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OPTIONS FOR UNEMPLOYMENT INSURANCE STRUCTURAL AND ADMINISTRATIVE REFORM: PROPOSALS AND ANALYSIS

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ABSTRACT

The unemployment insurance (UI) program is broken. UI benefits and taxes are out of balance, with benefit payments tending to exceed tax revenues, while the program is unable to provide adequate reemployment services to permanently separated UI recipients. The current crisis in the UI program has been building over the past four decades. Although UI and Social Security were both enacted as part of the Social Security Act, reforms to the programs have diverged sharply. Congress has frequently amended the Social Security program to increase benefits and taxes, and then in 1972 it enacted a permanent annual cost-of-living adjustment (COLA) for inflation. Congress, however, has not enacted a similar COLA for UI. Likewise, Congress has periodically enacted major structural reforms to the Social Security program, while only once since World War II—in 1976—has it enacted a major reform of the UI program. Furthermore, in the absence of federal direction, benefit reciprocity, adequacy, and duration have declined in many states because of the lack of political support for enacting adequate benefit and tax provisions. As a result, this paper recommends comprehensive and periodic UI legislative reform, including establishing a process by which UI benefits and taxes are adjusted automatically. To implement such major reform, three options are suggested for administering a reformed UI program: 1) maintaining the current federal-state structure with expanded federal standards with which state UI programs must comply; 2) a single federal program administered by the U.S. Department of Labor and carried out by state UI agencies as agents of the federal government; and 3) a national program that transfers to the Social Security Administration the administration of UI benefits and taxes, as well as the provision of reemployment services.

JEL Classification Code: J65

Key Words: Unemployment insurance, Social Security Act, Roosevelt administration, UI reform, reemployment services

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INTRODUCTION

The Social Security Act of 1935 created an unemployment insurance (UI) program for experienced American workers who lose their jobs through no fault of their own. The Roosevelt administration designed the UI program to provide temporary, partial wage replacement to those unemployed workers while they search for new work. To facilitate and speed their return to work, the Employment Service (ES) is supposed to provide unemployed workers two types of services: 1) job finding and placement services and 2) job search assistance services (e.g., workshops for resume preparation, job search techniques, and interviewing skills), but these services are severely underfunded. UI programs exist in all western industrial nations, and most of these programs are more generous than the U.S. program.

The Social Security Act determined how the UI program would be administered. The fact that Congress designed the UI program as a federal-state program was due to its strange early history. The U.S. government had delayed enacting a UI program until after most European countries had implemented such programs. As a result, the states had engaged in early UI policy development, well before the federal government finally enacted a program in 1935. Those states with preexisting state UI laws (Wisconsin, California, New Hampshire, New York, and Utah) wanted to retain them and convinced federal policymakers to establish a joint federal-state UI program under which the states would administer the program and establish most of the legislative and operational rules rather than construct a single national program (Blaustein 1993). The Roosevelt administration also believed that a federal-state program was more likely to survive a constitutional challenge (Nelson 1969; Price 1985).

There are two other tenable options for administering a UI program: 1) a federal program, directed and overseen by the U.S. Department of Labor (USDOL), but with states collecting the taxes and administering benefits, and 2) a national federal program operated directly by the Social Security Administration. The former federal program would result in much greater statutory uniformity, but benefit payments and tax collections still would be administered by state governments. A national, purely federal program, with centralized benefit payment and tax collection and a single computer system, would be far more efficient and effective than what we have today—which is 53 separate UI programs and computer networks in the states, District of Columbia, Puerto Rico, and Virgin Islands. The administration of the current UI program does not take advantage of economies of scale. In 2017, total UI-covered employment was 114.8 million, ranging from 13.8 million in California to 28,500 in the U.S. Virgin Islands.

The UI program is a broken system and should be rethought (O’Leary and Wandner 2020). The expectation of federal policymakers for the original 1935 UI program was that the states would run programs that provided adequate benefits that were adequately funded. The effectiveness of the UI program over the last 80 years, however, has been uneven and has not met expectations. Some states have created effective and efficient UI programs, but many have not. This paper proposes a series of federal legislative amendments to the UI program so that it would better meet the needs of today’s workforce.

Several recent studies have suggested approaches for comprehensive UI reform, with many similarities among the proposals. This study considers some of the major *legislative* policy reforms that various groups and researchers have suggested. Then, the paper examines in detail three *administrative* options for implementing major UI reform, including the advantages and

disadvantages of each. The options vary significantly in how they would change the administrative structure of the present UI program.

UNEMPLOYMENT INSURANCE: THE BASICS OF THE CURRENT PROGRAM¹

The UI program was established under Titles III and IX of the Social Security Act in 1935. Employers began paying taxes into state accounts in the Unemployment Trust Fund (UTF) in 1936, but, to allow the UTF to accumulate reserves, payment of UI benefits did not begin until 1938.

Administratively, the UI system was established as a federal-state program. The federal government sets the broad legislative and administrative framework for the 50 states plus the District of Columbia, Puerto Rico, and the Virgin Islands. States administer their own programs under conforming state laws that set the parameters of state UI programs, including initial claims and continued eligibility criteria, benefit amounts and durations, tax levels and taxable wage bases, and the level and type of reemployment services provided to UI claimants.

Responsibilities for the UI program are divided between Congress, USDOL, and the states.

- The federal legislative framework is established by Congress.
- USDOL determines whether individual state UI programs are in conformity and compliance with federal law and regulations. It also provides guidance and direction to state UI agencies.
- Within the federal framework, state UI laws and procedures determine most of the specifics about the program—e.g., benefit eligibility, levels, and duration, as well as state

¹ For a more extensive discussion of the UI program, see O’Leary and Wandner (1997) and Wandner (2018).

tax rates and the state taxable wage base. As a result, programs vary widely across the country.

The UI program has twin goals of providing adequate benefits to qualified unemployed workers and maintaining a robust U.S. economy

- The microeconomic goal with respect to individual unemployed workers is to provide adequate, temporary, partial income support.
- The macroeconomic goal for the economy as a whole is to exert countercyclical pressure on all state economies and the United States as a whole by providing income to individuals and therefore encouraging consumption during periods of high unemployment.

The UI system is generally defined as follows: it is a social insurance program that pays temporary, partial wage replacement to experienced covered workers who are unemployed through no fault of their own and are actively searching for work.

We now turn to the various components of the UI program definition and what they mean:

- Temporary benefits: Benefits for the basic (“regular”) UI program are paid for up to 26 weeks in most states. Since the Great Recession, however, 10 states have reduced benefit durations below 26 weeks, and in most states there has been other tightening of eligibility requirements and benefit payment provisions.
- Partial wage replacement: Benefit amounts are generally set at half of an unemployed worker’s prior wage up to a maximum amount, generally set by the states once a year.
- Experienced workers: To be eligible for UI benefits, unemployed workers must have had recent attachment to the labor force, measured by minimum earnings in a recent four-quarter period, called the “UI base period.”
- Covered Employment: Although coverage was not universal in 1935, federal law has expanded coverage, especially in the areas of agricultural, state and local government, and nonprofit employees, as well as household workers. While today nearly all wage and salary employees are covered by UI, there is a growing segment of workers in the freelance economy that are without coverage.
- No fault unemployment: Qualifying workers have to have been laid off for lack of work. They cannot have quit their job or been fired for cause. They also cannot be new entrants to the labor force, and they cannot be reentrants to the labor force unless they were out of the labor force for a short period of time and have sufficient recent earnings during their base period to qualify.

- Actively searching for work: The UI program has a work-search requirement (the “work test”). UI recipients must demonstrate that they are able, available, and actively searching for work while receiving benefits, a requirement that is necessary if UI is to be considered a social insurance program. The work test is generally administered in local workforce offices by the state Employment Services.

There are two sets of eligibility requirements to qualify for UI benefits:

- Monetary Eligibility: Workers must have earned sufficient wages in the recent base period to be eligible for benefits.
- Nonmonetary eligibility: Workers have separated from work involuntarily—i.e., through lay off—are searching for work, and may not refuse suitable work. Depending on state laws, other separations (e.g., voluntary quit or discharge) may result in a total or partial loss of benefits.

Program Cyclicity and Responsiveness: The number of individuals receiving UI and the amount of benefits paid vary greatly over the business cycle. Benefits are very responsive to the business cycle, increasing rapidly at the beginning of a recession and declining rapidly as it ends. Thus, the UI program is highly cyclical and responsive to variations in the business cycle, making UI an “automatic stabilizer” when it pumps purchasing power into economies during business downturns. While layoffs occur throughout the business cycle, many more workers become unemployed during recessions. As a result, the number of unemployed workers tends to surge at the beginning of a recession, then declines rapidly as the recession ends. Also, during recessions, UI recipients are much more likely to exhaust their entitlement to all of their regular UI benefits.

Extended Benefits: Since UI recipients are much more likely to exhaust their entitlement to regular benefits during recessionary periods, many of these workers will be in difficult economic straits by the time they exhaust their regular benefits and may need more financial assistance before they find work. The UI program usually provides two types of benefit extensions during recessionary periods: 1) the Permanent Extended Benefits (EB) and 2)

Temporary Emergency Benefits:

- **Permanent EB Program:** This program was enacted in 1970. It is a state-by-state program that is “triggered” on and off by unemployment-rate measures so that it pays needed UI benefits for up to 13 additional weeks when a state’s unemployment rate increases sharply. However, from the start, the program was not well designed; it frequently doesn’t pay benefits even when unemployment levels are high, and that design has not been improved in the past five decades. As a result, EB has not been effective at paying additional benefits, even during periods of high unemployment.
- **Temporary Emergency Benefit Programs:** Temporary programs have been enacted by Congress in every recession since 1958. Congress responds to constituent complaints about the inadequacy of regular UI benefits, and this inadequacy is magnified when the Permanent EB program is ineffective in high unemployment states. The temporary emergency program has had many names, but in recent recessions it has been called Emergency Unemployment Compensation (EUC). Temporary emergency programs also have frequently made temporary changes to the Permanent EB program so that EB too adds benefit durations for the long-term unemployed. Temporary emergency programs provide additional weeks of benefits beyond the regular UI and Permanent EB programs, extending benefits during the Great Recession in some states to as many as 60 additional weeks.

