru 2/
	21	Sheepshearing	Australia, New Zealand
Kansas	15	Custom Combining	Canada 1/
	2	Farmworking (General)	Scotland
Kentucky	388	Tobacco (Harvest)	Mexico

TABLE 8-1 (Continued)
JOBS CERTIFIED BY CROP OR ACTIVITY AND COUNTRY OF ORIGIN OF H-2A WORKERS IN 1991

State	No. of Jobs	Crop or Activity	Origin of Foreign Workers
Maine	747	Apple (Harvest)	BWI 3/
	45	Blueberry (Harvest)	BWI 3/
	14	Diversified Crops (Gen.)	BWI 3/
	2	Nursery (General)	BWI 3/
	5	Vegetable (Harvest)	BWI 3/, Mexico
Maryland	3	Vegetable (Harvest)	Mexico
Massachusetts	602	Apple (Harvest)	BWI 3/
	16	Cranberry (Harvest)	Scotland
	11	Diversified Crops (General)	BWI 3/
	6	Nursery (General)	BWI 3/
	4	Sod	BWI 3/
	12	Strawberry (Harvest)	BWI 3/
	262	Tobacco (Harvest)	BWI 3/
	213	Vegetable (Harvest)	BWI 3/, Scotland
Montana	8	Custom Combining	Canada 1/
	55	Irrigating	Mexico
	40	Sheepherding	Chile, Mexico, Peru 2/
Nevada	3	Irrigating	Mexico
	129	Sheepherding	Chile, Mexico, Peru 2/
	95	Vegetable (Harvest)	Mexico
New Hampshire	424	Apple (Harvest)	BWI 3/
	36	Diversified Crops (General)	BWI 3/

TABLE 8-1 (Continued)
JOBS CERTIFIED BY CROP OR ACTIVITY AND COUNTRY OF ORIGIN OF H-2A WORKERS IN 1991

State	No. of Jobs	Crop or Activity	Origin of Foreign Workers
New York	2,862	Apple (Harvest)	BWI 3/, Mexico
	67	Horticultural	Poland
	3	Vegetable (Harvest)	Korea, Mexico
North Carolina	682	Diversified Crops (General)	Mexico
	1,490	Tobacco/Vegetable (Harvest)	Mexico
	73	Vegetable (Harvest)	Mexico
Oklahoma	190	Custom Combining	Canada 1/, England, Mexico
Oregon	43	Sheepherding	Chile, Mexico, Peru 2/
	9	Sheepshearing	Australia, New Zealand
Pennsylvania	2	Grapevine (Pruning)	Czechoslovakia
Rhode Island	13	Apple (Harvest)	BWI 3/
	3	Sod	BWI 3/
South Dakota	6	Custom Combining	Canada 1/
Tennessee	197	Tobacco (Harvest)	Mexico
	10	Tomato (Harvest)	Mexico
Texas	73	Custom Combining	Canada 1/, England
	19	Livestock (Cattle)	Mexico
	1	Sheep & Cattle Ranch Hand	Mexico
	2	Sheep & Goat Ranch Hand	Mexico

TABLE 8-1 (Continued)
JOBS CERTIFIED BY CROP OR ACTIVITY AND COUNTRY OF ORIGIN OF H-2A WORKERS IN 1991

State	No. of Jobs	Crop or Activity	Origin of Foreign Workers
Utah	125	Sheepherding	Chile, Mexico, Peru 2/
	10	Sheepshearing	Australia, New Zealand
Vermont	565	Apple (Harvest)	BWI 3/
	20	Blueberry (Harvest)	BWI 3/
	37	Diversified Crops (General)	BWI 3/
Virginia	839	Apple (Harvest)	BWI 3/, Mexico
	27	Apple (Pruning)	BWI 3/, Mexico
	40	Cabbage (Harvest)	Mexico
	2	Goatherding	Philippines
	1	Hay (Harvest)	Mexico
	87	Tobacco (Harvest)	Mexico
	2,523	Tobacco/Vegetable (Harvest)	Mexico
	18	Vegetable (Harvest)	Mexico
	9	Vegetable/Berry (Harvest)	Mexico
Washington	26	Sheepherding	Chile, Mexico, Peru 2/
West Virginia	244	Apple (Harvest)	BWI 3/, Mexico
Wyoming	19	Livestock	Mexico
	19	Sheep (Lambing)	Mexico
	230	Sheepherding	Chile, Mexico, Peru 2/
	88	Sheepshearing	Australia, New Zealand

Endnotes

Chapter 3: Overview

1. Employees also pay UI taxes in three states.

2. It should be noted that state and local governments, as well as many non-profit organizations, do not pay UI taxes. Instead, they reimburse the UI system directly for benefits paid to their former employees.

