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Summing Up: Achievements, Problems and Prospects

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Citation
Summing Up
Achievements, Problems and Prospects

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The unemployment insurance (UI) program began modestly. Initial coverage and eligibility provisions reflected a depression-era concern about the ability to finance new unemployment benefits. Based on federal law, coverage was originally restricted to firms having eight or more employees, each working at least 20 weeks in a year. No agricultural, household, nonprofit, or government employees were covered.

The benefit replacement rate most state laws set—50 percent up to a maximum weekly benefit amount of $15—was quite generous. However, benefits were usually not payable until after a 3-or-4-week waiting period had elapsed, and maximum benefit durations ranged between 12 and 20 weeks, being 16 weeks in most states. Payment was only made to involuntarily unemployed persons who were able and available for work. Eligibility and disqualification rules were tight. Unemployed workers who quit their previous job, refused suitable work, or were discharged for misconduct were generally disqualified for the duration of their unemployment (Blaustein 1993, pp. 159-169).

As World War II began, unemployment plummeted and the outlook for the UI program became more optimistic. The program entered a period of expansion, which continued into the 1960s and 1970s. It was felt that more benefits via higher benefit maximums, longer benefit durations, and decreased waiting periods could be financed. States also
expanded coverage, while at the same time reducing taxes and increasing the use of experience rating.

Today, there is powerful pressure to reduce the size of government and to decrease or eliminate some government programs, especially domestic ones. Despite this situation, the UI program today is respected as a fundamental part of the foundation for a competitive labor market. There are political pressures to transfer at least some of the federal responsibilities under the program to the states. The main target of devolution advocates is the administrative funding of the program. Nonetheless, it appears likely that UI will survive as a model federal-state program, even if there is a tilt toward more state control.

Benefit liberality reached its high point in the 1970s; since then, the generosity of both the regular and extended benefit programs has been in decline. Both state and federal UI policy has become increasingly restrictive. The permanent Extended Benefit program has been especially affected.

Federal UI policy is highly cyclical. In periods of prosperity, the program has largely been ignored; during recessions, pressures build to extend benefit durations. Because of the prior weakening of the permanent Extended Benefit program, during the past two recessions temporary emergency programs have been the primary vehicle for extending durations. These issues are examined in the following section of this chapter.

The chapter then presents summary comments on UI taxation. The discussion of benefit financing reviews trends in financing, proposals to increase the taxable wage base, and experience rating in relation to temporary and permanent layoffs. Administrative funding is considered in terms of distributional issues between states and the adequacy of annual federal budget appropriations.

Although ideas for reforms have come from many sources, there has been no comprehensive revision of the UI program since the enactment of the Unemployment Compensation Amendments of 1976. Two advisory bodies have been established by Congress to review the UI program and to make policy recommendations: the National Commission on Unemployment Compensation in 1976 and the Advisory Council on Unemployment Compensation in 1991. The fourth section of this concluding chapter reviews the recommendations of these two bodies, fol-
lowed by a discussion of the important concept of preserving the insurance principle in section five.

During the past decade, various innovative ideas to change the UI system have been proposed and investigated. The integration of the UI system into a broader reemployment system has also begun as part of the response to the growth in permanent job loss and worker dislocation. Ideas for new approaches to the UI program, particularly for reemploying UI recipients, have emerged from a series of state and federal field experiments in UI conducted over the past ten years. Some of the findings from these experiments have resulted in federal legislation that improves the reemployment incentives in UI. This experience is discussed, along with the response of the UI system to new technologies for administration of benefits and the system’s potential to adjust to fundamental changes in the labor force behavior of American workers. The concluding section considers the likely future of the UI program.

**Benefit Trends in the Unemployment Insurance System**

The total benefits paid by the UI system can be expressed as the product of the number of benefit recipients, the average benefit level, and the average duration of benefits. The information needed to compute the total can be gathered as the answers to three simple questions: who, how much, and how long? More specifically:

- **Who?** Persons with recent labor market experience unemployed through no fault of their own
- **How much?** Partial wage replacement
- **How long?** Temporary wage replacement

Trends in benefit payments from the system depend on answers to one or more of these and related questions. This is the approach of our brief review of coverage and eligibility in this section.
Who Receives Benefits? Coverage, Eligibility, and Disqualifications

Coverage under UI is generally defined by the industry or other characteristics of the employer. UI coverage has gradually expanded over the past sixty years as it became clear that covering all experienced wage and salary workers was feasible. The 1976 amendments left experienced wage and salary workers uncovered in only a very few industries and types of firms.

Given the nature of UI as an insurance system, the reason for job separation is crucial to determining eligibility, and thus how many of the UI-covered ultimately receive benefits. The UI program generally only compensates experienced wage and salary workers who have lost their jobs through no fault of their own.

In the Current Population Survey (CPS), the household survey from which total employment and unemployment are estimated, one may enter unemployment for any one of four reasons. One may have lost a job, left a job, be a new entrant to the labor force, or be a reentrant returning to the labor force after some hiatus. Under the various current state laws, as shown in table 15.1, UI only has the potential to compensate 40 to 60 percent of all the unemployed who are job losers. Since UI typically provides only 26 weeks of benefits, its true potential is the even smaller fraction of job losers who are unemployed up to 26 weeks. A sizable proportion of this population actually receives UI benefits.

The relationship between the number of job losers and the number of workers claiming UI—the average weekly insured unemployment (AWIU)—in the regular UI program has fluctuated over time. Throughout the 1970s, the number of regular program UI claimants approximated the number of job losers. Since the early 1980s that fraction has been at a much lower level, although there are signs of rebound since 1984. Actual benefit receipt reflects demographic and economic factors as well as state UI laws. Chapters 2, 3 and 4 of this book reviewed the issues of coverage and of initial and continuing eligibility that influence who collects UI benefits.

Coverage

As noted, since the 1976 amendments, most wage and salary workers are in jobs covered by UI. Agricultural and household workers are
Table 15.1 Job Losers and Other Unemployed Workers, by Reason for Unemployment, 1967-1994