It should be noted, however, that unemployed workers only qualify for EB and temporary emergency programs if they are initially found eligible for UI benefits and are not disqualified during their receipt of regular benefits. It will be seen below that many states restrict access to regular UI benefits, and ineligible workers will not receive any benefits—regular, extended or emergency.

UI AS A BROKEN SYSTEM: SOME KEY INDICATORS. WHY DID THIS HAPPEN?²

A Weak and Uneven System

With little oversight by USDOL and limited federal standards, the state UI programs have weakened in their scope and adequacy of benefits as well as in their ability to adequately finance benefits. Below are some examples:

² For a more detailed analysis of UI as a broken system, see O’Leary and Wandner (2020).

- Low reciprocity: The national percentage of unemployed workers receiving UI benefits (the reciprocity rate) has trended downward over the past 40 years. It was 28 percent in 2019, varying greatly among states—from 52 percent in New Jersey to 10 percent in North Carolina.
- Low benefit levels: UI was designed to replace 50 percent of lost wages, but the wage replacement rate was only 39 percent in 2018 because many workers’ benefit levels were constrained by state maximum weekly benefit amounts. Replacement rates varied from 28.1 percent in Alaska to 49.4 percent in Pennsylvania.
- Declining durations: For nearly 40 years, all states provided at least 26 weeks of regular benefits. Today, eight states provide maximum benefit durations of less than 26 weeks, and in Florida, low-wage UI recipients can receive no more than nine weeks of benefits when unemployment levels are low (USDOL 2019a).
- Variable maximum weekly benefits: Levels are set by state UI laws and vary widely—in 2019 they ranged between \$221 in Louisiana and \$769 in Massachusetts.³
- States generally set low state taxable-wage bases, thus ensuring that there are inadequate revenues to support UI benefits, which places downward pressure on benefits and pushes the UI system into periodic insolvency. As Levine (1997) explains, “The current system of UI financing will drift toward insolvency...because benefit levels, for the most part, rise to keep pace with inflation, but taxable wages do not.”
- Inadequate reserves: At the end of 2018, after a decade of economic expansion, states only had total reserves of \$66.6 billion in their Unemployment Trust Fund accounts, enough in the aggregate to fund benefits for a mild recession. The reserves were unevenly distributed, however: trust fund balances met the low federally recommended minimum level in only 29 states; the rest had even lower levels of reserves. One state was still in debt to the federal government 10 years after the end of the Great Recession (USDOL 2019b).

These weaknesses of the UI system are largely attributable to the failure of USDOL and Congress to set nationwide standards with respect to benefit eligibility, maximum benefits, and duration, as well as financing standards that would increase the adequacy and equity of state UI benefits across the country. Altogether, the federal government has stepped back from its role in

³ This comparison includes the 50 states, but it excludes U.S. jurisdictions with UI programs. For example, the maximum weekly benefit level in Puerto Rico is \$133.

requiring the UI system to adapt to the needs of unemployed workers and the U.S. economy (Wandner 2019).

Factors Suggesting the Need for UI Reform

There are five broad categories of factors that suggest the need for comprehensive UI reform.

First, Congress has neglected the UI program, failing to establish, update, and improve its legislative framework. UI benefit and tax provision have never been established on an adequate and sound basis, and because Congress did not provide for indexing both of these components, the program has languished. The last major reform of the UI program occurred more than four decades ago, in 1976, and even then was not comprehensive. Congress considered a large number of issues that members could not agree upon, so it left many controversial issues for a UI study commission. In 1991, Congress authorized yet another UI study commission. The findings in the reports of these two commissions, however, were never adopted or acted on by Congress. Many of the issues identified by the commissions related to coverage, eligibility, and benefit adequacy and still need to be addressed by the federal government (Wandner 2018).

Second, the leadership and oversight role of USDOL has weakened, leaving the states to determine the scope and nature of their individual UI programs (Wandner 2019).

Third, for many years, state UI laws, programs, and policies have varied and have generally weakened benefit payment and tax collection systems.

Fourth, the U.S. economy has changed significantly since the 1976 UI legislative reform. The industry and occupational mix of employment has changed. During recessions, employers now respond differently than they did before 1976. Layoffs now are much more likely

to be permanent, and the durations of unemployment have increased. Thus, among the major changes are these:

- A decline in temporary layoffs, an increase in permanent layoffs, and an increase in the durations of unemployment (Groschen and Potter 2003). All of these factors adversely affect UI claimants and call for adjustments to the current UI program and the provision of more reemployment services.
- A change in the industrial mix of the U.S. economy, reflected in the decline in goods-producing jobs and the increase in service-sector jobs, in which service workers are less likely to collect UI benefits because they are less likely to know about the UI system and how to apply for benefits (O'Leary and Wandner 2020).

Fifth, the demographics of the U.S. labor force have also changed significantly, but the UI program has not fully adapted, e.g.:

- Increased female labor force participation
- Steadily increasing labor force participation by older workers since the 1990s
- Increased number of dual-earner households
- Increased voluntary part-time employment, fueled in part by the influx of mothers, caregivers, and older workers into the labor force

Some of these demographic changes have not been accompanied by UI program changes to accommodate the new demographic reality.

The rest of this paper deals primarily with the results of policy choices made over the past four decades by the federal and state governments that weakened the UI program. The principal federal intervention has been to provide longer durations of emergency benefit payments during recessions. Otherwise, the federal partner has largely ignored the program during good times and failed to strengthen and modernize the program through needed reform. Lacking federal guidance or federal mandates, the states have been left on their own, with many states simply

deciding to sharply curtail their state UI programs.⁴ This paper suggests options for strengthening the UI program so that it can fulfill its mandate as a social insurance program.

How Did UI Get to Where It Is Today?

Although UI and Social Security were given birth by the same 1935 federal law, the path that the two programs have taken since then are very different. This divergence has largely been shaped by decisions made before the law was enacted but also by the vastly different public policy paths that were taken after enactment. In the case of the UI program, these decisions have meant that the program has not met the policymakers' original expectations.

UI and Social Security as Envisioned by the Committee on Economic Security and the Social Security Act

President Roosevelt determined that he would promote enactment of a program of economic security (ultimately renamed “social security”) that would include old-age assistance, assistance to dependent children, public health assistance, and unemployment insurance. Before the enactment of the Social Security Act, there was a debate within the Roosevelt administration about what Social Security and UI would look like. During 1934, some members of the Committee on Economic Security (CES) argued that both Social Security and UI should be made national programs. President Roosevelt, mostly out of political considerations, prevailed in having Congress create a federal-state UI program instead. This policy decision sent Social Security and UI in very different directions. Social Security became a national program, while UI became a federal-state program, under state administration, and state laws established eligibility requirements, benefit durations, and benefit amounts (Cohen 1985). This decision had substantial

⁴ The issues of economic and demographic change in the U.S. economy are dealt with more extensively in Wandner (2018).

repercussions and has contributed to the long-term weakness and decline of the UI program since the 1970s.

Unemployment Insurance

After studying UI programs in other countries and Wisconsin—the only state in 1934 with an existing UI program—the January 1935 CES report recommended a compulsory UI program that paid benefits to workers who were involuntarily unemployed. The CES report further proposed that all employers would be covered except for very small establishments, agricultural and domestic workers, and the self-employed. UI taxes would be collected to create reserves from which benefits to unemployed workers would be paid. Benefits would replace 50 percent of lost wages up to a very low maximum benefit of \$15 per week, payable only after a four-week waiting period. If workers exhausted all their entitlement to UI benefits, the CES recommended creating a permanent system of public service employment (PSE) rather a means-tested unemployment assistance program (CES 1985, pp. 30–43).

The UI proposal was considered and enacted into law during the Great Depression. The latest annual unemployment data the committee had was an estimated 39.2 percent unemployment rate for 1933. Given the continuing high unemployment rates and the uncertainty about the economic future, policymakers and actuaries took a very conservative approach to the proposed UI benefit payments. The CES report expected that the UI program would initially be able to pay only 12 to 15 weeks of benefits, with weekly benefit amounts of no more than \$15 per week. The payment of these benefits was expected to require a payroll tax of 3 percent on total wages to fund those benefits, based on the unemployment experience of 1922–1930—not including the Great Depression years of 1931–1933. The CES thought that such a short UI potential duration might be sufficient because they also expected UI to be supplemented by a

public-service employment program, which never materialized. The CES acknowledged that “benefits can be paid only for periods which...will seem short. The benefits are small” (CES 1985, p. 33).

A key issue during consideration of the new UI program was whether the program should be a federal or a joint federal-state system: Most of President Roosevelt’s advisors advocated for a federal system. Indeed, a September 1934 CES interim report favored a federal system, but when Roosevelt made clear that his choice was a federal-state system, the final December 1934 CES report advocated for a federal-state program (Haber and Murray 1966, pp. 77–79).

The levels of state benefits and taxes in the CES report were suggestive. States would set eligibility requirements, benefit levels, benefit durations, and other provisions. The CES cautioned states to be conservative in setting benefit durations so that their state trust fund accounts would remain solvent. While the state taxable wage base had to be at least as high as the federal taxable wage base, states could set their own tax rates and taxable wage bases equal to or greater than the federal rate. The CES left it to the states to decide who would pay UI taxes: employers, employees, and/or the state. There were no recommendations for having automatic adjustments of UI benefits or taxes to reflect the cost of living (CES 1985, pp. 40–43).