3. Other emergency programs include the Federal Supplemental Benefits program (FSB), which paid benefits between 1975 and 1978, and the Federal Supplemental Compensation program (FSC), which paid benefits between 1982 and 1985.

4. Blank and Card (1991, 1166). Baldwin and McHugh (1992) also find results that are consistent with this conclusion.

5. Data produced by U.S. Department of Labor, Unemployment Insurance Service, Division of Actuarial Services.

6. Most states define individual benefit levels as a certain percentage of lost earnings, up to a certain maximum level. As a result, individuals who are being paid at the maximum benefit level are likely to be receiving a smaller percentage of their lost earnings than individuals who are not at the maximum level.

7. In nine states, all eligible claimants have uniform potential durations.

8. Massachusetts and Washington allow up to 30 weeks of benefits, while Delaware allows 24 weeks.

Chapter 4: Trends in Unemployment Insurance Recipiency

1. The IUR is defined as the number of regular UI benefit claimants divided by the average number of people in UI-covered employment over four of the last six completed calendar quarters. The TUR is

defined as the number of all active unemployed job seekers divided by the total civilian labor force.

2. The two ratios are comparable, but the IUR/TUR is more difficult to interpret because of various mathematical complications. Nevertheless, the IUR/TUR ratio is widely reported, and the IUR itself is of particular importance because it represents the primary trigger for federal-state EB. The specific measure of recipiency used by researchers in examining this question has varied. Corson and Nicholson (1988) examined both ratios, but focused upon the IU/TU, which they call the UI claims ratio. Blank and Card (1991) also examined this measure, which they call the fraction of insured unemployment. Vroman (1991) also focused upon the IU/TU. Baldwin and McHugh (1992) also examine IU/TU, but include EB recipients in addition to regular state UI recipients.

3. Falk, 1990.

4. The IUR/TUR and IU/TU can be statistically predicted quite accurately for the years up to 1980 by knowing only two variables: (1) the year (a reflection of the long-term decline of the system) and (2) the unemployment rate (because of the tendency for the ratio to increase significantly during periods of high unemployment). Since 1980, however, the recipiency ratios no longer have the same statistical relationship to these two variables.

5. For more information on this issue, see Chapter 6.

6. This was particularly likely to be true for state and local government employees, since they experienced quite low levels of unemployment in the early 1980s.

7. Burtless and Saks (1984, 20).

8. GAO, 1993. See Chapter 7 for a more detailed discussion of the effects of federal and state policy changes as they relate to the solvency of state trust funds.

9. Corson and Nicholson (1988).

10. Any apparent discrepancy in totals is due to rounding error.

11. Corson and Nicholson (1988).

12. Burtless and Saks (1984).

13. In order to facilitate greater comparability between the Baldwin and McHugh (1992) findings and those of other studies, Baldwin and McHugh's findings have been reformulated in the text. In particular, Baldwin and McHugh report that state policy changes account for 97.4 percent (rather than 54 percent) of the total net change in IU/TU. Overall, they find three primary factors that decreased the IU/TU, along with other factors that partially offset the decrease. Thus, when only the three factors that decrease the ratio are combined, they are larger than the net decline. As a result, each of the factors independently appears to be a large percentage of the net decrease. In order to determine the relative impact of each factor, the percentage of the overall negative impact upon IU/TU that is attributable to each of those factors that serve to decrease IU/TU must be calculated. These calculations indicate that state policy changes account for 54 percent of the decrease in IU/TU, decreased unionization for 29 percent, and decreases in the manufacturing sector for 16 percent. The remaining 1 percent is attributable to the lagged unemployment level.

14. In part because Baldwin (1993) was released quite recently, the research literature has not yet reconciled the variations in the Baldwin (1993) results and the Baldwin and McHugh (1992) results.

15. Any apparent discrepancy in totals is due to rounding error.

16. Blank and Card (1991).

17. Burtless (1983) dismissed regional shift as a possible explanation, but later studies have appeared to confirm the merit of this factor.

18. Curme, et al. (1990, 5-34) and Kokkelenberg and Sockell (1985, 497-542).

19. A recent supplement to the Current Population Survey will allow this question to be answered more definitively, but the results will not be available for some time.

20. Corson and Rangarajan (1993) emphasize that this result is unexpected, and suggest that it should be viewed with caution.

Chapter 5: Dislocated Workers

1. For more information on the increase in durations of unemployment spells, see Chapter 6.

2. Hamermesh (1989) finds that the number of workers whose plants close has shown a significant increase independent of the business cycle. Summers (1986) concludes that a large percentage of the increase in the overall unemployment rate since 1970 has been concentrated among mature men, job losers, and the long-term unemployed.

3. Department of Labor data for 1992 show that nearly 80 percent of workers who lost their jobs were not expected to get their jobs back. This is the highest proportion of job losers not on temporary layoff that has ever been recorded.