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Job losers</th>
<th>Job leavers</th>
<th>Reentrants</th>
<th>New entrants</th>
<th>Total unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level (thousands)</td>
<td>Percent of total</td>
<td>Level (thousands)</td>
<td>Percent of total</td>
<td>Level (thousands)</td>
</tr>
<tr>
<td>1967</td>
<td>1,229</td>
<td>41.3</td>
<td>438</td>
<td>14.7</td>
<td>945</td>
</tr>
<tr>
<td>1968</td>
<td>1,070</td>
<td>38.0</td>
<td>431</td>
<td>15.3</td>
<td>909</td>
</tr>
<tr>
<td>1969</td>
<td>1,017</td>
<td>35.9</td>
<td>436</td>
<td>15.4</td>
<td>965</td>
</tr>
<tr>
<td>1970</td>
<td>1,811</td>
<td>44.2</td>
<td>550</td>
<td>13.4</td>
<td>1,228</td>
</tr>
<tr>
<td>1971</td>
<td>2,323</td>
<td>46.3</td>
<td>590</td>
<td>11.8</td>
<td>1,472</td>
</tr>
<tr>
<td>1972</td>
<td>2,108</td>
<td>43.2</td>
<td>641</td>
<td>13.1</td>
<td>1,456</td>
</tr>
<tr>
<td>1973</td>
<td>1,694</td>
<td>38.8</td>
<td>683</td>
<td>15.6</td>
<td>1,340</td>
</tr>
<tr>
<td>1974</td>
<td>2,242</td>
<td>43.5</td>
<td>768</td>
<td>14.9</td>
<td>1,463</td>
</tr>
<tr>
<td>1975</td>
<td>4,386</td>
<td>55.3</td>
<td>827</td>
<td>10.4</td>
<td>1,892</td>
</tr>
<tr>
<td>1976</td>
<td>3,679</td>
<td>49.7</td>
<td>903</td>
<td>12.2</td>
<td>1,928</td>
</tr>
<tr>
<td>1977</td>
<td>3,166</td>
<td>45.3</td>
<td>909</td>
<td>13.0</td>
<td>1,963</td>
</tr>
<tr>
<td>1978</td>
<td>2,585</td>
<td>41.7</td>
<td>874</td>
<td>14.1</td>
<td>1,857</td>
</tr>
<tr>
<td>1979</td>
<td>2,635</td>
<td>42.9</td>
<td>880</td>
<td>14.3</td>
<td>1,806</td>
</tr>
<tr>
<td>1980</td>
<td>3,947</td>
<td>51.7</td>
<td>891</td>
<td>11.7</td>
<td>1,927</td>
</tr>
<tr>
<td>1981</td>
<td>4,267</td>
<td>51.6</td>
<td>923</td>
<td>11.2</td>
<td>2,102</td>
</tr>
<tr>
<td>1982</td>
<td>6,268</td>
<td>58.7</td>
<td>840</td>
<td>7.9</td>
<td>2,384</td>
</tr>
<tr>
<td>1983</td>
<td>6,258</td>
<td>58.4</td>
<td>830</td>
<td>7.7</td>
<td>2,412</td>
</tr>
<tr>
<td>1984</td>
<td>4,421</td>
<td>51.8</td>
<td>823</td>
<td>9.6</td>
<td>2,184</td>
</tr>
<tr>
<td>1985</td>
<td>4,139</td>
<td>49.8</td>
<td>877</td>
<td>10.6</td>
<td>2,256</td>
</tr>
</tbody>
</table>

(continued)
Table 15.1 (continued)

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Job losers Level (thousands)</th>
<th>Job leavers Level (thousands)</th>
<th>Reentrants Level (thousands)</th>
<th>New entrants Level (thousands)</th>
<th>Total unemployment (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>4,033</td>
<td>1,015</td>
<td>2,160</td>
<td>1,029</td>
<td>8,237</td>
</tr>
<tr>
<td>1987</td>
<td>3,566</td>
<td>965</td>
<td>1,974</td>
<td>920</td>
<td>7,425</td>
</tr>
<tr>
<td>1988</td>
<td>3,092</td>
<td>983</td>
<td>1,809</td>
<td>816</td>
<td>6,701</td>
</tr>
<tr>
<td>1989</td>
<td>2,983</td>
<td>1,024</td>
<td>1,843</td>
<td>677</td>
<td>6,528</td>
</tr>
<tr>
<td>1990</td>
<td>3,322</td>
<td>1,014</td>
<td>1,883</td>
<td>654</td>
<td>6,874</td>
</tr>
<tr>
<td>1991</td>
<td>4,608</td>
<td>979</td>
<td>2,087</td>
<td>753</td>
<td>8,426</td>
</tr>
<tr>
<td>1992</td>
<td>5,291</td>
<td>975</td>
<td>2,228</td>
<td>890</td>
<td>9,384</td>
</tr>
<tr>
<td>1993</td>
<td>4,769</td>
<td>946</td>
<td>2,145</td>
<td>874</td>
<td>8,734</td>
</tr>
<tr>
<td>1994</td>
<td>3,815</td>
<td>791</td>
<td>2,786</td>
<td>604</td>
<td>7,996</td>
</tr>
<tr>
<td>1967-1994 average</td>
<td>49.5</td>
<td>11.9</td>
<td>26.9</td>
<td>11.7</td>
<td></td>
</tr>
</tbody>
</table>
the main groups outside UI coverage. A much larger group that could be covered consists of the self-employed. Reducing or eliminating requirements for substantial work experience to embrace new labor force entrants and reentrants could also greatly increase the number of workers covered by UI, although coverage of these last two groups is hard to justify on insurance grounds.

Self-employment has grown rapidly in the United States. According to the U.S. Small Business Administration, the number of self-employed workers in the United States rose from 5.99 million individuals in 1981 to 6.46 million in 1985. In 1985, 9.1 percent of all nonagricultural workers were engaged in self-employment (U.S. Small Business Administration 1989). This sharp growth has removed an increasing portion of the U.S. labor force from potential UI coverage. There are considerable conceptual and practical barriers to covering the self-employed within the current UI framework. These include difficulties in distinguishing periods of employment from periods of unemployment, determining the level of wages and salaries during periods of employment, and ascertaining reasons for separation.

Making coverage available to workers without recent labor market experience would allow some new entrants and reentrants to be beneficiaries under the UI program. Such coverage opens up another series of problems. First, UI in the United States is an insurance program that provides protection against the risk of involuntary unemployment. Covering those with no recent labor market experience would violate the insurance principle by allowing benefits to be paid to those who choose to leave the status of nonemployment for that of unemployment. This would make the UI program a form of unemployment compensation or unemployment assistance that exists in some other industrial countries. Second, there is the issue of setting the level and duration of benefits. Clearly there would be no wage or employment history on which to base benefits; they would have to be uniform or be based on need.

Covering new entrants and reentrants to the labor force would result in UI becoming a dual system. Benefits for experienced workers would be based on labor market experience—an insurance principle—while benefits for everyone else would be based on need—a welfare principle. Both parts would have to be administered, simultaneously and
side-by-side. Other developed industrial nations have shown little enthusiasm for such coverage.

*Eligibility and Disqualification*

Over the past five decades, states have gradually tightened UI eligibility criteria. This tightening has involved both initial eligibility and continuing eligibility for UI benefits. To retain the insurance character of UI, states have tended to exclude most claimants who voluntarily leave a job from initial UI eligibility. Over the years, the states have wrestled with whether to make these unemployed workers eligible after some fixed, limited period of time or to disqualify them for the entire period of their unemployment. The logic of a limited disqualification is that, while an unemployed worker may have originally left a job voluntarily, after a certain period of time the unemployment effectively becomes involuntary, as a result of labor market conditions and not because of the personal choice to quit the prior job. At first, most states disqualified claimants for the whole benefit year. As can be seen in table 15.2, by 1952, most states had adopted limited-duration disqualifications. The pendulum has swung back sharply since 1970.

**Table 15.2 Number of States with Disqualifications for the Duration of Unemployment, by Reason for Disqualification**

<table>
<thead>
<tr>
<th>Year</th>
<th>Voluntary leaving</th>
<th>Discharge for misconduct</th>
<th>Refusal of suitable work</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>12</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>1960</td>
<td>18</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>1970</td>
<td>27</td>
<td>25</td>
<td>23</td>
</tr>
<tr>
<td>1980</td>
<td>43</td>
<td>33</td>
<td>30</td>
</tr>
<tr>
<td>1990</td>
<td>50</td>
<td>42</td>
<td>41</td>
</tr>
<tr>
<td>1995</td>
<td>50</td>
<td>41</td>
<td>41</td>
</tr>
</tbody>
</table>

*Source: U.S. Department of Labor (various years, 1952-1995)*

A trend toward tightening eligibility was completed by 1990. While from the 1940s through much of the 1960s the UI program served both job losers and, with a delay, job leavers, the tide then turned. Today, nearly all states serve job losers only. As can be seen from table 15.1,
the result has been a cut in the portion of unemployed workers who could potentially receive UI from about three-fifths to about one-half. It does not seem likely that the current state restrictions on eligibility for voluntarily leaving a job—or for other reasons, such as discharge for misconduct or refusal of suitable work—will change substantially in the near future.

How Long Are Benefits Provided?