The committee believed that the federal government should pay not only for the administration of the UI program, but also for the administration of the ES, since the ES—established by the Wagner-Peyser Act of 1933—was expected to work jointly with UI staff in public employment offices and provide labor exchange services as well as administer the UI work test, which the CES report called a “willingness-to-work test” for eligibility for UI benefits. As a result, funding for the ES would have to increase to fund these expanded services which

would be provided to UI claimants (CES 1985, pp. 38–39, 66).⁵ This meant that a federal tax rate would be set on a federal taxable wage base, with UI administrative funds allocated to the states as state grants. State UI programs were required to set their taxable wage base at the federal base or greater.

Given the uncertainty of economic conditions and the fact that UI would be a federal-state program operating with wide state discretion, the CES encouraged state experimentation with benefit and tax provisions and program administration. It expected that with experience, the UI program would be modified and improved. The CES stated “The plan of unemployment compensation, we suggest, is frankly experimental. We anticipate that it may require numerous changes with experience, and, we believe, is so set up that these changes can be made through subsequent legislation as deemed necessary” (CES 1985, p. 43). Furthermore, the committee said that under a federal-state UI program, “Congress can at any time increase the requirements which State laws must fulfill and may, if it sees fit, at some future time, substitute a federally administered system for the cooperative Federal-State system we recommend” (Ibid., p. 36). The federal modifications and improvements to the UI system that were needed as the UI program evolved, however, did not materialize.

The Unemployment Trust Fund, established under Title IX of the 1935 Social Security Act, was initially empty. In order to raise sufficient funds to pay UI benefits, taxes were levied on employers beginning in 1936 at 1 percent of total wages, increasing to 2 percent in 1937 and

⁵ The 1935 SSA did not include grants-to-states to fund the ES (National Conference on Social Welfare 1985a, pp. 81-82). Federal funding UI and ES in states began as a result of the recession of 1937–1938 and the prospect that several states would begin paying benefits in 1938. Section 303(a)(2) of the Social Security Act provides for payment of UI benefits through public employment offices, and the Social Security Board mandated it. At the time, all states did not have public employment offices statewide, and the Roosevelt administration began a rapid buildup and maintenance of a national system of public employment offices with ES and UI grants-to-states, along with state ES matching funds. For additional details, see Balducchi and O’Leary (2018, pp. 71–72).

3 percent in 1938. (By contrast, for Social Security, the taxable wage base was restricted to \$3,000, although it would increase rapidly in future years.) With the enactment of the 1939 Social Security Amendments, the federal UI taxable wage base was capped at \$3,000,⁶ the same as the Social Security level (National Conference on Social Welfare 1985c, pp. 96, 100).

Social Security

The CES proposed that Social Security be made a national program, with benefits and taxes set and administered nationally. The CES presented a general proposal relating to benefits and taxes that was made specific under the 1935 Act. Under that act, starting in January 1942, benefits were to be paid as a percentage of total wages, with a declining percentage paid as total wages increased up to a maximum benefit of \$85 (National Conference on Social Welfare 1985b, pp. 78–79). Social Security taxes began being collected in 1937 on a taxable wage base set at \$3,000. The tax was at 1 percent of taxable wages in 1937, and tax rates were to be increased in half-percent increments until the tax rate reached 3 percent in January 1949. The taxable wage base of \$3,000 did not have automatic adjustments (National Conference on Social Welfare 1985c, p. 93).

To be eligible for Social Security under the 1935 Act, workers had to be 65, have earned at least \$2,000 in the period beginning in 1937, and have been earning in at least five different years beginning in 1937. As a result, payments of Social Security benefits would start slowly beginning in 1942 (National Conference on Social Welfare 1985c, p. 81). The 1935 Act included old-age assistance that was a means-tested benefit. While the Social Security payroll tax system

⁶ Both in 1939 and now, states may enact laws requiring higher state taxable wage bases on employers. As of this writing, only three jurisdictions continued to have a fixed wage base of \$7,000—Arizona, California, and Puerto Rico (<https://taxnews.ey.com/news/2019-2186-state-unemployment-insurance-wage-bases-for-2020>).

for old-age annuities was ramping up, old-age assistance would be a more important source of support for workers 65 years old and older than old-age annuities (Ball 1985, pp. 167–168).

After Social Security’s Enactment: What Happened to UI and Social Security?

Unemployment Insurance

The CES’s expectations about the UI program were not realized. By the time UI benefits became payable in all states in 1942, the United States had entered World War II. With men and women in the armed forces and working in defense industries, the United States experienced full employment. UI taxes continued to be collected before and during the war, and, with little joblessness and scant payment of benefits, the Unemployment Trust Fund grew. The major postwar recession that some economists predicted did not occur because of the pent-up demand for consumer durables (not produced during a wartime economy) in the United States and other countries. The UI program was financially sound, and state UI programs withstood a mild recession in 1949 without the need for federal intervention. During the entire post–World War period, however, tax rates to fund UI benefits have remained much lower than the CES expected, remaining below 1 percent of total wages for the past four decades (O’Leary and Wandner 2020).

As a result of a long period of low U.S. unemployment at the start of the UI program, Congress largely ignored the program. When a major recession did occur in 1958, Congress responded, not with a major UI reform but by enacting temporary emergency benefits. This has been Congress’s response in each of the subsequent recessions. Thus, rather than adjusting or reforming the UI system to workforce and workplace shifts, Congress largely has let state UI programs continue unchanged. An exception was a 1976 UI amendment that increased UI

coverage, increased the taxable wage base, and made other legislative changes. Recognizing the incomplete nature of the 1976 reform, Congress called for the appointment of a national UI commission, but the recommendations of both this commission and a subsequent commission again were not adopted (NCUC 1980; ACUC 1996).

Through the mid-1970s, Congressional neglect did not have adverse effects on the UI program. States found that, with low levels of unemployment, they could increase UI benefit amounts and maximum potential durations of benefits without significant tax increases. Indeed, all states increased their maximum potential durations to 26 weeks or more (O’Leary and Wandner 1997, pp. 669–710).

Because the CES’s dire actuarial forecast did not materialize, between 1938 and 1985, most states substantially liberalized their benefit programs. In 1938, states imposed waiting periods of two to four weeks before they paid UI benefits. By 1985, all states either had no weeks of waiting or a one-week waiting period. Similarly, over this period, maximum weekly benefits increased from \$15–\$18 to \$84–\$225. Maximum potential durations had standardized to 26 weeks, except for three states that provided up to 30 weeks (Price 1985, p. 25). Only in the last four decades have state UI benefit and tax provisions diverged, with many states sharply curtailing both benefit payments and tax collections (O’Leary and Wandner 2020).

A key issue has been a lack of balance between UI taxes and benefits, resulting from the lack of a national process for automatically increasing both benefits and taxes each year. Most important has been that depressed UI tax rates and tax bases generally have kept UI benefits below an adequate level. First, the federal taxable wage base has only increased three times, and it has been stuck at \$7,000 since 1983. Many states have not raised their state UI taxable wages much above that insufficient federal taxable wage base. Second, states have limited the increase

in UI taxes to pay for the higher UI benefits that are paid during recessions. The result has been insufficient tax revenue to fund adequate state UI benefit programs and, in many states, downward pressure on all aspects of benefit payments: eligibility, benefit amounts, and benefit durations.

The UI program is vastly uneven across the United States. In a minority of states, the program works well, paying adequate benefits to large percentages of laid-off, experienced workers, and collecting sufficient taxes to pay for these benefits. In most states, however, this is not the case; few unemployed workers receive benefits, benefits are low, and taxes are insufficient to fund a reasonable system. The basic cause of this problem is the politicizing of UI at the state level. Decisions about the parameters of the UI program are made in state legislatures, where employers and employees attempt to pull UI in different directions: employers seek to constrain the program, while employees try to expand it. The outcome generally has favored employer organizations, especially with the long-term decline of organized labor (O’Leary and Wandner 2020).

Social Security Development: Lessons Learned for Fixing the UI System: Automatic Benefit and Tax Increases and Periodic Adjustments

Unlike the UI program, in which low unemployment produced little pressure on Congress to adapt the 1935 Act’s UI provisions to changing economic circumstances, Social Security benefits began being paid in 1940.⁷ However, while employees accumulated earnings and many older workers received old age assistance for the needy instead of Social Security, public pressure on Congress to substantially increase funding to pay increased Social Security benefits

⁷ Changed from 1942 to January 1, 1940, with the 1939 Social Security amendments (National Conference on Social Welfare 1985c, pp. 195–196).

was delayed until the 1950s, when the program began evolving. Social Security would eventually face a growing flow of retirees eligible to collect benefits. (Ball 1985).

Even before there was public pressure to make benefits and taxes more sustainable, the 1939 amendments to the Social Security Act included a number of changes “rounding out the structure” of the Social Security program. But those reforms did not include automating the increase in benefits and taxes. That did not take place until the 1972 and 1977 amendments, respectively (Ball 1985, p. 166).

Unfortunately, the 1939 amendments to the Federal Unemployment Tax Act reduced the UI taxable wage base from total wages to \$3,000, in part so that the UI base would be the same as that for Social Security (Haber and Murray 1966, pp. 101–102; Balducchi and O’Leary 2018, p. 93). As Haber and Murray (p. 102) explain, “The change [to a \$3,000 base] at the time was not considered to be important.... The change has grown in significance, however, as wages have increased over the years.” Thus, starting in 1951, the Social Security taxable wage base increased steadily, while the UI taxable wage base remained at \$3,000 until 1972, when it was raised to \$4,200. The fact that the UI taxable wage base has been increased only three times over the life of the program and has remained at \$7,000 since 1983 has greatly exacerbated the UI funding problem.

The Social Security taxable wage base did not increase until the 1950s. Between 1951 and 1974, Congress increased the Social Security taxable wage base eight times, raising it from \$3,600 to \$13,200. Since 1975, the taxable wage base has been indexed to some measure of wage growth in almost all years, but the indexing formula has been adjusted several times (Whitman and Shoffner 2011).