4. Congressional Budget Office (1993) is based on data from the 1984, 1986, 1988, 1990, and 1992 Displaced Worker Supplements to the Census Bureau's Current Population Survey. These supplements represent the only nationally representative sample of individuals who have permanently lost jobs.

5. Congressional Budget Office (1993, 7). Unless otherwise noted, all facts and statistics that are cited in the "Extent," "Characteristics," and "Consequences" sections of this chapter were taken from the Congressional Budget Office report.

6. Jacobson, et al. (1993).

7. The exact time period depends upon the timing of the survey relative to the time of unemployment for each individual.

8. Because workers are often compensated for their company-specific expertise, they incur losses in wages when dislocated and forced to find new jobs. This is because company-specific expertise is of little or no value in the new job, and is, therefore, reflected by a decrease in wages.

9. Because the 29 week average includes unemployment spells still in progress, it underestimates the average total length of unemployment spells.

10. It should be noted that more sophisticated statistical analysis techniques show that the differences observed by job tenure do not exist when controlling for age (i.e., there is no independent impact of job tenure after controlling for age).

11. Other smaller programs that are not discussed in this report include those that were created to assist workers displaced by the expansion of the Redwood National Park, the reorganization of several railroads into Conrail, and the deregulation of the airline industry. Combined, these programs total less than $2 million per year. In the decades before the 1980s, there were many other such programs, most of which are no longer in operation.

12. Roughly 50 percent to 60 percent of the certificates are completed within 60 days; the remainder are completed within 90 days.

13. Corson, et al. (1993).

14. Corson, et al. (1993).

15. GAO (1992b).

16. GAO (1992a).

17. For additional information on this subject, see Leigh (1990) and Leigh (1989).

18. Bloom, et al. (1993).

19. U.S. Department of Labor (1993a).

Chapter 6: Extended Benefits Reform

1. For more detail on these changes, see Chapter 4.

2. Corson and Rangarajan (1993, 4).

3. The increases in unemployment that accompanied the 1991 recession were heavily concentrated in 16 states (New England, the Atlantic coast, and California). See Vroman (1993, 11). Thus, only half of the states that appeared to most urgently require EB assistance actually qualified for any such benefits.

4. Storey (1993, 24).

5. For more information on increases in the duration of unemployment, dislocated workers, and the programs that serve these individuals, see Chapter 5.

6. It should be noted that such a program would not address the structural needs of those individuals who lack the very training and education necessary to acquire and retain a job. Because extended benefits would be available only to workers eligible for UI, only those who already have an attachment to the labor market would be able to receive whatever income or training benefits might be made available under EB.

7. "Individual attributes" could include factors such as previous occupation, recall status, or reason for layoff (e.g., factory closing).

8. There is, however, an interstate equity complication that arises when the IUR is used as the trigger. This issue is discussed more fully in the section describing the IUR.

9. Corson, et al. (1988).

10. Johnson and Klepinger (1991).

11. Corson and Dynarski (1990) and Woodbury (1989).

12. Corson, Decker, Dunstan, and Kerachsky (1992); Decker and O'Leary (1992); Spiegelman, O'Leary, and Kline (1992); and Woodbury and Spiegelman (1987).

13. Moffitt (1985) found that an additional week of UI offered to workers increases the duration of unemployment by 0.17 to 0.45 weeks for men and by 0.10 to 0.37 weeks for women. Katz and Meyer (1991) found that an addition week of UI increases the duration unemployment by 0.16 to 0.20 weeks.

14. Moffitt (1985) found that an additional week of UI offered to workers increases the duration of joblessness by 0.52 weeks for men and by 0.66 weeks for women. Woodbury (1991) found that an additional week of UI increases the duration of joblessness by 0.37 to 0.40 weeks. The finding that increasing the potential duration of UI benefits has a greater impact on joblessness than on unemployment raises the concern

that additional weeks of benefits may induce workers to leave the labor force.

15. Unemployment Insurance Service (1993, 2-31).

16. Bloom (1990).

17. Thus, caution should be taken to ensure that participation requirements are significant enough that individuals who would not benefit from the services do not participate simply to receive EB benefits.

Chapter 7: State Trust Fund Solvency

1. The tax rate includes a 0.2 percent temporary surtax. This surtax was enacted in 1976, and has been extended in 1987, 1990, and 1993. It is now scheduled to terminate in 1997.

2. There are 59 separate accounts in the Federal Unemployment Trust Fund; this chapter focuses primarily on the 53 state UI program accounts. States' tax revenues are credited to their individual state account in the Unemployment Trust Fund. These funds are used to pay regular UI benefits and half of the benefit payments in the EB program. The federal accounts include ESAA, EUCA, and FUA, as well as the Railroad Unemployment Insurance Account, the Railroad Administration Account, and the Federal Employee Compensation Account.

