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Introduction

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Unemployment Insurance Fund Insolvency and Debt in Michigan

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Introduction

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The Michigan unemployment insurance (UI) trust fund, as of the end of July 1982, was in debt to the federal government for about \$1.6 billion. High unemployment in the state in recent years swelled UI benefit outlays to levels beyond the revenue-generating capacity of the current state UI tax structure. The result was the exhaustion of trust fund reserves and the need to borrow federal funds in order to continue paying unemployment benefits. Repayment of the debt and rebuilding a solvent UI fund constitute a serious problem with which the state must begin to cope in the immediate future.

The gravity of the problem ahead for Michigan can hardly be overstated, particularly given the state's current unfavorable economic climate and outlook. Under the present UI law, the trust fund debt can be expected to grow considerably worse in the months and years ahead. Since UI costs are essentially a burden to business, the state fund's insolvency is perceived as a threat to the success of economic recovery efforts in Michigan. How the problem is managed, in turn, will depend on how well that recovery develops.

The past pattern of the state's economy has been one of cyclical ups and downs. Concentration in durable goods

manufacturing, heavily auto-related, has made employment especially sensitive to national economic conditions. Falloff in consumer demand for new cars has accompanied declines or slowed growth in personal income and translated into deep and widespread layoffs in Michigan. With recovery, the turnaround has been equally dramatic. Outlays for unemployment benefits in the state have followed this typical boom and bust mold, and the financing of those benefits was planned accordingly. During boom periods, however, trust fund reserves did not build up to levels generally recommended as likely to ensure solvency, recommendations which guided the UI financing policies of many states. While recession rapidly depleted most of Michigan's benefit reserves, vigorous recovery led to some rapid fund buildup, enough to stave off fund insolvency in the next recession. Unfortunately, that pattern broke down in the 1970s. The major causes of this change, including the Arab oil embargo, the gasoline shortages and price inflation, and the inroads of foreign competition into American car markets, contributed to diminished resiliency of the state's economy. Recovery from recession has been less vigorous and less sustained than before. A return to the former pattern is not expected, at least in the foreseeable future. That prospect carries important long term implications for UI financing policy.

The immediate problem, however, is to deal with the present and growing UI debt. This paper presents the background and dimensions of the problem, and discusses some possible approaches for its treatment. After a description of the general financing arrangements for UI, the tax structure of the Michigan UI program and some of its eligibility and benefit provisions, the paper reviews how the debt developed, the current federal provisions for its repayment, and the present outlook for the years ahead. The ensuing discussion of potential courses of action comprises most of the balance of the paper. Some longer term state and

federal policy considerations with regard to financing and solvency are noted briefly in concluding sections.

A few words are appropriate at this point about some of the figures that will be used in the course of the paper. The substance of this cautionary note will be repeated from time to time by way of emphasis. Much of the discussion centers eventually on measures that may be taken to deal with the problem. Necessarily, the discussion must look ahead to how the problem *might* develop and what effects the various measures *might* have. In doing so, one has to develop what are hoped to be reasonable scenarios about UI fund transactions—tax revenues, benefit outlays, loans, and repayments—over the next several years under various circumstances. For this purpose, the paper uses projections made by technical staff of the Michigan Employment Security Commission (MESC). What is important to bear in mind is that the numbers projected are not hard and fast predictions of the future. They are estimates based on conditions and past behavioral relationships about which certain assumptions are made that can and probably will be different from actual experience in the coming period. As time goes on and the experience begins to unfold, the projections will be modified and refined. New projected figures will be different from those used here, perhaps quite different in some cases. Indeed, in the course of preparing this paper, estimates based on earlier MESC projections were revised to take account of unemployment levels in recent months that were running higher than assumed earlier, and of other unanticipated trends that affects the projections significantly.

The economic outlook for Michigan is currently a bleak one, but it is also clouded in a great deal of uncertainty. The same clouds shroud these estimates. Nevertheless, even though the numbers will change, the general picture projected and its major components serve as a useful framework

within which to consider legislative policy alternatives. Having worked through the possibilities based on one set of projections, it should be possible to sort out the implications of subsequently revised and updated figures.