No major Social Security benefits legislation was enacted between 1939 and 1950. Congress failed “to keep Social Security benefits up to date with wage and price changes during the 1940s” (Ball 1985, p. 167). In 1950, Social Security amendments significantly increased benefits by 77 percent, and the Social Security taxable wage base was increased to \$4,200 in 1955 and \$6,600 in 1965. Thereafter, Social Security benefit levels were increased regularly with federal legislative amendments in 1952, 1958, 1965, 1967, and 1971. Finally, the 1972 amendments eliminated the need for regular congressional action to increase Social Security benefits by tying benefits to the cost of living and increasing benefits by 20 percent. In 1977, Congress made a similar change in the Social Security taxable wage base, also having it automatically increase each year as average earnings rise (Ibid., pp. 168–170). While there have been significant changes to Social Security since then, UI has been largely neglected for more than eight decades.

Thus, in 1977, Congress determined that Social Security benefits and taxes should be brought into balance that year and every year thereafter. That balance was based on automatic annual increases in both Social Security benefits and taxes. This critical decision helped create a sounder Social Security expenditure and financial system—an approach that still has not been implemented for the UI program.⁸

The key to having a sustainable Social Security or UI program is automatic adjustment and balancing of benefits and taxes, as well as periodic legislative reforms of the system when

⁸ Having automatic increases in Social Security taxes and benefits may be sufficient to deal with the Social Security solvency problem in the short term, but periodic interventions have still been needed. Thus, concerns about Social Security solvency prompted a National Commission on Social Security Reform, which resulted in a negotiated agreement and amendments that adjusted benefits and taxes in 1983. Similarly, implementing automatic increases in UI benefits and taxes would still require periodic legislative adjustments. Automatic adjustment of Social Security benefits and taxes does not mean that Social Security would be permanently financially stable. Indeed, substantial reform was required in 1983—only five years after the 1977 reforms (Ball 1985, p. 170).

the system gets out of balance. Today, the UI program is greatly in need of federal legislative rebalancing, because it neither has automatic adjustments of benefits and taxes nor has it had comprehensive legislative structural reform since the 1976 amendments.

UI LEGISLATIVE REFORM COMPONENTS⁹

Comprehensive UI reform requires substantial changes to the federal UI benefit and tax provisions to ensure that benefits are adequate and that tax revenues are sufficient to support those benefits. In addition, a sharp increase in reemployment services authorized through the Wagner-Peyser Act is needed, since the great majority of UI claimants today are dislocated workers who tend to be in great need of job matching, job referral, and job search assistance services. Because of wide disparities in access to and receipt of UI benefits, and because of the lessons evident from the reform of the Social Security program, UI program reform also should include amending Title III of the Social Security Act and the Internal Revenue Code to automatically index benefits and taxes to the cost of living. This proposed legislative reform would tend to balance benefits and taxation and ensure that further legislative reform would be needed only relatively infrequently. Given these factors, a compilation of potential reform measures to improve the UI program is listed below.

On the benefit side, equity in the receipt of UI benefits for UI claimants across the United States implies that several components of the regular benefit program (e.g., 26-week duration in most states) should be standardized:

⁹ These components are described in more detail in the appendix.

- Application for benefits should be simplified and supported, with a single national online initial and continued claims application, including online and individual application assistance.
- Initial and continuing eligibility requirements should be standardized across states.
- Benefit wage replacement rates should be standardized at adequate levels.
- The maximum weekly benefit amount needs to become a fixed percentage of the state weekly wage, accommodating large differences in cost of living by state and region.
- The maximum duration of regular benefits should be 26 weeks in all states.

Employers and employees currently have a confrontational approach to UI. Since employers pay the UI tax, they tend to want to minimize UI benefits and taxes (O’Leary and Wandner 2020). It is not enough to standardize benefit replacement rates, maximum benefit amounts, and maximum receipt duration, all of which help unemployed workers who qualify for benefits. Benefit standards are insufficient in themselves, however, since the benefit application process is difficult in many states, so that many potentially eligible unemployed workers do not complete it. For these individuals, there are no benefits. Thus, to help more unemployed workers receive benefits, the application process and eligibility requirements should be simplified and standardized.

The Extended Benefits (EB) program should be reformed so that it can pay benefits in a more timely fashion, with equity among states:

- The Permanent EB program should be revised so it can be triggered on and off using the state total unemployment rate, with tiered durations of benefits increasing as unemployment levels become more severe.
- The cost of the EB program in states should be borne by federal (FUTA) tax.
- Congress should be free to create temporary emergency benefit programs over and above the regular and EB programs when unemployment becomes severe.

Taxes also should be standardized and indexed to fund these benefits in all states:

- The federal and state UI taxable wage base should be a percentage—from 50 to 100 percent—of the Social Security taxable wage base, with increases phased in over several years.
- Taxation of employers based on their employees’ past receipt of UI benefits (“experience rating”) has proven ineffective in that it does not truly reflect employers’ unemployment experience. Its elimination should be considered.
- The UI tax rate should be set on an actuarially sound basis; a sufficient tax rate is likely to be approximately 2 percent of total wages.¹⁰
- Consideration should be given to having employees pay a large portion of the UI tax—i.e., 50–100 percent—so that workers have more of a say in the design of the UI program, and employers have less or no interest in reducing UI taxes and restricting UI eligibility and benefit payments. If employees paid half or more of the UI tax, they would be in a better position to advocate for higher benefits and for taxes accommodating the level of benefits.¹¹

To serve permanently separated UI claimants, the Employment Service should receive substantially increased funding so that it can do the following:

- Determine whether UI recipients are able, available, and actively seeking work—i.e., apply the UI work test.
- Provide in-person, comprehensive, reemployment services (and referrals to training if needed) to UI recipients.
- Become a merit-staffed public agency.¹²

Other rigorously tested, effective reemployment services should be made available nationwide, namely the following:

- Short-time compensation, a program that encourages reducing hours of employment instead of laying workers off.

¹⁰ The actual tax rate would have to be actuarially determined.

¹¹ While employers and employees might both pay the state UI tax for regular UI benefits, employers might continue to pay the federal 0.6 percent tax used to pay grants-to-states for administration, EB, and other costs.

¹² The January 2020 federal regulation, Wagner-Peyser Act Staffing Flexibility, RIN 1205-AB87, 20 CFR Parts 651–652, 653, and 658, allowing privatization of the ES, thus, should be withdrawn. This withdrawal is particularly important in light of positive evaluations of ES-provided services; see the section on reemployment services in the Appendix below.

- Self-employment assistance would be made available to permanently dislocated workers, with entrepreneurial training funded by the Small Business Administration or by USDOL training programs.

There is broad consensus among UI experts that major UI reform is necessary (Wandner 2018). A number of reform proposals have been presented and described in some detail (West et al. 2016; Simonetta 2018; O’Leary and Wandner 2018; von Wachter 2019). While there are differences between these reform proposals, policymakers could choose among the individual options. Some of the key components are further discussed in the Appendix.

OPTIONS FOR IMPLEMENTING UI ADMINISTRATIVE REFORM: THREE OPTIONS AND HOW THEY WOULD WORK, WITH PROS AND CONS FOR EACH OPTION

Given the substantial shortcomings of the current UI program, not only does the legislative structure of the program need to be substantially revised, but the administrative structure of the UI program also should be reconsidered. Because the current federal-state administrative structure is not working, it either must be significantly bolstered or abandoned.

Under the federal-state structure, the federal partner has played a weak and declining leadership role in UI administration (Wandner 2019), allowing states wide discretion in the benefit, tax, and reemployment service components of their programs. The result has been wide variation among states in how effectively and efficiently their programs are run. While some states have equitable and financially sound systems, the majority of states do not (O’Leary and Wandner 2020). If the UI program is going to work well across the entire United States, the federal role will have to be significantly strengthened.

The main goal of each of the three administrative options discussed below is to create an adequate and equitable UI program in which benefits and taxes are in balance, and one that

possesses automatic (i.e., indexed) benefit and tax provisions, such that periodic federal legislative adjustments to the UI program need only occur infrequently. At the same time, a successful UI program must have an Employment Service that ensures that workers are able, available, and actively seeking work. The ES must refer unemployed workers to job openings and provide other reemployment services to hasten their return to work.

Below are proposed options for creating an effective and efficient UI program:

- A continuation of the current federal-state program, but with the addition of comprehensive federal standards that all states must meet with respect to UI benefit payments, tax collection, and reemployment services.
- A new federal program that operates under federal law, with the states acting as agents of the federal government. This approach would have similarities to current and periodic federal UI programs—e.g., administration of the programs Unemployment Compensation for Federal Employees, Unemployment Compensation for Ex-Service Members, Disaster Unemployment Assistance, and temporary emergency unemployment compensation. But importantly, this approach would include federal legislation that defines all aspects of the regular UI program.
- A new national UI program similar to other Social Security programs—e.g., old-age—that would be administered and operated in local offices by the Social Security Administration, similar to the national program considered by the Committee on Economic Security.

As discussed above, some policymakers tasked with the design of the original UI program preferred a national program because they believed that unemployment was more due to national than local causes, but that approach was vetoed by President Roosevelt, mostly for political reasons.¹³ Instead, a federal-state program was enacted, encouraging states to

¹³ The Technical Board of the Committee on Economic Security set up an unemployment insurance committee that recommended a federal UI program. The executive board of the Technical Board then endorsed a “nationally administered system of unemployment insurance.” These recommendations were then reversed when they were determined to be political infeasible by the Roosevelt administration (Haber and Murray 1966, pp. 78–79).

experiment in developing their own UI programs. Most of those experiments have not succeeded.

Below is a discussion of each of the three options for strengthening the UI program.

Federal-State Program with New Federal Standards

The federal-state option would maintain the current administrative structure but would add a substantial number of new federal standards for UI benefits, taxes, and reemployment services that would strengthen the system. It would result in increased interstate equity for UI claimants. Each state would still administer its own state UI law, and there would be some variation between these laws and administrative procedures. Multistate firms would still have to interact with up to 53 jurisdictions, including paying taxes to individual state UI programs. States would have to make significant administrative changes to their UI programs to conform to the new federal standards. Because of increased federal responsibilities, this reform would require increasing USDOL UI staff to monitor state UI programs and ensure that the states meet the new federal standards enacted by Congress. Despite significant variation in efficiency and effectiveness between states, the program would retain the separate 53 administrative and information technology systems to run the state UI programs. During recessions, this option would still require each state to rapidly implement its own EB and temporary extended compensation systems.