The duration of benefits is related to two different policy considerations: the maximum potential duration of benefits under the regular program and the availability and potential duration of extended benefits. For the first two decades of the UI program, there were no extended benefit programs. The question to be answered was the following: How long a period of temporary unemployment should be compensated?

In 1958, Congress began a lengthy, fitful debate over the issue of long-term unemployment compensation. The discussion concerned whether there was a federal responsibility to deal with unemployment that states decided endured beyond the "temporary" period they could afford to insure, and whether this should be addressed from the standpoint of the affected individual or of whole geographic areas.

Regular Unemployment Insurance Duration

The appropriate maximum potential duration of benefits under the regular UI program seems to have been settled by consensus. A maximum potential duration of 26 weeks of regular benefits is now the norm. Only two states, Washington and Massachusetts, offer a different maximum duration of 30 weeks.

At the inception of the federal-state UI program, there was a lack of uniformity among states on the maximum potential duration of benefits. Because of early actuarial studies that expected far greater demands on the UI system than in fact occurred, six months of benefits seemed financially out of reach. In 1940, with all state UI programs operational, the most popular maximum potential duration of benefits was 16 weeks. As seen in table 15.3, twenty-seven states offered up to 16 weeks, fourteen had shorter potential durations, and nine had longer
potential durations: only two states ventured to the current norm of 26 weeks.

### Table 15.3 Maximum Duration of the Regular Unemployment Insurance Program (in weeks)

<table>
<thead>
<tr>
<th></th>
<th>12-15</th>
<th>16</th>
<th>17-19</th>
<th>20</th>
<th>21-25</th>
<th>26</th>
<th>27-39</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>14</td>
<td>27</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>1945</td>
<td>2</td>
<td>12</td>
<td>4</td>
<td>20</td>
<td>7</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>1950</td>
<td>7</td>
<td>4</td>
<td>2</td>
<td>22</td>
<td>9</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>1955</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>10</td>
<td>9</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>1960</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>7</td>
<td>33</td>
<td>9</td>
</tr>
<tr>
<td>1965</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>40</td>
<td>9</td>
</tr>
<tr>
<td>1970</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>41</td>
<td>10</td>
</tr>
<tr>
<td>1975</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>42</td>
<td>9</td>
</tr>
<tr>
<td>1980</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>42</td>
<td>9</td>
</tr>
<tr>
<td>1985</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>48</td>
<td>3</td>
</tr>
<tr>
<td>1990</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>50</td>
<td>2</td>
</tr>
<tr>
<td>1995</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>51</td>
<td>2</td>
</tr>
</tbody>
</table>


State attitudes about the maximum potential duration of UI changed rapidly after World War II. The war years had been a period of low unemployment, and an expected postwar recession never materialized. As a result, maximum durations expanded rapidly. In the late 1940s, a large plurality of states selected 20 weeks as their maximum. In the 1950s, however, a consensus began to emerge that 26 weeks was the right figure for the UI program. By 1960, thirty-three states had legislated 26-week maximums, and by 1980, forty-two. Interestingly, between 1960 and 1980 about nine states flirted with longer (27- to 39-week) durations. Since 1990, seven of them have dropped back to the consensus 26-week limit.

Today, a maximum of six months of regular UI benefits is viewed as standard. It is the base from which extended benefits have been considered and implemented. The 26-week maximum duration is likely to continue to be a fixed feature for the near future of the regular UI program. The determination of states not to pay more than 26 weeks of
benefits pointed to the need for extended support during a period of high unemployment. When the permanent Extended Benefit program was created in 1970, it took for granted the emerging norm of 26 weeks of regular UI benefits and built an extension upon that base.

*Extended Duration of Unemployment Insurance Benefits*

Debate on extended UI benefits centers on two main issues. The first has been a concern since the 1950s: How to deal with long-term cyclical unemployment? The other issue dates mainly from the early 1980s and concerns long-term unemployment due to structural change rather than to fluctuations in the business cycle.

Despite concerns about the importance of long-term cyclical unemployment and the problem of workers who are permanently separated from their previous employment, most unemployed persons are only temporarily disconnected from their jobs. As a result, the UI program mainly provides short-term income support to workers who return to the same or similar jobs. In fact, since 1971, the average duration for an insured spell of unemployment has varied between a low of 5.4 weeks in 1974 and a high of 8.1 weeks in 1993. The duration per spell of unemployment remained at a high level of 7.9 weeks in 1994, despite the improved economy. Nonetheless, only 27-40 percent of regular program beneficiaries exhausted their entitlement to UI benefits in each of the past twenty-five years.

The policy history of extended UI benefits reflects the view of the federal government that most recessions are national in scope and require a federal policy response. The programs also reflect the political reaction of Congress to the needs of constituents when recessions increase both the numbers of job losers and their durations of unemployment. High rates of regular benefit exhaustion have frequently prompted a congressional response.

As discussed in chapter 6, long-term unemployment during recessionary periods has generated a congressional response in the form of both the permanent Extended Benefit (EB) program and a series of temporary (generally third-tier) emergency programs. The first temporary emergency program was enacted during the 1958 recession. The permanent EB program, enacted in 1970, was designed to eliminate the need for such ad hoc congressional responses to each recession. That intent has not been realized. Regardless of the strength of the perma-
nent EB program, since its enactment, Congress has felt a need to intervene with additional programs in each recession.

Table 15.4 Extended Benefits and Emergency Program Benefits as a Percentage of Regular Program Benefits

<table>
<thead>
<tr>
<th>Payment period</th>
<th>Extended benefits as a percentage of regular benefits</th>
<th>Emergency benefits as a percentage of regular benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recession</td>
<td>Examined</td>
<td></td>
</tr>
<tr>
<td>1990-1991</td>
<td>1990-1994</td>
<td>0.5</td>
</tr>
</tbody>
</table>

SOURCE U.S. Department of Labor, UI Database.

Table 15.4 summarizes the relative importance of the permanent and temporary extended benefit programs over the past two-and-a-half decades by listing the percentage of regular benefits paid by each during recession periods. The table shows that the permanent EB program as originally enacted was a true second-tier program. During the 1974-1975 recession, EB payments exceeded the temporary Federal Supplemental Benefits despite the high level of payments by this third-tier program. EB payments declined in the early 1980s after the legislative tightening of the program in 1981. Finally, in the most recent recession, EB payments became negligible, and Emergency Unemployment Compensation bore the full weight of providing benefits for regular program exhaustees.

**How Much Is Paid in Weekly Benefits?**

A central standard of UI since program inception has been replacement of 50 percent of lost wages and salaries for the great majority of claimants. Most state UI formulas do replace about half of lost wages and salaries up to a maximum benefit. However, despite fifty years of exhortation and unsuccessful federal legislative efforts, the goal of replacing half of prior wages for the great majority of UI recipients has not been approached. The main impediment is usually the fixed state
maximum benefit level, which constrains the replacement rate for high-wage individuals (see Haber and Murray 1966, pp. 441-444; O'Leary 1996).

In general, during the past half century, the rule advocated to achieve the goal of 50 percent wage replacement for most workers has been to set the maximum benefit amount at two-thirds of the average weekly wage in the state. While nine states had provisions in 1996 to set the maximum weekly benefit amount at or above two-thirds of the state average weekly wage (see table 5.2 in chapter 5), as table 15.5 shows, in 1993, on the basis of aggregate average data, only one state had a maximum weekly benefit that high. In most states, in fact, the maximum was less than 50 percent of their average weekly wage.