3. Vroman (1993).

4. U.S. Department of Labor (1989).

5. Vroman (1993, 37).

6. Blaustein (1993, 247).

7. Blaustein (1993, 339) and U.S. Department of Labor (1992).

8. Vroman discusses some problems in the ability of the HCM to measure reserve adequacy. Among them, he notes that the highest historical 12-month period may have limited usefulness in predicting future benefit payments, especially when states have made changes in their UI benefit provisions (e.g., eligibility requirements, benefit levels). In addition, the HCM ignores the ability of many states' tax laws to respond to decreases in their UI trust fund. Vroman also noted that the

target HCM level of 1.5 does not ensure that a state's trust fund could not become insolvent in a given year or that a state won't need to borrow from the federal loan fund. Nevertheless, many UI practitioners believe the 1.5 multiple is a reasonable target, but that insolvency could also be avoided at smaller fund balances.

9. See, for example, Barnow and Vroman (1987).

10. GAO (1988) and Vroman (1990).

11. GAO (1993, 31).

12. Half of this estimate is for regular UI benefits and half is for the Extended Benefits program. (GAO 1990.)

13. This option takes effect automatically if a state has incorporated a flexible tax schedule into its legislation. In addition, tax increases may occur on a case-by-case basis when a state chooses to increase employers' tax rates.

14. Indexation of the taxable wage base is another type of automatic financing; however, it has less to do with trust fund solvency and instead ensures that current collections keep up with inflation.

15. This includes providing countercyclical stimulus during periods of economic downturn and also ensuring states' ability to foster economic growth within their boundaries.

16. Blaustein (1993, 278-282).

17. Preliminary estimate produced by U.S. Department of Labor.

18. Loan repayment must be made by November 10 of the second calendar year after funds are borrowed in order to avoid penalties. (Blaustein 1993, 248.)

19. To qualify for the deferral, the state's average tax rate as a percentage of total payrolls had to exceed the average benefit cost rate of the preceding ten years, and the minimum tax rate had to be at least 1.0 percent. Or, states had to repay a portion of their Federal Unemployment Account loan while continuing to meet their benefit obligations. Congress allowed this deferral to expire in 1980, primarily because states were not repaying their loans in a timely manner. (Blaustein 1993, 248.)

20. In 1981 and 1982, states could limit penalty taxes by (1) maintaining unemployment tax effort and (2) not reducing net solvency in the program. States could limit the penalty taxes in 1981 and 1982 by not lowering employer taxes and not raising benefits or easing benefit eligibility. For 1983 to 1987, two additional requirements were added: (3) maintaining a tax rate (based on total wages) of at least equal to the prior five-year average benefit cost rate and (4) avoiding increases in indebtedness after 1981. (Vroman 1986.)

21. The noncharging of interest was, in essence, a subsidy to debtor states, especially in the inflationary environment of the 1970s. The interest rate charged on the average outstanding loan balance is the rate the federal government paid on positive state trust fund reserves (a weighted average of all long-term and short-term federal debt) during the first quarter of the preceding calendar year. The interest rate is levied annually and capped at 10 percent.

22. A state that does not conform to this standard loses approval of its UI law. (Blaustein 1993, 249.)

23. The Tax Equity and Fiscal Responsibility Act of 1982 allowed debtor states to avoid penalty taxes by (1) repaying current year advances before November 10, (2) paying from reserves an amount toward reducing its prior debt equivalent to the potential penalty taxes, (3) having a trust fund balance on November 1 equal to at least three months of benefits, and (4) enacting a net increase in program solvency.

24. From 1983 to 1985, states could defer 80 percent of the interest due (to be paid in four subsequent installments) and obtain a discounted interest rate, if they maintained their tax rate and increased their net solvency by 25 percent in 1983, 35 percent in 1984, and 50 percent in 1985.

25. Interest rates could be reduced by one percentage point if net solvency improved by 50 percent in 1983, or the first year the loan was taken. In the second and third years of indebtedness, interest rates could be reduced if net solvency increased by 80 percent and 90 percent, respectively. (Vroman 1986, 19 and 43.) Employer penalty taxes could be reduced to 0.1 percent or 0.2 percent per year, if states met some, but not all, federal criteria.

26. GAO (1988, 70).

27. From time to time, there have been proposals to increase the federal taxable wage base. For example, in 1990, Congressman Thomas Downey proposed the Unemployment Compensation Reform Act. This legislation would have increased the taxable wage base from $7,000 to $10,000 over three years and then indexed to the growth in the average annual covered wages after that point.

28. New Jersey calculates their taxable wage base as a percentage of the average weekly wage, rather than average hourly wage.

29. Some states have an additional surtax to pay interest on federal loans. Although interest-related taxes affect employers, they are not discussed in this section because they do not affect trust fund balances.