Benefit standards

All state UI programs would have to meet a single set of eligibility, benefit amount, and benefit duration standards, including the following:

- Application process: USDOL would develop a single, tested, simplified application process that would provide online and in-person support to complete initial UI

applications, especially for individuals with disabilities, those who speak English as a second language, or those who have difficulty operating computers, an issue that frequently discourages UI applications or makes the process difficult (Chodorow-Reich and Karabarounis 2016).

- Modernized and standardized eligibility and continuing eligibility provisions: Eligibility standards for initial claims would reflect the current labor market reality—permitting payment of benefits to workers searching for part-time work, the elimination of pension-offset provisions, and benefits for workers who quit for good cause, such as following a spouse/partner who is moving to accept a new job. Continuing eligibility standardizations would mostly relate to the ability to work and the active work-search provisions.
- Benefit amount: 50 percent of previous wage up to 66.67 percent of average state weekly wage—a long-standing benefit amount standard proposal.
- Regular UI maximum potential benefit duration: 26 weeks – the duration in place in most states.
- Extended Benefits: would be a tiered set of benefits with weeks of benefits determined by a state’s total unemployment rate triggering mechanism.
- Temporary Emergency Benefits: Congress would determine whether to add additional weeks of benefits over and above regular UI and EB during recessions, as it has done in all past recessions since 1958.

Tax standards

Each state would have to enact a taxable wage base that would be—after having been increased in several annual increments—between 50 and 100 percent of the Social Security taxable wage base and would be indexed annually consonant with the Social Security taxable wage base. Tax rates would adjust annually to pay adequate UI benefits and provide increased federal funding for the Employment Service.

The state UI taxes would remain in place. Employers would pay their state UI tax to the state, and states would continue to deposit all UI taxes into their accounts in the U.S. Treasury’s Unemployment Trust Fund. Employees would pay 50–100 percent of the total UI taxes, which employers would deduct from employees’ wages. The employers would then pay the employer tax. Experience rating would continue for the employer portion of the UI tax.

Employers would continue to annually pay the federal FUTA tax directly to the IRS to fund UI and ES administration, the full cost of EB (increased from the current 50 percent), and loans to states when their state accounts become insolvent.¹⁴

Reemployment services

An expanded Employment Service would administer the UI work test and provide reemployment services through the Wagner-Peyser Act ES, including a significant amount of in-person reemployment services. The annual ES appropriation from FUTA would be significantly increased.

Other proven reemployment services—including Short-Time Compensation/Work Sharing and Self-Employment Assistance—would be enacted as national programs and implemented in all states.

Administration

The federal government would continue to provide grants to states to pay for UI and ES administration. UI and ES would be merit staffed, and USDOL would determine the number of ES local office staff that it would fund. State UI and ES staff would continue to work in each state at the local and state level.

Because of wide differences in UI reciprocity by state, in part due to variation in the ease of applying for UI benefits (mostly online), USDOL would create and maintain a single core UI benefit application and continued claims system that would be exported to states after careful testing. The emphasis of the revised initial claims and continued claims programs would be on

¹⁴ This change would relieve the states of some of the increased UI benefit costs resulting from new federal requirements relating to regular UI benefits.

simplifying processes, providing claimants with more information, and implementing prompts to improve and speed the claims-taking process. The single payment system would be adaptable to differences that would continue among state UI laws and procedures.

Pros and Cons of the Federal-State Program with New Federal Standards

Pros

There would be no change in the basic administrative structure of the federal-state UI program. This would make legislative changes easier and more rapid to implement after Congress enacts the reforms embodied in this proposal.

Among experienced unemployed workers, there would be greater equity across states as UI reciprocity would be increased in the states currently having low reciprocity.

There would be greater uniformity in benefit payments among the states than under the current UI system.

Employees and labor organization advocacy would likely increase in state legislatures because of employee funding of the UI program, which would likely result in higher reciprocity and stronger employability services

Compared to the current UI system, the financial base for paying UI benefits would be stronger because of higher and increasing taxable wage bases and more responsive tax rates.

Cons

The cost of this revised federal-state UI program would be significantly greater than the current program, with most of the cost increase concentrated in the current low-reciprocity rate states. Employees and unions would likely oppose employee funding of the UI program.

This proposal retains many of the weaknesses of the current program, including some legal and administrative variations between the states.

Multistate employers would continue to have to work with up to 53 state UI programs regarding tax payments and tax charging under the experience rating system.

There likely would be continued weak state program administration, particularly in some small states. Effective administration would be dependent on antiquated administrative and information technology systems, including 53 separate UI benefit and tax payment systems.

Federal Program Located in USDOL

Under a new federal option, state UI programs would continue to pay UI benefits and collect state UI taxes, but they would act as “agents” of USDOL. The federal-state cooperative UI program would be dissolved, and the states would act as agents of the federal government in the administration of the UI program. There would be only one federal UI law for UI benefits, taxes, and reemployment services, and the states would administer these programs. This approach would ensure complete interstate equity for UI claimants. After experience rating is eliminated, multistate firms would have to interact only with the federal government rather than with up to 53 separate jurisdictions.

Benefit provisions

Under this proposal, there would be a single set of eligibility, benefit amount, and benefit duration standards, including the following:

- Application process: USDOL would develop a single, tested, simplified application process that would provide online and in-person support to complete initial applications, especially for individuals with disabilities, those who speak English as a second language, and those who have difficulty operating computers, an issue that frequently discourages UI applications or makes the process difficult (Chodorow-Reich and Karabarbounis 2016).

- Modernized and standardized eligibility and continuing eligibility provisions: a common UI administrative system, with a single standardized, simplified, tested computerized UI initial and continued claims form, including automated prompts and access to telephone or in-person assistance with completing applications.
- Benefit amount: 50 percent of previous wage up to 66.67 percent of national weekly wage.
- Regular UI benefit maximum potential duration: 26 weeks.
- Extended Benefits: a tiered set of benefits with weeks of benefits determined by a state total-unemployment-rate triggering mechanism.
- Temporary emergency benefits: Congress would continue to determine whether and when to add additional weeks of benefits during recessions, as it has done in all past recessions since 1958.

Tax provisions

Increasing in annual increments over several years, the taxable wage base should be raised to 50–100 percent of the Social Security taxable wage base and would be indexed annually with the Social Security taxable wage base.

Experience rating would be eliminated. Employees and employers would pay a fixed-rate tax.

The state UI tax would be eliminated. In its place, the entire UI tax would be paid quarterly by employers directly to the federal government, which would provide data similar to that supplied in the current state UI wage records but would add hours worked and use a form adapted from the current annual IRS Form 940 that employers use to pay their federal (FUTA) tax. To the extent that employees would be required to contribute, employers would deduct the employee UI tax from employees' wages and would themselves pay the employer tax.

The federal tax would be deposited in a single federal account in the Unemployment Trust Fund which would be used to pay for UI regular and extended benefits and for

reemployment services provided by the Employment Service.¹⁵ The total federal UI tax would be approximately 2 percent of taxable wages, with a taxable wage base of 50 to 100 percent of the Social Security wage base. The tax rate would be determined by federal actuaries.¹⁶ This tax would replace both the state UI tax, which for many years has amounted to less than 1.0 percent of total wages, and the federal tax of 0.6 percent. The state UI trust fund accounts in the U.S. Treasury would be eliminated, and the balances would be deposited in the federal UI account.¹⁷

Employees would pay 50–100 percent of the total UI tax.

Reemployment services

Under this proposal, the Employment Service staff would administer the UI work test to determine whether UI recipients are able, available, and actively searching for work. This staff also would provide robust in-person reemployment services authorized under the Wagner-Peyser Act to UI recipients who are permanently separated from their previous jobs. The ES appropriation, to be funded from the federal account, would be significantly increased.

Congress would enact required reemployment services approaches to assist job seekers based upon substantial and widely accepted research findings. Short-Time Compensation/Work Sharing and Self-Employment Assistance would be enacted as national programs and implemented in all states.

¹⁵ The federal loan account used to provide loans to the states would be eliminated, and state accounts would be eliminated. Only federal funding would be needed to pay for UI and ES administration and the full cost of permanent extended benefits. Temporary emergency benefits would continue to be paid for from federal general revenue.

¹⁶ If this option is thought to be worth further study, actuarial support would be needed to develop potential tax rate projections.

¹⁷ States with sounder trust fund accounts could be given payments at the time of transfer of the state trust fund balance to the federal account as a reward for their responsible UI financial policy. These payments would return to those states at least a portion of their balances in the UI trust fund.

Administration

The federal government would provide grants to states to pay for UI and ES administration. The state UI and ES central offices would be merit staffed by career civil servants and would act as agents of the federal government. The state UI and ES staff would continue to operate in each state capital, working with UI and ES staff administering the programs in local and other offices.

Because of wide differences in UI reciprocity by state, in part due to variation in the ease of applying for UI benefits online, USDOL would create and maintain a single UI benefit application and continued claims system that would be exported to states after careful testing.

Because of uneven and frequently inefficient UI benefit payment systems, USDOL would create a single UI benefit payment system and a single set of the revised initial claims and continued claims programs which would be exported to states after careful testing. The emphasis of the initial claims and continued claims programs would be to simplify processes, provide greater information, and implement prompts to improve and speed the claims-taking process.

Pros and Cons of Siting the Federal Program in USDOL

Pros

Under this proposal, there would be uniformity across states in two areas: 1) application procedures and 2) UI eligibility, benefit payment, and tax rules. This would create interstate equity both for unemployed workers and employers.

A unified tax collection by the U.S. Treasury with a single tax base and a single tax rate would be more equitable, as it would be uniform between states.