Table 15.5 Maximum Weekly Benefit Amount as a Percentage of the Average Weekly Wage, Calendar Year 1993

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Number of states</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 40%</td>
<td>8</td>
</tr>
<tr>
<td>40 - 49%</td>
<td>23</td>
</tr>
<tr>
<td>50 - 59%</td>
<td>15</td>
</tr>
<tr>
<td>60 - 65%</td>
<td>6</td>
</tr>
<tr>
<td>66 2/3% or more</td>
<td>1</td>
</tr>
</tbody>
</table>

SOURCE U.S. Department of Labor, UI Database

As a result, the U.S. gross replacement rate—the average weekly benefit amount divided by the average weekly wage—has been considerably below the targeted 50 percent. Throughout the post-World War II period, UI benefits have generally replaced about one third of lost income. As shown in table 5.1, since 1947 the gross replacement rate has only varied between 0.32 and 0.37.

Individual state replacement rates reflect specific legislative provisions, and the national replacement rate masks big differences between states. At the high end, Hawaii replaces 51 percent, and Kansas and Rhode Island replace 44 percent. At the low end, California and Alaska replace 28 percent.
The Gap Between Insured and Total Unemployment

Since the early 1980s, there has been growing interest in the proportion of unemployed workers who receive UI benefits. The U.S. Department of Labor has funded four studies to better understand this issue (see Burtless and Saks 1984; Corson and Nicholson 1988; Vroman 1991). This research has provided insight into the reasons for the gap between total unemployment, as measured by the CPS, and insured unemployment. Another formulation of this concept is the recipiency rate, which is the proportion of all unemployed who receive UI benefits.

As discussed in chapter 2, the gap has also become an important policy issue because of the belief that closing much of it is within the control of state and federal governments. However, research funded by the Department of Labor has shown that much of the gap is due to factors not directly influenced by policy action. The causal factors identified by research include the changing industrial mix of employment in the United States and the way that unemployment is measured.

The gap has been a target of critics who argue that the UI system is inadequate, both with respect to the regular UI program at all times and to extended benefit programs during recessionary periods. The size of the gap is related to nearly all of the benefit payment provisions of the program. Eligibility and disqualification provisions directly determine who receives benefits, and duration provisions determine how long benefits are paid. Furthermore, the level of UI benefits may affect whether unemployed workers apply for benefits and how long they draw benefits.

Another major concern about the gap, measured as the ratio of insured unemployment to total unemployment, is the fact that UI benefit provisions keep the ratio low for the regular UI program as compared to that of other developed industrial nations. The gap also varies with the business cycle and falls during periods of economic expansion. As a result, advocates for wider availability of regular benefits frequently criticize the program because of the low percentage of the total unemployed drawing UI benefits during peaks in the business cycle (see Baldwin and McHugh 1992).

As shown in table 15.6, the annual average recipiency rate for the regular program has varied between 29 and 50 percent since 1967. The
Table 15.6  Percentage of Unemployed Receiving UI, National Averages, 1967-1994

<table>
<thead>
<tr>
<th>Year</th>
<th>Regular state UI (percent)</th>
<th>All programs (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>41</td>
<td>43</td>
</tr>
<tr>
<td>1968</td>
<td>39</td>
<td>42</td>
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<td>1969</td>
<td>39</td>
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<td>1970</td>
<td>44</td>
<td>48</td>
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<td>1971</td>
<td>43</td>
<td>52</td>
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<tr>
<td>1972</td>
<td>38</td>
<td>45</td>
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<td>1973</td>
<td>37</td>
<td>41</td>
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<td>1974</td>
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<td>1976</td>
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<td>1977</td>
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<td>1978</td>
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<td>1980</td>
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<td>1981</td>
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<td>1982</td>
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<td>1983</td>
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<td>1991</td>
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<td>1992</td>
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<td>1993</td>
<td>32</td>
<td>48</td>
</tr>
<tr>
<td>1994</td>
<td>34</td>
<td>37</td>
</tr>
</tbody>
</table>

NOTE: The category “all programs” includes regular state UI, and UI benefits for former civilian federal employees (UCEF), former armed services personnel (UCX), railroad employees (RR), extended benefits (EB), federal supplemental benefits (FSB), special unemployment assistance (SUA), federal supplemental compensation (FSC), and extended unemployment compensation (EUC).
size of the gap reflects the nature of the UI program as a system to partially compensate for job loss. While job losers make up about half of all unemployed persons, as can be seen in table 15.1, their share of the total grows during periods of recession. Policy actions that could reduce the gap include broadening coverage, extending program duration, and easing initial and continuing eligibility provisions.

While small potential increases in coverage among agricultural employees, domestic workers, and nonprofit employees can be made, expanding coverage can reduce the gap for the regular UI program only by expanding beyond the traditional areas and diminishing its insurance character. Examining the situation for all UI programs, including extended benefit programs, reveals another possible way to close the gap. During recessions, extended benefit programs have greatly raised the ratio of the insured to total unemployed. The ratio reached as high as 75 percent in 1975. Thus, although generous extended benefit programs would do little to reduce the large gap in times of low unemployment, extended benefits could cut the gap considerably during recessionary periods when job losers become a much larger share of all unemployed.

Finally, table 2.1 shows the wide differences in the gap among states. In 1993, the proportion of the unemployed claiming UI ranged from 64 percent in Alaska to 15 percent in South Dakota. The gap also varies systematically by region of the country. It tends to be smallest in New England and on the West Coast, and largest in the South, the Southwest and in the Rocky Mountain states. The wide disparity in the gap by state is evidence that differences in state policy and state administration with regard to regular UI program parameters are the principal policy determinant. Thus, to a considerable extent, closing the gap is an issue of the tightness or looseness of state UI law and policy.

Although one may speak of closing the gap, in reality, eliminating it is an illusion—if we compare UI claimants to the total population of total unemployed persons. The gap exists partly because of the exclusion of new entrants and reentrants, whose coverage is beyond the scope of an insurance program.

By the 1980s, the UI program had evolved into a system that pays benefits to job losers only for a period of up to 26 weeks, except in times of recession. As a result, a reasonable baseline for analyzing UI recipiency can be directed at unemployed workers who have lost their
job and who are unemployed for under 27 weeks. This approach would suggest comparing actual recipiency to the level of recipiency if all job losers unemployed less than 27 weeks claimed UI benefits. For this group, it can be seen in figure 15.1 that the UI program serves the great majority of short-term job losers. While the proportion has declined somewhat in recent years, since the early 1980s the UI program has still served about four-fifths of this segment of the unemployed population. State and federal policy changes could have opened up benefit receipt to a wider number of unemployed workers which would have raised the recipiency rate further. For example, eligibility could be extended to a small portion of unemployed workers who had low base-period earnings or had worked part-time.

Trends in Unemployment Insurance Financing

Benefit Financing

Overly pessimistic economic assumptions used during the design of the federal-state UI system in the 1930s resulted in lower-than-expected benefit charges and higher-than-needed revenues. There was a substantial buildup of reserves prior to initial benefit payments in the late 1930s. On top of this, the virtual full employment during the years of World War II resulted in the excessive accumulation of reserves. As a result, as shown in figure 8.2, UI taxes were reduced sharply at the end of the war, largely through the state-by-state spread of experience rating.

Despite initial overfunding, the UI system began moving toward long-term financial problems. The process started with the imposition of a maximum UI taxable wage base, set at $3,000 in 1939. It continued with the failure of state and federal legislators to follow the example set by the social security system of gradually increasing the taxable wage base to more or less keep up with inflation. The result of the diverging taxable wage bases for the two programs is summarized in figure 8.4.