30. Those features that affect the performance of a solvency tax include the following: (1) threshold trust fund level activator, (2) range of statutory (minimum and maximum) rates, (3) proportion of employers affected, and (4) existence of both negative and positive solvency adjustments. In order to maximize effectiveness, Vroman (1990) finds that solvency taxes should have higher trigger thresholds, provide a wider range of statutory rates, and apply to all employers.

31. Earnings qualifying requirements are usually expressed as a multiple of high-quarter wages, a multiple of the weekly benefit amount, or a flat earnings level.

32. Blaustein (1993, 281).

33. One state had no change.

34. GAO (1993, 22).

35. In 1971, 20 states postponed benefits for the duration of unemployment for a misconduct discharge and 23 states postponed benefits for the duration of unemployment for a refusing suitable work. These numbers of states increased in 1990 to 42 and 41, respectively.

36. The states included Alaska (28), District of Columbia (34), Indiana (39), New Mexico (30), Louisiana (28), Pennsylvania (30), Utah (36), and Wisconsin (34). Washington and Massachusetts still have maximum benefit durations of 30 weeks and Delaware has a maximum benefit duration of 24 weeks.

37. Average benefit duration is based on the regular UI program, not the EB program or other emergency extensions.

38. See Chapter 5.

39. The state law changes in GAO's model included the average employer UI tax rate (tax revenues as a percentage of total wages), the UI wage replacement rate (average UI benefit as a percentage of average wage), and the minimum earnings requirement to qualify for UI benefits. The demographics of the unemployed included gender, race, type of job, number long-term unemployed, unionization, and number job losers. GAO estimated simultaneous equation systems that linked solvency, state UI laws, and recipiency using lagged values of the HCM as a measure of state trust fund solvency.

40. The Department of Labor was critical of the GAO report for its reliance on case study data; however, GAO reported that their panel database analysis supported the same conclusions of the case study.

41. Vroman (1990, 147-148).

42. Raising the taxable wage base would also increase *federal* tax collections; however, these additional funds would not directly improve state trust funds since the funds are currently designated for program administration, the EB program, and the federal loan fund. The increased federal tax collections could, however, help pay for any financial incentives offered by the federal government to encourage state trust fund solvency.

43. Applying the national increase to the federal taxable wage base across all states inherently favors those states with very high increases in wages (i.e., they are required to put less money in their reserves relative to the actual wage increase in their state) relative to those states with low or negative wage annual changes.

44. Proponents of solvency standards argue that states should be encouraged to maintain larger reserves than they do currently, primarily because current trust fund levels are inadequate for a serious recession. Arguments against solvency standards include possible pressures to liberalize benefits when trust funds become large and the inability of states to use accumulated funds for purposes other than paying benefits. Research has shown that while requiring or encouraging a HCM at a certain level would not ensure the solvency of a state's trust fund or that a state would not need to borrow from the federal loan fund, the level

of borrowing would be reduced if a solvency standard were in place. Furthermore, a solvency standard would encourage states to return to a forward-funding strategy.

In the past, the Department of Labor has expressed concerns about the feasibility and necessity of adopting a reserve standard, citing the statistical and methodological problems involved in defining a standard and the current effectiveness of charging interest and assessing penalties as deterrents to borrowing. (GAO 1988, 79.)

45. The interest paid is the weighted average of all long-term and short-term federal debt during the first quarter of the preceding calendar year.

46. Proponents of pooling state trust funds assert that regional labor markets deviate significantly from the national labor market for long periods of time, and that these geographic differences make interstate arrangements for sharing UI trust fund reserves appealing. Proponents also note that under pooling, the UI system as a whole would need smaller aggregate reserves than when each state is solely responsible for its own trust fund. Issues that would have to be addressed in designing a cost reinsurance or cost equalization plan include (1) individual state eligibility criteria, (2) definitions of "normal" benefit costs and "excessive" costs, (3) amount of reimbursement available to states, and (4) the funding source. (Vroman 1990, 150.)

Chapter 8: Alien Agricultural Workers

1. In addition, employers do not have to pay FICA (Social Security) taxes or Federal income taxes (Medicare) on H-2A workers, which increases the cost difference between U.S. workers and H-2A workers.

An additional issue is whether employers should be required to pay *state* UI taxes on these workers. Until January 1996, states have the option of excluding H-2A workers from state UI taxes. Currently, 13 states exclude H-2A workers, which results in an exclusion of approximately two-thirds of all H-2A workers.

While the Council has not been asked specifically to comment on this issue, it is linked to the issue of federal UI taxes. If Congress decides to permanently exclude employers from paying FUTA taxes on H-2A workers, it will probably continue to allow states the option of excluding H-2A workers from UI coverage.