Multistate employers would face a much simpler program, since they would only interact with the federal government, which would determine UI benefit, tax payment, and administrative issues on a national basis.

Cons

The cost of a federal UI program described above would be much greater than the current federal-state UI program, with most of the cost increase concentrated in states with low reciprocity rates. Employees and unions would likely oppose employee funding of the UI program.

The UI program would continue to rely on state administration of the UI benefit system, which would mean potentially wide variation in the procedures used and would be dependent on the administrative capacity of the states.

There is currently a small and weak UI office in USDOL. It likely would not be able to manage such an enlarged federal program. The UI national office would have to hire and train a much larger staff to become effective at overseeing and monitoring a large program organization.

National Program Operated by the Social Security Administration

A national option operated by the Social Security Administration would be the most efficient option, as it would greatly reduce administrative costs. A single UI benefit and tax computer network would replace the current 53 systems operated by 50 states and three jurisdictions. This option, however, would require the greatest transition effort and cost. The Social Security Administration would pay all benefits from a central location but would administer the program from its local offices. Social Security would collect all taxes centrally. UI

tax revenues would continue to be deposited in the Unemployment Trust Fund in the Treasury.¹⁸ All USDOL UI staff positions would be transferred to the Social Security Administration, and state UI employees would compete for Social Security Administration positions. When fully implemented, the new system would provide equitable treatment for all UI claimants across the country and would simplify and reduce administrative costs for multistate firms by having them interact with one federal governmental agency instead of up to 53 state jurisdictions.

Benefit provisions

Social Security would use a single UI application and administer a single set of eligibility, benefit amount, and benefit duration provisions, including the following:

- Eligibility: this proposal would modernize and standardize the initial and continuing eligibility process.
- Benefit amount: this proposal would provide for 50 percent of previous wages up to 66.67 percent of the national average weekly wage.
- UI regular program potential benefits would be 26 weeks.
- Extended Benefits would be a tiered set of benefits: weeks of benefits would be determined by a total unemployment rate triggering mechanism.
- Congress would determine whether to add additional weeks of temporary emergency benefits during recessions, as it has done in all past recessions since 1958.

Tax provisions

After a phased annual implementation over several years, the taxable wage base would be 50–100 percent of the Social Security taxable wage base and would be indexed annually with the Social Security taxable wage base.

¹⁸ The UTF would not be comingled with the SSA Trust Fund, but separate and distinct so as to ensure wage earners that their contributions to old-age insurance would not be used for other public expenditures.

The state UI tax would be eliminated. In its place, the entire UI tax would be paid quarterly by employers directly to the federal government, using a form similar to the current state quarterly tax payment forms but including weeks of work. Employers would deduct the employee share of the UI tax from employees' wages, and the employers would pay the employer tax.

The federal tax would be deposited in a single federal account in the Unemployment Trust Fund that would be used to pay for UI regular and extended benefits and for reemployment services provided by the Employment Service. The total UI tax would be approximately 2 percent of taxable wages, to be determined by federal actuaries. This tax would replace both the state UI tax, which for many years has amounted to less than 1.0 percent of total wages, and the federal tax of 0.6 percent. The state UI trust fund accounts in the U.S. Treasury would be eliminated, and the balances would be deposited in the federal UI account.

Employees would pay 50–100 percent of the UI tax.

Reemployment services

Employment Service staff would be given the opportunity to apply to become federal employees and be transferred to Social Security local offices. ES staff would administer the UI work test and provide reemployment services to UI recipients as well as to other workers searching for work. UI claimants and other workers searching for work would be referred to training programs administered by the USDOL Workforce Innovation and Opportunity Act programs as appropriate.

Proven reemployment services—such as Short-Time Compensation/Work Sharing and Self-Employment Assistance—would be enacted as national programs and implemented in all states.

Administration

UI initial and continued claims would be filed directly with the Social Security Administration. Benefits would be paid centrally by the Social Security Administration, but UI taxes would be paid by employers directly to the IRS. The UI work test would be administered by ES staff in Social Security offices. Substantial job search assistance and other reemployment services would be provided by ES staff in Social Security offices.

Pros and Cons of a National Program Run by the Social Security Administration

Pros

This proposal would provide complete interstate equity for UI beneficiaries and tax-paying employers and employees.

There would be a simplified tax and benefit payment system, eliminating the current 53 separate administrative systems, with a single-benefit payment system that would be cost effective and efficient.

Multistate employers also would face a much simpler program, in which there would be only one administrative jurisdiction they would need to interact with.

There would be a simpler benefit payment system for employees who worked and had earnings in two or more states during their benefit year.

Cons

The cost of the national UI program described above would be much greater than the current federal-state UI program, and most of the cost increase would be concentrated in the current low-recipient-rate states. Employees and unions would likely oppose employee funding of the UI program.

The network of 1,300 local Social Security field offices would need to expand, likely into more sparsely populated communities.¹⁹

This option would cause the greatest change in the administrative structure of the UI program and have the longest and most costly transition process.

After the transition, the Social Security Administration and USDOL would have to coordinate to accomplish referrals to training provided by the Workforce Innovation and Opportunity Act programs.

Absorbing the UI program would be a major change for the Social Security Administration, although the UI program is relatively small and low cost compared to other SSA functions.

CONCLUSION

The UI program is and has been broken for a long time. Nationally, UI taxes have not been sufficient to provide adequate partial wage replacement to unemployed workers. There is great variation between the UI programs from state to state. A minority of states have a well-functioning UI program, but the program is not working well in most states—in large part because of resistance to paying for a more adequate UI program (O’Leary and Wandner 2020). Even though UI reform would substantially increase the cost of the UI program, major UI reform is needed for a more adequate program and greater interstate equity for unemployed workers. This paper presents three options for such UI reform.

¹⁹As of 2018, the SSA included 10 regional offices, 8 processing centers, approximately 1,300 field offices, and 37 Teleservice Centers, employing about 60,000 people (https://en.wikipedia.org/wiki/Social_Security_Administration). Under the federal-state UI and ES systems, there are 2,400 American Job Centers throughout the states and jurisdictions.

Each of the three options discussed above would be a great improvement over the current UI system. They all would require Congress to enact major legislative reform of the UI program. They all would effect substantial changes to the current legislative framework, including enactment of automatic and coordinated increases in benefits and taxes. Congress also would have to be willing to adjust the legislative framework periodically to make certain that the benefit and tax provisions remain in balance. The options vary, however, in the extent to which they would increase equity between UI claimants and firms across the United States. They also vary in their administrative burdens, feasibility, timing of implementation, and likely success.

The federal-state option would impose substantial new federal standards for UI benefits, taxes, and reemployment services. It would result in increased interstate equity for UI claimants, although each state would still have its own state UI law and administration, and there still would be variation in program outcomes. It also still would require multistate firms to interact with up to 53 jurisdictions, including paying taxes to individual state UI programs. Nevertheless, it would necessitate the least administrative change for the states. It would, however, require significantly increasing the number of USDOL UI staff dedicated to program monitoring, oversight, and enforcement to ensure that states meet the new federal standards that would be enacted by Congress. Similarly, it would retain the current 53 administrative benefit and tax systems and the information technology systems used to run the UI program, which have great variation in their efficiency and effectiveness. During recessions, each state would still have to rapidly implement its own state temporary EB system, acting as an agent of the federal government under federal law.

Under the federal option, states would continue to pay UI benefits and collect state UI taxes, but they would be agents of the U.S. Department of Labor. There would be only one

federal UI law for UI benefits, taxes, and reemployment services, but the states would administer these programs and pay benefits and collect taxes for the federal government. This approach would ensure greater interstate equity for UI claimants, but it would still require multistate firms to interact with up to 53 jurisdictions.

The national option operated by the Social Security Administration would be the most efficient program, greatly reducing administrative costs. A single new and improved UI benefit and tax computer system would replace the current 53 systems operated by the 50 states and three territories. This option also would require the greatest transition effort and cost. The Social Security Administration would pay all benefits centrally but administer the program from its local offices. SSA also would collect all taxes centrally, and these funds would still be held in the Unemployment Trust Fund in the Treasury. All USDOL UI staff would have to be transferred to the Social Security Administration, and state UI employees would have to compete for Social Security Administration positions. When fully implemented, however, the new system would provide equitable treatment for all UI claimants across the country and would simplify and reduce administrative costs for multistate firms by requiring them to interact with only one governmental agency instead of 53.

APPENDIX

INTRODUCTION

This appendix describes in additional detail what the components of comprehensive UI reform would look like and what they would mean. It starts with a tabular overview summary and then discusses each of the UI reform components in more detail. This appendix builds upon and expands on the analysis from O’Leary and Wandner (2018).

Table 1 Overview of Potential Key Components of Comprehensive Legislative UI Reform

Benefits	
Applications	Automated applications should be standardized and simplified, with the provision of online and in-person support.
Eligibility	UI applicants should have strong recent attachment to the labor force to qualify for benefits UI applicants should have become unemployed through no fault of their own, with a few exceptions for current demographic and labor force developments
Benefit Amounts	Beneficiaries should receive half of their wages up to a maximum benefit amount set at two-thirds of the state average weekly wage ²⁰
Benefit Duration	The nationwide regular UI maximum benefit duration should be 26 weeks
Extended Benefits	EB should be triggered on and off based on a state total unemployment rate EB should be tiered, with increasing weeks of benefits as total unemployment levels increase
Temporary Emergency Benefits	Congress could continue to enact temporary emergency benefits in severe recessions, over and beyond Extended Benefits, but those benefits should be paid from federal general revenue

²⁰ This recommendation was endorsed by the Advisory Council on Unemployment Compensation (ACUC 1996, p. 22).