While the taxable wage base has remained relatively constant in nominal terms, it has steadily declined both in real terms and relative to
Figure 15.1  Regular Program Insured Unemployed as a Percentage of Job Losers Unemployed Less Than 27 Weeks

NOTE: Recessions are indicated from peak (P) to trough (T) by shaded bands
average wages. The small increases in the taxable wage base have proved to be only modest and temporary exceptions to the trend. Although the UI average tax rate on taxable wages has been on an upward trend since World War II, as shown in figure 8.3, the UI system has not achieved a sound financial footing in large part because of the shrinking taxable wage base. Benefit levels, on the other hand, have increased with wages and prices and have remained relatively constant in real terms.

Chapter 9 points out that, although the period from 1979 to the present has seen some rebuilding of the UI trust fund, reserves have not reached the level attained just before the 1974-1975 recession. The rebuilding was spurred in part by the decision of the federal government to begin charging interest on state trust fund borrowing in 1982. Although this provided a strong incentive for states to maintain a solvent trust fund, the recovery of adequate state trust fund reserves has been modest. As chapter 9 discusses, part of the explanation for this limited growth in reserves may be the increased reliance by states on a responsive financing system rather than on a system that makes extensive and substantial use of forward funding. State legislatures have felt political pressure to reduce UI tax rates, even when state trust fund accounts have been below the level considered sufficient on an actuarial basis to weather the next recession.

One policy conclusion from this analysis that economists widely accept is a need to increase the UI taxable wage base and then to index the wage base to keep up with inflation. This is a conclusion of Levine in chapter 8. It has also been a recommendation of the National Commission on Unemployment Compensation in 1980 and of the Advisory Council on Unemployment Compensation in 1995. Despite this widespread policy consensus, strong opposition in the business community has meant little movement in the UI taxable wage base throughout six decades of the program, and no increase in the base in well over a decade. The result is an enormous difference between the taxable wage bases of the two programs which started at the same time. While the indexed wage base for social security stands at $65,400 in 1997, the UI program continues with a federal taxable wage base of $7,000 and little prospect for change.

Another concern of economists in their study of the UI system since at least the 1970s has been the impact of imperfect experience rating.
Analysis has demonstrated how less-than-perfect experience rating offers incentives to employers to initiate temporary layoffs. For example, Levine concludes in chapter 8 that layoffs would be 20 to 50 percent lower in a perfectly experience-rated system.

While perfect experience rating has never been a goal of the state or federal policy makers, the degree of experience rating differs widely among states. Analysts have tried to draw attention to this variation by developing empirical measures of experience rating. These indexes have been analyzed and measured over the past decade and a half (see Wandner and Crosslin 1980; Topel 1984; Hunt and O'Leary 1989; Vroman 1989). The Department of Labor has published an experience-rating index for each state since 1988. There is not yet any indication that its publication has resulted in any measurable change in overall experience rating or even in a narrowing of variation among states in their degree of experience rating.

Although most economists believe that the degree of experience rating should be increased, policy makers cannot necessarily agree on whether or how this should be done. For example, in its final report released in January 1996, the Advisory Council on Unemployment Compensation did not offer a majority recommendation on this matter.

Most analysis of the experience rating of UI taxes has been directed at its role in financing temporary periods of unemployment. Brechling and Laurence (1995) have investigated how experience rating might operate in response to permanent layoffs. As mentioned throughout this book, permanent job separations resulting from business restructuring and plant closings have increased tremendously since the 1980s. New UI financing strategies must address this issue.

Brechling and Laurence (1995) conclude in their book that increasing the extent of experience rating is as appropriate in the case of permanent layoffs as in the case of temporary layoffs, but caution that it is more difficult to accomplish. They argue that, just as for temporary layoffs, experience rating for permanent layoffs can be improved by raising maximum tax rates and lowering minimum tax rates. However, Brechling and Laurence assert that these actions alone are not sufficient. They advocate additional steps to require that firms with declining employment internalize a greater share of the costs that result from their layoffs.
Brechling and Laurence (1995) recommend two additional changes: (1) shortening the time lag when determining the UI tax rate for an employer; and (2) uniform adoption of the reserve ratio method of experience rating, with several modifications. To minimize the time lag in setting employer tax rates, they propose that the UI tax rate for the current year be determined by the employer’s reserve ratio at the end of the prior year.

They favor the reserve ratio system of experience rating for two main reasons. First, a positive trust fund balance could easily be incorporated as an asset on the firm’s balance sheet, while a negative balance could be entered as a liability. Requiring these entries on the balance sheet may induce firms to more fully consider the UI tax consequences of layoff actions. Second, if a firm goes into bankruptcy, its positive balance would be refunded, while any negative balance would make the state UI trust fund a creditor in legal proceedings. These recommendations directly address the problem the UI program faces in financing benefit payments for \textit{inactive} employers. Finally, Brechling and Laurence recommend that firms be paid interest on their positive trust fund balances and be charged interest on their negative balances. Interest owed by negative balance employers would be collected in cash, while interest payable would be added to the firm’s positive balance. By penalizing negative balances and rewarding positive balances, these policy recommendations are intended to encourage firms to build up UI trust funds.

The analysis of the financing of both temporary and permanent layoffs assumes that raising experience-rated charges to employers will result in greater internalizing of UI costs by employers imposing layoffs. Employers, however, are not charged for layoffs until determinations are made by the state UI agency that they are responsible for the given layoffs. As a result, firms have an incentive to challenge the attribution of layoffs to them. The growth of challenges related to benefits and separation issues and the growth of private service bureaus, which manage UI accounts for both private and public employers, are indications that employers are choosing to dispute potential charges to their UI account, either themselves or through their agents. To date, there has been no study of the effect of UI service bureaus on the personnel policies of employers or on the operation of UI. Such a study would
enlighten policy on experience rating and benefit eligibility; however, proper data to investigate this issue would be very difficult to obtain.

**Administrative Financing**

Administrative financing is discussed at length in chapter 13 as a federal-state relations issue. In one sense, UI administrative financing should be very simple and straightforward. The UI program is very efficiently administered, it is highly automated, and its costs are low. Administration costs about six cents per dollar of benefits paid and about three cents per dollar of tax collections. Nonetheless, there are a number of controversial questions in UI administrative financing. Who should collect FUTA tax money that is used for administrative financing and other purposes? How should the administrative funds be distributed among the states? Also, how much money should be distributed each year?

In chapter 13, West and Hildebrand discuss the issue in the context of the search for balance between the federal and state partners in the system. Contention between the partners is probably greatest over the question of how big the total administrative financing level should be, as opposed to the question of how money should be allocated among states.

Just as subsidies flow from employers with low layoffs to employers with high layoffs due to imperfectly experience-rated financing of benefit charges, cross subsidies between the states have long existed in administrative financing. These cross-subsidies have been measured by the U.S. Department of Labor for nearly two decades, and the results have been published and made available to the states and other interested parties (see Van Erden and Wandner 1979). Unlike the undesirable subsidies in benefit financing, the subsidies in administrative financing are intentional and closely managed. The principal reason for administrative cross-subsidies is to accommodate the differences in UI workloads, which result mainly during recessionary periods that do not impact all regions of the country equally. These cross-subsidies accommodate regional downturns such as the “Oil Patch” recession of the mid-1980s. Persistent cross-subsidies also result from the higher cost of administering UI programs in low-density, low-population regions.
While many cross-subsidies tend to be intermittent and to move from one portion of the country to the other, historically there have been some persistent "winners" and "losers" among the states. Not surprisingly, the persistent losers have tended to spearhead the demand for devolution of UI administrative funding. The call for an end to cross-subsidies in UI administrative financing and more limited calls for the end of federal extended benefits seem to represent a retreat from the national public policy focus of UI.