2. While H-2A workers are not covered by UI, they are counted when determining whether an agricultural employer meets the wage or size-of-firm requirements for coverage. The definition of an "employer" includes a crew leader or other intermediaries, such as farm labor contractors. Crew leaders face the same size-of-firm coverage provisions as farm operators.

3. Fines between $250 to $10,000 are assessed for each unauthorized alien. Repeated offenses can result in jail sentences for the employer. (Runyon 1992.)

4. The labor certification process determines that "there are not sufficient workers who are able, willing, and qualified, and who will be available at the time and place needed, to perform the labor or services involved in the petition, and...the employment of the alien in such labor or services will not adversely affect the wages and working conditions of workers in the United States similarly employed." (U.S. Department of Labor 1992.)

5. An alien may remain longer to engage in other qualifying temporary agricultural employment by obtaining an extension of stay. However, an individual who has held an H-2A status for a period of three years may not again be granted that status or any other nonimmigrant status based on agricultural activities until he or she remains outside the United States for an uninterrupted period of six months.

6. Aliens could apply for lawful temporary resident status under section 210 from June 1, 1987, to November 30, 1988. In order to qualify, these SAWs had to meet the following criteria: (1) resided in and performed seasonal agricultural work in the United States for at least 90 days during the 12-month period ending May 1, 1986, and (2) be admissible as an immigrant.

7. U.S. Department of Labor, 1993.

8. By the nature of their visa status, H-2A workers are allowed to work in this country only for the time specified on their labor certification. Unless they obtain additional contracts with approved labor certifications, they must leave the country and, therefore, would not be available for work. This, in turn, makes them ineligible for receipt of UI benefits. Furthermore, many H-2A workers may not be able to meet the state UI minimum eligibility criteria.

9. Transportation into the United States is reimbursed after the individual has worked 15 days and transportation out of the United States is reimbursed only if the individual completes the length of stay on his/her visa. There is a maximum certification fee per employer of $1,000.

10. As part of the certification process, employers are currently required to post the job openings with the state Employment Security office.

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Appendix A

Extended Benefits Reform: Principles and Related Policy Options

IN AN EFFORT to clarify the relationships among the EB policy options described elsewhere in Chapter 6, as well as the more basic programmatic goals that drive those policy options, a brief menu of principles is presented below. Overall, there are four mutually exclusive principles for determining the fundamental orientation of an extended benefits program. There are then a number of more specific programmatic principles and policy options that are associated with each of those fundamental principles.

The overall size of the program selected from the available options could be large or small. In those cases in which the size is large, thereby requiring an increase over historic levels of expenditures on extended UI benefits, the increase in costs would require the identification of a new funding source.

Alternative General Principles

1. Economic conditions should be the sole determinant of when extended UI benefits are available to be paid to eligible UI exhaustees.

OR

2. Extended UI benefits should be paid only to UI exhaustees who are identified as dislocated workers.

OR

3. Extended UI benefits should be available based upon some combination of economic conditions and/or the characteristics of individual UI exhaustees.

OR

4. Extended UI benefits should not be made available under any conditions.

General Principle 1

Economic conditions should determine when extended UI benefits are available to be paid to eligible UI exhaustees.

Possible Specific Principles To Be Adopted:

(1) Extended UI benefits should be made available during periods of severe economic downturn. Such conditions are estimated to prevail approximately (X) percent of the time.

(2) Eligibility for extended UI benefits should be determined based upon a measure of the percentage of unemployed individuals among the UI-covered population (i.e., the Insured Unemployment Rate).

OR

Eligibility for extended UI benefits should be determined based upon a measure of the percentage of unemployed individuals among the population as a whole (i.e., the Total Unemployment Rate).

OR

Eligibility for extended UI benefits should be determined based upon a measure of long-term unemployment among the UI-covered population (i.e., the rate of UI exhaustion).

OR

Eligibility for extended UI benefits should be determined based upon a measure of the scarcity of jobs (i.e., deviation from employment trends).

(3) The trigger should ensure that extended UI benefits are made available in those (states or areas) that experience the greatest cyclical *deterioration* in labor market conditions.

OR

The trigger should ensure that extended UI benefits are made available in those (states or areas) that experience the most severe labor market conditions.

(4) Triggers should operate on the following level(s):

(a) national, so that individuals in all states become eligible for extended UI benefits during periods of national recession.

AND/OR

(b) regional, so that individuals are eligible for extended UI benefits during periods of severe regional economic conditions.

AND/OR

(c) state, so that individuals are eligible for extended UI benefits during periods of severe state economic conditions.

AND/OR

(d) substate, so that individuals are eligible for extended UI benefits during periods of severe economic conditions within their local labor market.

(5) The federal government should not require extended UI benefits recipients to search for work.

OR

The federal government should require extended UI benefits recipients to search for work.