Table 1 (Continued)

Taxation	
Taxable Wage Base	The taxable wage base for the federal and state taxes should be increased sharply and then set at a percentage (50–100 percent) of the Social Security taxable wage base ²¹
Tax Rates	Under UI tax systems, each state has a series of tax schedules that are implemented to raise or lower tax receipts in accordance with variation in the adequacy their state trust fund accounts. States should be prohibited from overriding increases in tax schedules because of opposition from rate payers. Experience ratings vary greatly between the states and have proven ineffective at reducing temporary unemployment, especially as most layoffs have become permanent (Miller and Pavosevich 2019). ²² If some or all of the UI tax is shifted from employers to employees, experience rating should be eliminated.
Tax Incidence	While there is a lack of agreement among experts about who should pay the tax, having employees pay some or all (e.g., 50–100 percent) likely would reduce or end an ongoing political conflict respecting the design of the UI system—the employer-employee political conflict over the generosity of UI benefits and the level of UI taxation. Such conflict occurs with increased employee interest in policy advocacy.
Reemployment Services	
Employment Service	Funding of the Employment Service under the Wagner-Peyser Act should be increased sharply and should continue to be paid from the federal UI tax. ES should administer the UI work test and should provide in-person reemployment services to UI claimants.
Other Reemployment Services	Other effective reemployment services should be expanded. Short-Time Compensation (work sharing) should be expanded to all states. Self-Employment Assistance should be expanded to all states, and entrepreneurial training should be funded by USDOL training funds or the Small Business Administration.

²¹ The Advisory Council on Unemployment Compensation recommended that the taxable wage base be increased and then indexed (ACUC 1996, p. 40).

²² While Miller and Pavosevich (2019) find current experience rating systems to be ineffective, they recommend experimenting with new forms of experience rating.

ANALYSIS OF THE COMPONENTS OF COMPREHENSIVE UI REFORM

It is widely believed by UI program experts that the UI program is broken and needs comprehensive reform. Three proposals for such reform have been proposed in recent years by the following parties: 1) analysts from Georgetown University, the Center for American Progress (CAP), and the National Employment Law Project (NELP) (West et al. 2016); 2) the Obama administration (White House 2016); and 3) O’Leary and Wandner (2018). The three proposals differ in their scope and some of their specific proposals, but they all seek to strengthen the benefit and tax provisions of the program and improve the UI work test and the provision of reemployment services to UI recipients. Two congressionally mandated commissions—the National Commission on Unemployment Compensation (NCUC) and the Advisory Council on Unemployment Compensation (ACUC)—also have considered needed changes to the UI system that go beyond the modest reform that was enacted in 1976. The discussion below explores the individual components of UI reform in greater detail, providing specific examples that follow the O’Leary and Wandner (2018) and other proposals.

Benefit Payments

Regular UI benefits

State benefit provisions have been found to be inadequate (O’Leary 1998; O’Leary and Barnow 2016; Kimball and McHugh 2015). Under any of the proposed administrative structures, the goal of reform would be to ensure that key benefit provisions would be similarly determined in all states to ensure greater interstate equity. The basic eligibility provisions would be the same in all states. UI applicants would have to have substantial recent labor force attachment—e.g., earnings in at least two quarters during their base period, which would be the first four of the

past five completed calendar quarters. UI applicants would have to have substantial earnings— e.g., at least \$1,500 in their quarter of highest earnings, with this minimum earnings level increasing each year by the percentage increase in the Social Security taxable wage base.²³ Other eligibility conditions also would be standardized, relating to initial UI eligibility (e.g., eliminating pension offsets, allowing UI recipients to seek part-time jobs, paying benefits to individuals who move to follow their partners), and continuing eligibility (e.g., the UI work test and work search requirements).

UI recipients would receive a weekly benefit amount equal to 50 percent of their prior wages, up to a maximum benefit amount.²⁴ Currently, each state sets its own maximum weekly benefit amount. Some states index the maximum benefit, while others do not. Proposals for enacting federal benefit amount and benefit duration standards were considered during the late 1940s, 1950s, and 1960s, and they were supported by Presidents Truman and Eisenhower. The benefit amount standard that was proposed was to set the maximum benefit at two-thirds of each state's average weekly wage (Haber and Murray 1966, pp. 443–446), but the proposals were not enacted into federal law. Under all three reform proposals discussed in this appendix, Congress would need to enact a federal benefit standard. The state average weekly wage would increase each January 1, based on the state's average weekly wage in the 12 months ending on the prior June 30.

²³ Currently, some states have an alternative base period consisting of the latest 52 weeks of earnings. Collecting this data is time intensive for UI administrative staff members, and eliminating an alternative base period would allow a more automated and faster eligibility determination. On the other hand, using the alternative base period makes more workers with recent labor force attachment eligible for UI.

²⁴ Fifty percent wage replacement has been standard in the UI program for many years. Some states provide somewhat higher replacement rates for low wage workers. Higher replacement rates for low wage workers could be a component of UI reform.

The maximum potential duration for the regular UI program would be set nationwide at a uniform 26 weeks for all UI recipients. A 26-week maximum potential duration was the standard level in all states from the 1970s until 2010, when some states began reducing their maximum potential durations to reduce benefit costs and to avoid raising UI tax rates. At present, eight states have durations of less than 26 weeks (USDOL 2019a).²⁵

Under a federal-state UI system, states would be mandated to have the above provisions in their state UI laws. Under a federal UI, these standards would be set under a single federal law administered by states as agents of the federal government. Under national UI, benefit eligibility, payment levels and payment maximum, and payment durations would all be set nationally through federal law and administered by the Social Security Administration.

Extended Benefits (EB)

The Permanent EB program has been ineffective almost from its inception in 1970, largely because a faulty trigger mechanism has frequently resulted in Extended Benefits not being paid, even in states suffering from high unemployment. This deficiency could be remedied by developing a new method by which EB would be “triggered on” and “triggered off” based on the unemployment rate in each state. The triggering mechanism would be the individual state’s total unemployment rate (TUR) as calculated by the Bureau of Labor Statistics, recognizing that the past use of state insured unemployment rates (IURs) to trigger the EB program has been ineffective.²⁶

²⁵ Von Wachter (2019) recommends both a benefit amount and a benefit duration standard. He also recommends reform to “harmonize eligibility for UI across states and increase take-up rates among eligible individuals.”

²⁶ Recognizing the weakness of the EB IUR trigger, the Advisory Council on Unemployment Compensation recommended adopting a TUR trigger for the EB program more than two decades ago (ACUC 1996, p. 4).

To make the EB program sensitive to the severity of a labor market downturn, Extended Benefits would vary depending on how severe unemployment conditions are in each state. As a result, EB payment durations would be tiered, increasing the number of potential weeks paid as the state's economic situation worsens. This tiered program would be responsive to the business cycle and would recognize the difficulty that unemployed workers experience as labor market conditions deteriorate.

The formula for paying Extended Benefits would use a reasonable schedule of increasing maximum durations as the TUR increases, such as the following (O'Leary and Wandner 2018, pp. 145–150):²⁷

- 7 weeks EB would be available when TUR reaches 6.5 percent
- 13 weeks EB would be available when TUR reaches 7 percent
- 26 weeks EB would be available when TUR reaches 8 percent
- 39 weeks EB would be available when TUR reaches 9% percent
- 52 weeks EB would be available when TUR reaches 10 percent

Extended Benefits could be either paid from the current 50-50 split between state and federal trust fund accounts or paid fully from the federal account in the Unemployment Trust Fund or from federal general revenues. Using general revenues would recognize that, while the UI program can be considered a social insurance program during reasonable labor market conditions, the need for UI benefits may exceed the ability of such a program to finance these benefits in periods of very high unemployment, and a sharp economic downturn might call for a macroeconomic approach to ameliorating adverse labor market conditions.

²⁷ The Georgetown-CAP-NELP and Obama reform proposals also proposed a TUR trigger and increasing weeks of benefits payable as the severity of unemployment increases, but they offer alternative trigger points and availability of weeks of EB (O'Leary and Wandner 2018, p. 195).

The design of the EB program would be the same under all three options: 1) a federal-state, 2) a federal, or 3) a national UI structure.

Emergency Unemployment Compensation (EUC)

In every recession since 1958, Congress has enacted a temporary emergency unemployment compensation program. These have had different names, but in recent recessions they have been called Emergency Unemployment Compensation. These temporary emergency programs have continued to be enacted by Congress, even after the enactment of the Permanent Extended Benefit program in 1970, because of intense political pressure during times of high unemployment.²⁸ Thus, the U.S. UI program has become a three-tiered program, consisting of the regular UI program, EB, and EUC.

Each of these three options recognizes that, even once such legislation is enacted, Congress would determine whether and when to engage EUC programs during recessions, depending on how adequate it believes the combination of regular UI and EB is during any recession. EUC benefits would be paid from federal general revenues.

Job seeker allowance

As a social insurance program, UI pays benefits only to experienced workers who lose their jobs through no fault of their own. As a result, workers without sufficient work experience are not eligible for benefits. The joint proposal from Georgetown University, the Center for American Progress, and the National Employment Law Project recommend a “job seeker

²⁸ When the EB program was enacted in 1970, it was thought that a temporary emergency program would not be needed in future recessions.

allowance”²⁹ for workers with limited work history (West et al. 2016). Such a program would not be a social insurance program and should be considered on its merits, but it also should be considered separately from a comprehensive reform of the UI program.

Taxation

Taxable wage base

A sufficiently robust taxable wage base is critical to funding an adequate UI benefit program under any administrative design. The UI taxable wage base was set at \$3,000 in 1940 and has only been increased three times since then, reaching a level of \$7,000 in 1983—a level that has not been increased in nearly four decades. By contrast, the Social Security taxable wage base has increased nearly every year since 1940, when it was set at \$3,000, and it has been indexed since 1977. The Social Security taxable wage base was increased to \$132,900 in 2020—more than 18 times the UI taxable wage base.

The UI taxable wage base should be increased sharply and then indexed. A UI taxable wage base should be set at 50–100 percent of the Social Security wage base.³⁰ A higher taxable wage base should increase the solvency of the UI program, since states with higher taxable wage bases have been found to be less likely to have their state accounts in the Unemployment Trust Fund go broke (Vroman 2016).