Of great public policy concern is the developing problem of inadequate total resources for UI administrative financing. UI is an entitlement program and, as such, it is treated as a "mandatory" item in the federal budget. The funds needed to pay UI benefits are thus automatically appropriated. Administrative financing, however, is treated as "discretionary" under the federal budget. This means that UI administrative financing must compete with other items for funding within the single, limited federal budget appropriation for the U.S. Departments of Labor, Education, and Health and Human Services. As a result, there is no guarantee that the funding needed to administer UI workloads and to cover state salary increases will be made available. There is a basic contradiction in recognizing that UI benefits payments are driven by state unemployment, while ignoring the fact that claims loads affect administrative costs as well. Concern over administrative financing is heightened by the unique nature of the UI program: no other federally funded program expands and contracts so much over the business cycle.

If UI administrative financing remains a discretionary item in the federal budget, the long-term survival of the UI system as a national unemployment program will be in jeopardy. Unfortunately, efforts by the states and the executive branch to work with Congress toward making UI administrative financing "mandatory" under the federal budget, or to adopt some other similar rule, have not been successful.
Ideas for Reform and Change: Recommendations from Two National Commissions

There has been no comprehensive reform of the UI system since 1976. The Congress that enacted the Unemployment Compensation Amendments of 1976 did not expect that a two-decade hiatus in reform legislation would follow. Indeed, the 1976 legislation established the National Commission on Unemployment Compensation (NCUC). The final report of the NCUC was issued in 1980 and has languished since then. In 1991, Congress established the Advisory Council on Unemployment Compensation (ACUC) to take a fresh look at UI policy issues.

The reports and recommendations of these two commissions reflect their mandates to make major policy recommendations about the future direction of the UI program. Both were given the task of conducting a thorough review of the entire program. They each provided a different view of the potential scope and nature of major UI reform. This section briefly reviews both sets of recommendations to identify the similarities and differences in their findings.

The scope and nature of the recommendations from these two panels differ greatly. The recommendations reflect the many changes that have occurred over the past two decades. The relevant changes affected the structure of the U.S. economy, the political environment at the state and federal levels, and state and federal government budgetary situations.

Nonetheless, there are some similarities between the two sets of recommendations. First, a shared principle is the ideal of insulating the UI program from federal budget considerations and from the influence of federal agencies other than the U.S. Department of Labor. This is reflected in the common recommendations to remove the UI trust fund from the federal unified budget, exempt UI benefits from federal income taxation, and let the states—instead of the Internal Revenue Service—collect the FUTA tax. The ACUC goes a step further in this regard and offers a recommendation to remove federal impediments to the collection of UI taxes for independent contractors. Second, there is agreement on a number of minor issues, such as

- extending agricultural coverage
making nonprofit organizations pay the FUTA tax
• strengthening the appeals process

However, the particulars of the NCUC and the ACUC recommendations on these and other matters differ significantly.

*Increasing Federal Controls: National Commission on Unemployment Compensation*

The Unemployment Compensation Amendments of 1976 included the reforms upon which there was agreement. Congress left an agenda of further issues to be considered and created the NCUC to investigate the alternatives (see NCUC 1980).

The NCUC saw its role as completing the work begun by the Social Security Act of 1935: building a comprehensive, soundly financed income maintenance program for unemployed workers. Its members also wanted to insulate the program from federal budgetary disputes that might interfere with the operation of the UI system.

On the benefit side, the NCUC approved an ambitious set of recommendations. For the regular UI program, it proposed a wide variety of federal standards that would raise benefit payments by increasing the maximum benefit level, raise replacement rates for benefit paid below the maximum level, and reduce the earnings required to qualify for the maximum duration of benefits. It also recommended federal requirements increasing coverage, easing eligibility requirements, and limiting the reasons for disqualifications.

The NCUC further proposed a greatly enhanced extended benefits program, recommending lower thresholds for states to “trigger on” the existing permanent EB program during periods of high unemployment. In addition, it recommended a permanent emergency third-tier program, over and above EB, which would also be triggered on by severe unemployment.

Moreover, the NCUC saw its role as the creator of a number of new federal programs. These included significant new UI plans such as reinsurance, which would buffer the states from unusually heavy benefit costs, allowing them to maintain state solvency by pooling their independent state UI trust fund accounts. It also included major initiatives that went beyond the scope of the UI program, such as means-
tested unemployment assistance for UI program exhaustees, an income maintenance program for displaced homemakers, and a lifetime reserve benefit program for workers 60 years of age and over.

At the same time, the NCUC recommended that the funding capacity of the program be raised. It suggested that this be accomplished by expanding federal requirements for the states. The primary emphasis, however, was on federal legislative initiatives. The NCUC proposed that the federal taxable wage base be increased substantially and indexed for future adjustments. States were also asked to expand the tax capacity of their UI systems, largely by improving their state experience-rating provisions.

If enacted, the NCUC recommendations would have greatly increased UI system costs. A substantial portion of the additional program cost would have been accommodated by a rise in state and federal UI payroll taxes. The NCUC also recommended more federal control of the system and more uniformity among individual state UI programs.

The composition and views of the NCUC membership reflected the Democratic Congress and President of the late 1970s. The final report of the Commission was completed on Labor Day, 1980. Shortly afterward, Ronald Reagan was elected president. As a result, the final report was put aside. Today, as in the 1980s, it seems that the economic, political, and social environment gives little chance for adoption of most of the NCUC recommendations.

Exhorting States to Reform: Advisory Council on Unemployment Compensation

The Emergency Unemployment Compensation Amendments of 1991 (Public Law [P.L.] 102-164), which initiated Emergency Unemployment Compensation as a temporary third-tier extended benefit program during the 1990-1991 recession, also established the ACUC. The legislation gave the Council a broad mandate to review the UI program, instructing the council "to evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative cost, administrative efficiency, and other aspects of the program and make recommendations for improvement."
The final report of the Council was submitted in February 1996. The Council also released two annual reports, in February 1994 and February 1995.

The Council found "a pressing need to reform the Extended Benefit program," and its 1994 report concentrated on the permanent EB program (ACUC February 1994). It proposed that extended benefits trigger on in all states when the seasonally adjusted total unemployment rate (TUR) in the state exceeds 6.5 percent.\footnote{The ACUC recommended that the EB trigger continue to be based on statewide data and not on local or regional measures. To finance the increase in the cost of EB, the Council advocated that the federal UI taxable wage base be increased from $7,000 to $8,500.}

The Council also recommended eliminating the federal requirement that individuals receiving EB must accept any job offered that pays at least the minimum wage or forfeit eligibility for EB. The Council advocated a policy of allowing states to set their own work tests for EB, just as they do for the regular UI program.

By congressional mandate, the Council also considered the UI system's treatment of alien agricultural workers. Until January 1, 1995, wages paid to legal, temporary alien agricultural workers were exempt from the Federal Unemployment Tax Act (FUTA). The Council found that earnings of alien agricultural workers should be subject to the FUTA tax for two reasons. First, this levy would eliminate the cost advantage these workers offer to employers over domestic workers on whose earnings the tax must be paid. Second, the UI trust fund already bears the cost of certifying alien workers before their admittance to the United States, by funding the operation of the certifying agency, the U.S. Employment Service.

In its February 1995 report, the Council made recommendations on a broad range of issues, mostly dealing with the regular UI program and its financing. On the benefit side, the ACUC did not call for any federal standards. Instead, it urged the states to adopt a series of new approaches to UI eligibility, with the principal goal of improving benefit eligibility and adequacy for low-wage, part-time, intermittent, and seasonal workers. Because the changes would be targeted to a small portion of the potentially eligible population of unemployed workers, there would be only a limited impact on the overall UI program. A
small number of additional workers—mostly, but not exclusively, low-wage workers—would be able to collect UI benefits.