(a) This should apply to all individual recipients.

OR

This should not apply to individual recipients who are enrolled in an approved education or training program.

(b) States should be required to exhibit a minimum degree of enforcement of the work search requirement.

OR

No minimum work search enforcement requirements should be imposed on the states.

(6) Extended UI benefits should be experience rated (i.e., paid by the previous employer).

OR

Extended UI benefits should not be experience rated (i.e., they should be paid by society as a whole).

OR

Each state should be allowed to determine who pays for extended UI benefits within that state.

(7) The cost of extended UI benefits should continue to be shared equally between the federal and state governments.

OR

(X) percent of the cost of extended UI benefits should be borne by the federal government, with the remaining cost paid by the states.

(a) This change should be (temporary or permanent).

(b) This change should be contingent upon (identify certain state actions).

OR

100 percent of the cost of extended UI benefits should be borne by the federal government.

(a) This change should be (temporary or permanent).

(b) This change should be contingent upon (identify certain state actions).

OR

100 percent of the cost of extended UI benefits should be borne by the states.

(a) This change should be (temporary or permanent).

(8) Potential duration of benefits should be uniform across all eligible individuals.

OR

Potential duration of extended UI benefits should be determined by the following factor(s):

(a) economic conditions among the relevant population.

AND/OR

(b) the participation of an individual recipient in an approved education, training, or job search program.

General Principle 2

Extended UI benefits should be paid to UI exhaustees who are identified as dislocated workers.

Possible Specific Principles To Be Adopted:

(1) Dislocated workers are those who

(a) possess certain characteristics.

AND/OR

(b) participate in an approved education, training, or job search program.

(i) Such workers (should or should not) be required to repay a percentage of training costs after finding reemployment.

(2) The cost of extended UI benefits should continue to be shared equally between the federal and state governments.

OR

(X) percent of the cost of extended UI benefits should be borne by the federal government, with the remaining cost paid by the states.

(a) This change should be (temporary or permanent).

(b) This change should be contingent upon (identify certain state actions).

OR

100 percent of the cost of extended UI benefits should be borne by the federal government.

(a) This change should be (temporary or permanent).

(b) This change should be contingent upon (identify certain state actions).

OR

100 percent of the cost of extended UI benefits should be borne by the states.

(a) This change should be (temporary or permanent).

(3) Potential duration of benefits should be uniform across all eligible individuals.

OR

Potential duration of extended UI benefits should be determined by the following factor(s):

(i) economic conditions among the relevant population.

AND/OR

(ii) the participation of an individual recipient in an approved education, training, or job search program.

AND/OR

(iii) the work history of the individual recipient.

General Principle 3

Extended UI benefits should be available based upon some combination of economic conditions and/or the characteristics of individual UI exhaustees.

Possible Specific Principles To Be Adopted:

(1) Extended UI benefits under the dislocated worker component of the program should be available at all times to workers identified as dislocated.

OR

Extended UI benefits under the dislocated worker component of the program should be available only in (states or areas) that have activated the countercyclical component of the program.

(2) In addition, in order to define the other specific elements of the program, some logically consistent combination of the Specific Principles cited under General Principles 1 and 2 should be adopted.

General Principle 4

Extended UI benefits should not be made available under any conditions.

Possible Specific Principles To Be Adopted:

No additional Specific Principles are required under this option.

Appendix B

Charter of the Advisory Council on Unemployment Compensation

THE COUNCIL'S OFFICIAL DESIGNATION

Advisory Council on Unemployment Compensation (hereinafter called "Council").

THE COUNCIL'S OBJECTIVES AND THE SCOPE OF ITS ACTIVITY

It shall be the function of the Council to evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement.

PERIOD OF TIME NECESSARY FOR THE COUNCIL TO CARRY OUT ITS PURPOSES

Four Years.

THE AGENCY AND/OR OFFICIAL TO WHOM THE COUNCIL REPORTS

The President and the Congress.

THE AGENCY RESPONSIBLE FOR PROVIDING THE NECESSARY SUPPORT TO THE COUNCIL

The Unemployment Insurance Service of the Employment and Training Administration of the Department of Labor.

MEMBERSHIP

The Council shall consist of 11 members as follows:

(A) Five members appointed by the President, to include representatives of business, labor, State government, and the public.

(B) Three members appointed by the President pro tempore of the Senate, in consultation with the Chairman and the ranking member of the Committee on Finance of the Senate.

(C) Three members appointed by the Speaker of the House of Representatives, in consultation with the Chairman and the ranking member of the Committee on Ways and Means of the House of Representatives.

(D) The President shall appoint the Chairman of the Council from among its members.

(E) In appointing members under subparagraphs (B) and (C) above, the President pro tempore of the Senate and the Speaker of the House of Representatives shall each appoint—

(a) one representative of the interests of business,

(b) one representative of the interests of labor, and

(c) one representative of the interests of State governments.