²⁹ During the Recession of 1974–1975, Congress enacted a temporary Special Unemployment Assistance (SUA) program for workers not covered by UI under state laws. The SUA program was an interim step to assist jobless individuals until the 1976 amendments to the UI program expanded coverage to groups previously not eligible for UI (e.g., employees of state government, public entities, and others).

³⁰ All three proposals referenced in this appendix call for indexing the taxable wage base. They recommend setting the rate at between 33 and 50 percent of the Social Security wage base. Von Wachter (2019) also recommends indexing.

Tax rates

Tax rates are supposed to vary over the business cycle and by the past unemployment experience of employers. All state UI laws have multiple tax schedules, so that all employers are supposed to pay higher tax rates when the state UI trust fund accounts are low, and lower tax rates when the state trust fund accounts are sufficient. States also are supposed to charge employers based on their past unemployment experience. For many states, however, political pressure has been brought to bear on not raising taxes after a recession, even when these states' UI trust fund accounts need to be replenished.

Experience rating

Employer tax rates are supposed to increase in accordance with increased amounts of UI payments to their former employees—their “experience” with using the system. In fact, states vary widely in how effectively they experience-rate their benefits. It also is unclear whether experience rating achieves its original goals, in part because it was hoped this tax approach would prevent temporary layoffs. Yet today, temporary layoffs have declined sharply and almost all layoffs are permanent. The United States is the only country that uses experience rating. While some researchers advocate a revision rather than abandonment of the current experience rating system (Vroman et al. 2017; Miller and Pavosevich 2019), it may be time to abandon this approach to raising UI taxes, both because the current system is not effective and because experience rating creates an adversarial relationship between workers and employer organizations, with employers acting politically to limit or reduce benefits and taxes (O’Leary and Wandner 2020). Experience rating could not be used in any program where employees paid the UI tax, because that would penalize employees for the actions of their employers.

Tax incidence

The UI payroll tax is paid by employers. Only in three states (Alaska, New Jersey, and Pennsylvania) do employees pay a portion of that tax. Employer groups have tended to oppose increases in UI benefits or taxes because their members pay the tax. Economists have estimated that a majority of the UI tax is effectively paid by employees, because employers tend to reduce wages as their payment of benefits increases. To end the resistance to increasing UI benefits and taxes, between 50 and 100 percent of the UI tax should be paid by employees.

The above tax reforms would help to increase the collection of tax revenue to balance increases in benefits. As discussed, researchers have found that UI taxes have long been inadequate to pay sufficient UI benefits (Levine 1997; Vroman et al. 2017; O’Leary and Kline 2016).

Reemployment Services and the UI Work Test

In today’s economy, very few laid off-workers are subject to recall (Groschen and Potter 2003), because employers, rather than conducting temporary layoffs, have increasingly laid their workers off permanently. Thus, most UI recipients are permanently separated from their jobs. Moreover, many of these workers have worked for the same employer for many years and thus have not recently searched for new employment. As a result, they frequently need help in searching for and finding new work. Job matching and referral services remain extremely important, but permanently displaced UI recipients also need job search assistance services that provide unemployed workers with a comprehensive set of job search skills, including learning job search methods, writing resumes, preparing for interviews, and making decisions about job offer options.

Reemployment Services

To speed unemployed workers' return to employment, the UI program should be appropriated sufficient funds that the Employment Service can use to provide reemployment services to help unemployed workers quickly return to work. Annual funding levels for this activity would have to double to approximately \$1.3 billion and then increase each year by an escalator to pay for the rising wages of Employment Service workers (Wandner 2010, Chapter 6). Research evaluating job matching and job placements by the Employment Service has shown those programs to be cost effective (Jacobson et al. 2004, O'Leary and Eberts 2009).

Providing a comprehensive set of reemployment services is called job search training. LaLonde (1995) calls job search training (including job search, résumé writing, and job interview workshops) the most effective of all training. Job search experiments conducted over many years have found that providing a comprehensive set of these services is highly cost effective (Corson et al. 1989; Corson and Haimson 1996; Dickinson et al. 1999; Decker et al. 2000; Wandner 2010; Fortson et al. 2017), especially when comprehensive reemployment services are combined with the administration of a rigorous work search requirement (Benus et al. 2008; Michaelides et al. 2012; Corson et al. 1989; Klerman et al. 2019).

UI work test

The requirement to work-test UI claimants is contained in both Title III of the Social Security Act and the Wagner-Peyser Act. The UI work test is essential for the UI program to be a true social insurance program. As in the current UI program, proposals for UI reform would require that UI recipients demonstrate that they are able, available, and actively seeking work. Under any UI reform proposal, the UI program and the Employment Service would continue to be responsible for administering the UI work test. Depending on the option selected, the UI and

ES program would work together to ensure that UI recipients are able, available, and actively searching for work. The work test has been shown to be critical for maintaining the integrity of the UI benefit payment system (Corson, Long, and Nicholson 1985; Johnson and Klepinger 1991; Klepinger et al. 1998).

Reemployment bonuses for UI recipients

A series of reemployment bonus experiments have shown that unemployed workers respond to incentives to speed their return to work (Wandner 2010). These incentives can be cost effective to the federal government, with the cost of the reemployment bonuses being offset by reductions in UI payments for workers who return to work more quickly and by their payment of additional taxes while they are employed.

An analysis of reemployment bonus experiments (O’Leary, Decker, and Wandner 2003) indicates that, under the most cost-effective option, UI claimants would receive a reemployment bonus of three times their average weekly wage³¹ if they become reemployed by their twelfth week of UI benefit receipt, and two times their average weekly wage if they become reemployed by their twenty-fourth week of UI benefit receipt.³²

Other reemployment services

Two other reemployment services have been evaluated and shown to be cost effective. They are permissible under current federal UI law, but they have not been widely adopted or used. They should be expanded.

³¹ The average payment of three times the average weekly wage would be just over \$1,000.

³² Higher reemployment bonuses could be offered to states during periods of very high unemployment.

The first of these underused services is Short-Time Compensation (STC)/Work Sharing

While it is beneficial to help UI recipients find new jobs, the U.S. has had only limited success in implementing a program that helps keep employees from becoming unemployed in the first instance—the Short-Time Compensation/work sharing program. The program exists in only 28 states and is not widely used (USDOL 2019a). A national STC program could be far more effective.

STC is a program to help employers retain their skilled workers. It attempts to prevent unemployment in the first place by partially compensating workers for reduced hours of work during a week when employers would have otherwise laid off some of their workers. For example, an employer with 100 employees who would otherwise lay off 20 workers could instead put all the employer's workers on a four-day week. If the STC program were in effect, all workers placed on a four-day week could receive UI benefits for that one day and in this way receive up to 90 percent of their earnings for the week.³³

Under the current UI structure, state resistance to the adoption and use of STC could be reduced if the federal government paid for the program. This approach could be implemented by changing federal UI law to permit all employers in all states to implement STC programs when they need to reduce hours of employment, retaining skilled and experienced employees whom they would like to bring back to full-time employment when the demand for their goods and services strengthens. Freed from paying for STC benefits, employers would be far more interested in using the STC program than they are at present. For workers, receipt of STC benefits would not reduce their future eligibility for UI if they became unemployed.³⁴

³³ See Wandner (2010), Chapter 9.

³⁴ Only in the United States is the STC program is part of the UI program. Other developed countries fund the program through general revenue, so the U.S. disincentives to participate do not exist in those countries.

STC has been shown to be effective in the United States and other countries to reduce the likelihood of unemployment (Kerachsky et al. 1986; Walsh et al. 1997; Vroman and Brusentsev 2009; Crimmann, Wiessner, and Bell 2010; Bennicci and Wandner 2015). Participating employers and employees have had a positive response to the program (Balducchi et al. 2015).

The second of these underused other reemployment services is Self-Employment Assistance (SEA)

A small percentage of the unemployed have difficulty finding a job but are interested in starting their own businesses. This interest is greatest for permanently separated older workers who have particular difficulty finding new jobs in wage and salary employment (Wandner, Balducchi, and O’Leary 2018).

Under the self-employment program, UI recipients who would prefer to start their own small businesses rather than search for work in wage and salary employment can do so. They can receive their UI benefits if they take entrepreneurial training and work full-time to start their own businesses. Evaluations of the SEA program have shown it to be cost effective (Benus et al. 1995). At present, this program is available as a UI program in only nine states (USDOL 2019a), and even in those states it is not widely used, mostly because state UI programs do not have adequate funding to provide the entrepreneurial training that is critical to the program’s success.

SEA would be far more effective if it were available in all states and if benefits were the same as for the regular UI program. SEA benefits could be paid from the national UI account in the Treasury. The Employment Service could provide information about the SEA program and refer SEA applicants to entrepreneurial training. To encourage the use of the program, the Workforce Innovation and Opportunity Act (WIOA) program would fund entrepreneurial training for SEA participants. Since entrepreneurial training is relatively inexpensive and program participation is limited, this training could be offered at a reasonably low cost.

BEHAVIORAL RESPONSE TO UI REFORM

Because employers pay the UI tax and employees receive the benefits, and because the UI program parameters are set at the state level, employer groups and unions exert political pressure in opposite directions on state governments. After major UI reform, this conflict would continue as long as employers continue to pay the UI tax. There would be pressure on the UI system that would tend to make for wide variation in the generosity of the UI program by state, with less unionized states continuing to offer lower benefits to fewer unemployed workers (O’Leary and Wandner 2018).

Reducing or eliminating the confrontation behavioral response can occur in two ways. First, under a federal-state administered program, reform could require employees to pay 50–100 percent of the UI tax, giving employers less (or no) concern about the generosity of the UI program, and giving employees a place at the political table when state governments consider UI legislation.

Second, the federal requirements on the benefit and tax sides of the program would have to be comprehensive, making it difficult for there to be wide variation among states. For example, it would not be enough to have benefit payment and maximum potential duration standards. There would also have to be standards for benefit applications and for initial and continuing eligibility.

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