With respect to financing, the ACUC placed its emphasis on increasing the "forward funding" of the UI program, to ensure sufficient balances in the individual state trust funds to finance benefits in future recessions. The ACUC offered only recommendations to states regarding financing. It proposed that the program develop a new measure of adequacy of funding: the average of benefits paid by a state in its three highest-cost years during the previous twenty years. States were urged to maintain sufficient reserves to pay at least one year of benefits at that level. To encourage states to maintain adequate funding, the ACUC proposed giving them an additional percentage point of interest on all their UI reserve balances in excess of one "high-cost" year of reserves. To assure no additional cost to the federal budget, the interest rate premium would be funded by reducing—by two-tenths of a percentage point or whatever the balancing percentage is—the rate paid on a portion of the reserves of a state, the amount by which such reserves fall short of the new target trust fund balance.

Proposals for federal legislative requirements were limited to providing incentives to states to forward-fund their programs. The incentives recommended would be conditional interest-free loans or loan premiums and discounts for states that strive for forward funding of UI benefits.

With few exceptions, the final report of the ACUC (1996) concentrated on issues dealing with benefit payment and benefit financing provisions. In a vote divided along business and organized-labor lines, the ACUC recommended raising the taxable wage base to $9,000 and then indexing it to the annual increases in national average total wages in covered employment. As part of the same recommendations, the 0.2 percent FUTA surcharge would be removed.

Proposed changes on the benefit side of the program dealt with the repeal of selected federal standards regarding denial of benefits to professional athletes, reduction of benefits by the amount of pension payment, denial of benefits between school terms, and certain restrictions on EB receipt. The ACUC also recommended that federal guarantees strengthen the right to representation during appeals.

The main thrust of the final report, however, dealt with four other issues: federal-state relations, certain administrative matters, data and
reporting, and administrative financing. With respect to the federal-state relationship, the ACUC proposed a new, narrow concept of federal responsibilities. The federal government should concentrate on two national objectives: assuring that states provide benefits without interstate competition and assuring forward funding of the UI tax system.

The ACUC also developed a novel approach to federal administration and oversight. It asserted that the federal partner should no longer mandate a broad and comprehensive scheme of performance measures and should only require measures affecting those national interests that conflicted with the interests of the states. Such conflicts were not found to exist with day-to-day operations of the program, for example, in the traditional areas of program administration dealing with the timeliness, quality, and accuracy of the benefit payment and tax collection processes. Thus, designing those measures should be left to the states. In particular, the ACUC recommended eliminating federal indicators of tax revenue and benefit payment accuracy, quality, and timeliness. It proposed that states be encouraged to develop their own wage replacement measures. As a result, these indicators would not necessarily be subject to interstate comparison or to national aggregation.

According to the ACUC, existing federal performance measures should be replaced with “measures of access to the UI system.” These indicators would deal with issues such as access to information about UI, ease of applying for benefits, and access to the system by seasonal, low-wage, and part-time workers. Thus, the existing federally mandated measures of day-to-day program performance would be replaced with indexes assessing how state policy and administration affect access to UI benefits.

The ACUC placed considerable emphasis on the data needs and reporting requirements of the UI system. Its recommendations included creating state-by-state UI data bases of comparable program data, implementing a new biennial supplement to the CPS dealing with UI issues, improving the state employment and wage (ES-202) reports, and developing a national longitudinal wage record data base.

Finally, the ACUC recommended improvements to UI administrative financing. Congress was urged to provide adequate administrative funding on a regular basis. Grants to support innovation for cost effective administration were also advocated.
Summary

Recommendations of the ACUC made in the mid-1990s were far more modest than those offered by the NCUC in 1980. The ACUC recommendations also appear to be more sensitive to the contemporary policy context in the states and Congress than were the recommendations of the NCUC. The current mood is dominated by a political aversion to raising taxes and increasing expenditures. Despite the focused and measured advice of the ACUC, in this environment, federal UI legislative reform is likely to be limited and incremental.

Retaining the Insurance Concept

As an insurance program, UI has to deal with the moral hazard of paying benefits to workers who may be purposely avoiding employment. This risk is addressed by the UI work test, which checks labor force attachment through Employment Service (ES) registration and provision of employment exchange and reemployment services. Many states also impose a weekly work search requirement.

The stringency of work search requirements varies considerably among states. Some states stipulate that unemployed workers who are not job attached make and document three job contacts per week. Other states have no specific requirements about job contacts or documentation. In all states, verification of reported work search contacts is limited or nonexistent.

There has been a strong tendency for states to reduce their work search requirements over time. By 1990, only 33 states required that individuals report their work search contacts. This trend is partly the result of the widely held belief that the work search requirement is not necessary or effective in promoting return to work. These changes also appear to be related to the introduction of the Benefits Quality Control program, which measures benefit payment accuracy and finds a high level of errors with regard to the work search process. Elimination of the work search requirement reduces the potential for erroneous payments based on its improper application.
It is important for the states to have accurate information about the impact of the work test on the cost of the UI program and on the ability to assist individuals in returning to work. There has been little research on evaluating alternative approaches to the work search requirement. One demonstration project has been conducted, the Washington Alternative Work Search Experiment. The project tested four different work search approaches, ranging from a streamlined one that did not require claimants to report employer contacts, to a customized version that tailored claimants' work search to their labor market characteristics and included intensive reemployment services early in the spell of unemployment. The demonstration showed that, relative to the usual Washington work search requirement of three employer contacts per week, the streamlined approach significantly increased UI duration and UI payments, while the customized version with mandatory reemployment services significantly reduced UI payments (Johnson and Klepinger 1991, 1994).

Responding to concerns relevant to the findings of the Washington Alternative Work Search Experiment that work search requirements can affect UI durations and UI payments, the Department of Labor initiated the Maryland Work Search Demonstration in 1991. Its primary objective was to determine whether the stringency of the work search requirement affects UI durations, UI payments, and wages in subsequent employment. The demonstration was designed to provide data for policy initiatives for the states and the Labor Department to increase the effectiveness of the UI work search process. It both tested the benefits of the work search requirement and attempted to measure the effectiveness of the enforcement aspect compared to the reemployment services aspect.

The Maryland demonstration involved four treatment groups, each with a work search requirement differing with respect to stringency, verification of claimant contacts, and the provision of reemployment assistance. In the experimental design, claimants were randomly assigned to one of the four treatment groups or to a control group. Claimants in the control were given the current search requirements and services. Enrollment into the experiment began in 1993 and concluded in early 1995.

The evaluation of the demonstration found that each of the four treatments had their expected effects. Additional work search contacts
and verifications were each effective in reducing the duration of UI spells. Participation in a job search workshop—which was not targeted to those most in need as in worker profiling—was somewhat less effective in reducing UI spells. Finally, removing the requirement to report job search contacts was found to increase the UI spell, but the increase was relatively small, especially compared to the similar Washington Alternative Work Search Experiment treatment, given the requirement to maintain regular contact with the UI local office (Klepinger et al. 1997).

Adapting to a Changing World

Dislocation and the Need for Reemployment Services

In response to the growing importance of dislocated workers among the insured unemployed, the UI program has become more involved in promoting reemployment. Although dislocated workers represent only 10 to 20 percent of UI claimants, they are the group of unemployed individuals in greatest need of reemployment assistance. The UI system has a natural role in helping them because nearly all dislocated workers who remain jobless for long periods claim UI benefits. Since most dislocated workers apply for UI benefits when they first become unemployed, the UI program has the potential to direct claimants to reemployment services early in their spell of unemployment.