A DESCRIPTION OF THE DUTIES FOR WHICH THE COUNCIL IS RESPONSIBLE

It shall be the function of the Council to evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement. Not later than February 1, 1995, the Council shall submit to the President and the Congress a report setting forth the findings and recommendations of the Council as a result of its evaluation of the unemployment compensation program, including the Council's findings and recommendations with respect to determining eligibility for extended unemployment benefits on the basis of unemployment statistics for regions, States or subdivisions of States.

THE ESTIMATED ANNUAL OPERATING COSTS IN DOLLARS AND STAFF YEARS FOR SUCH COUNCIL

It is anticipated that expenditures will be approximately $1,200,000, including six FTEs.

THE ESTIMATED NUMBER AND FREQUENCY OF COMMITTEE MEETINGS

It is anticipated that the Council will meet five times during each year.

TERMINATION DATE

January 31, 1996.

Appendix C

Council Calendar

November 15, 1991	Establishment of Advisory Council on Unemployment Compensation by statute.
January 24, 1992	Chartering of Advisory Council on Unemployment Compensation.
May 11, 1993	First Council Meeting Postal Square Building, Washington, D.C.
September 20, 1993	Public Hearing Southland Center Hotel, Dallas, Texas
September 21, 1993	Second Council Meeting Southland Center Hotel, Dallas, Texas
December 9, 1993	Third Council Meeting Postal Square Building, Washington, D.C.
January 10, 1994	Focus Groups of UI Claimants San Francisco, California
January 11-12, 1994	Fourth Council Meeting and Public Hearing Sheraton Palace Hotel San Francisco, California

Appendix D

Public Hearings

THE COUNCIL held two sets of public hearings in order to offer a wide spectrum of individuals and organizations the opportunity to provide their views and recommendations on improving the Unemployment Insurance system. Hearings were held in Dallas, Texas on September 20, 1993, and in San Francisco, California on January 11 and 12, 1994.

The public was asked to address a number of topics related to Unemployment Insurance and what can be done to improve the system.

To date, 44 witnesses have presented testimony before the Council. In addition, written statements were submitted by a variety of individuals and organizations. Both the hearings and the written statements proved to be a rich source of information, providing many new perspectives on the issues in our charter. The Council expresses its appreciation to the members of the public who shared their thoughts with us.

In order to encourage broad-based participation both with respect to regions of the country and diversity of perspective, the Council plans to hold additional hearings as it continues with its work.

WITNESSES PRESENTING TESTIMONY

Stephen Bingham, San Francisco Neighborhood Legal Assistance Foundation
Malcolm Bonner
John Bourg, Louisiana AFL-CIO
Debra Bronow, State of California Employment Development Department
Larry Clark, Gibbens Company
Brenda Cochrane, San Francisco State University
Loleta Didrickson, Illinois Department of Employment Security
Eunice Elton, Private Industry Council of San Francisco

James Evatz, JCPenney Company, Inc.
Terry Evert, Gibbens Company
Roger Gette, Legal Services of North Texas
Mary Katherine Gillespie, California Rural Legal Assistance
Bruce Goldstein, Farmworker Justice Fund, Inc.
Robert L. Harvey, California Unemployment Insurance Appeals Board
Charles Howarth, Council of State Chambers of Commerce
John Humphrey, Employment and Training Administration - San Francisco
James Jackson, Texas Employment Commission
Thomas Jackson
Patrick Johnston, California State Senate
Bob Kenyon, Employment and Training Administration - Dallas
Laurie B. Larrea, Private Industry Council of Dallas
David Lien, San Francisco Department of Social Services
Larry A. Malo, State of Washington Employment Security Department
Rodolfo Mares, Jr., Legal Services of North Texas
Philip Martin, University of California at Davis
Dave Murrie, Oklahoma Employment Security Commission
National Employment Law Project
Nils L. Nordberg, Massachusetts Department of Employment and Training
Diana M. Pearce, Women and Poverty Project
Don Peitersen, Colorado Department of Labor and Employment
Donnie Potts
Tom Rankin, AFL-CIO
Cynthia Rice, California Rural Legal Assistance
Ted B. Roberts, Texas Association of Business
Carol Ross-Evans, California Tax Payers Association
Rashan Sanchez, San Francisco Department of Social Services
Emmett Sheppard, Texas AFL-CIO
Liston L. Thomasson, Mississippi Employment Security Commission
Donald Vial, California Foundation on the Environment and the Economy
Judy Villa, Bank of America
Don Villerejo, California Institute for Rural Studies
Richard Virgili
Christine Worthington
Stephen Yelenosky, Legal Aid Society of Central Texas

Appendix E

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Index

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