The Problem of Worker Dislocation

Worker dislocation as a policy issue in the United States can be traced back at least to the early 1960s. In 1961, unemployment climbed to 6.7 percent, a figure considered very high at the time. There were widespread fears that an acceleration in technological change—termed "automation"—would displace large numbers of workers in autos, steel, textiles, and other basic industries (Davidson 1972). In response, the Kennedy administration proposed and enacted the Manpower Development and Training Act (MDTA), the first national program designed to retrain experienced workers for new jobs.
However, by 1964, unemployment had dropped back below 5 percent, and the nation entered a long period of economic expansion. Most experienced workers were again employed in their former jobs, and it had become clear that the threat of widespread technological unemployment had been greatly exaggerated. In this environment, the focus of MDTA and other government-sponsored programs shifted to the needs of the economically disadvantaged in response to the newly-declared “War on Poverty.”

After a twenty-year hiatus, worker dislocation reemerged as a major national issue in the early 1980s. During the 1981-1982 recession, the national unemployment rate climbed to a post-World War II record high of 10.7 percent. Plant closings and permanent mass layoffs in steel, autos, footwear, textiles, and other industries dislocated millions of experienced workers, and the worst fears of the early sixties became a reality in the eighties. Unlike the 1960s, many of the laid-off workers continued to be unemployed despite a strong economic recovery, as manufacturing employment declined sharply. By the end of 1984, with the economy nearly two years into recovery, unemployment remained well above 7 percent. The new economic reality of structural unemployment had become painfully clear.

In 1984, the Bureau of Labor Statistics (BLS) at the U.S. Department of Labor began conducting surveys to determine the size and characteristics of the dislocated worker population. While there are no universally accepted definitions of who is or is not a “dislocated worker,” the BLS definition is a commonly used one. BLS defines dislocated workers as individuals who had at least three years of tenure with their last employer and lost their job for reasons other than temporary layoff, for example, a plant closing or relocation, or the elimination of the job or shift.

These BLS dislocated worker surveys are special supplements to the CPS, a monthly survey of about 60,000 households carried out by the Bureau of the Census for BLS. They are conducted every two years and solicit retrospective information about the previous five years. For example, the 1984 survey asked about experience from January 1979 to January 1984. The BLS survey covering the period from January 1989 to January 1994 indicated that the problem of worker dislocation is substantial and growing. Based on this survey, there were 2.8 million workers in 1991 and 1992 who had at least three years of tenure with
their employer and who were permanently displaced from their jobs, up from 2.2 million such workers in 1989 and 1990. The 1991 and 1992 figures represent a rate of displacement of 3.8 percent for long-tenured workers, up from 3.1 percent in the prior two years. If all workers (regardless of tenure) who were displaced from their jobs are included in the count, the total number of dislocated workers in the BLS count rises to 5.4 million individuals for the years 1991 and 1992 (Gardner 1995).

A recent study by the Congressional Budget Office looked at trends in worker dislocation throughout the decade of the 1980s. It used data from the BLS displaced worker surveys conducted in 1984, 1986, 1988, 1990, and 1992. The study points out that the number of dislocated workers during the 1980s varied substantially with the business cycle, ranging from a high of 2.7 million during the recession in 1982 to a low of 1.5 million in 1988, five years into the economic recovery (Ross and Smith 1993, p. 7). However, during most of those years, the total number of dislocations ranged between 1.5 and 2 million workers annually.

While not all of these dislocated workers would have difficulty becoming reemployed, a large proportion of them, especially those with long job tenure, could benefit from some type of reemployment assistance. For example, workers with three or more years of tenure with their previous employer had longer spells of unemployment and were more likely to experience a reduction in earnings of 20 percent or more than were workers with less than three years of tenure (Ross and Smith 1993, pp. 20-25).

*Reemploying Dislocated Workers: The Role of Unemployment Insurance*

The traditional role of the UI program is to provide temporary partial wage replacement to unemployed workers. In the process, the UI program tests whether unemployed workers are able, available, and actively seeking work. In most states, emphasis has been more on checking continuing attachment to the labor force than on attempting to promote reemployment.

In the 1980s and early 1990s, the problem of worker dislocation had become a prominent concern for insured unemployed workers. One indication of this recognition is that when the Unemployment Insur-
Unemployment Insurance in the United States

ance Service developed its first “Mission, Vision, Values, Goals” statement in 1992, it adopted the following: “The program’s mission is to provide unemployed workers with temporary income support and to facilitate re-employment” (Wandner 1992). This statement made clear the emphasis placed on reemployment by the federal partner in the UI system.

Recently the UI program has been serving between 8 and 10 million unemployed workers each year. About one to two million of these individuals are dislocated workers, or about 10 to 20 percent of all workers served. These people, however, have needs beyond income support, and they frequently will have great difficulty in returning to work without the assistance of reemployment service providers, generally either the ES or the Economic Dislocation and Worker Adjustment Assistance (EDWAA) program.

Even though dislocated workers represent a reasonably small portion of all beneficiaries of the UI system, they have received increasing attention in recent years. As seen in figure 15.2 for 1993, overall the UI program serves about half of all dislocated workers. Many dislocated workers return to work quickly, even though they have been permanently separated, and apparently never file for UI benefits. In a recent dislocated worker study summarized in figure 15.3, UI was found to serve less than one-third of the dislocated workers unemployed less than five weeks, but 80 to 90 percent of those unemployed 15 weeks or longer. This is the great majority of all long-term unemployed dislocated workers who are likely to need reemployment services.

**Encouraging New Ideas and Experimentation**

**Finding Out What Works**

For many years, the U.S. Department of Labor has used demonstrations and evaluations to determine the effectiveness of existing programs. Its willingness to evaluate current programs and to test the potential of new initiatives using field experiments represents a desire to learn what works and what does not work. These efforts have generally been an attempt to develop the most effective and efficient programs possible to help employ and reemploy America’s labor force. The Department has also periodically reviewed the research it has con-
Figure 15.2 Total Unemployment, UI Beneficiaries, and Dislocated Workers, Calendar Year 1993

Total number unemployed 20.5 million

UI beneficiaries 8.1 million

Dislocated workers 2.4 million

Dislocated workers, UI 53%

Dislocated workers, non-UI 47%
Figure 15.3 Displaced Workers Who Receive UI, by Duration of Unemployment

ducted to help determine what works and to develop and select from policy options (U.S. Department of Labor 1995).

Most of the initial Labor Department experiments were not related to the UI program. Beginning in the early 1980s, however, a demonstration dealing with the UI work search requirement was done in Charleston, South Carolina (Corson, Long, and Nicholson 1985). In the mid-1980s, the Unemployment Insurance Service became active in operating a series of experiments that tested and evaluated new approaches to return claimants to work, particularly if they were permanently separated from their previous employer and appeared to be in need of reemployment assistance.

The impetus for the UI demonstrations and their reliance on the field experiment approach came from a number of different places. First, the dislocated worker problem was becoming more important in the U.S. economy, and recognition of it as a public policy concern was increasing. In 1985, awareness of this issue within the Department of Labor became greater when William Brock became Secretary of Labor, having worked on international aspects of worker dislocation as the Special Trade Representative. Second, in a period of extreme federal budget stringency, it was difficult to expect adoption of new policy initiatives that recommended extra or expanded programs. The exception to this situation would rest on an analysis of cost effectiveness that demonstrated that the new program would be beneficial to society as a whole and, if possible, to the government sector, such that the program might actually save money for the federal government. Third, with frequent political divisions between Congress and the executive branch of the federal government, agreement about which economic policies work and which do not work is promoted by an evaluation method that is simple and direct.

Field experiments involve random assignment of large numbers of claimants to treatment and control groups, with the response to a new program change estimated as the difference in the average behavior of the two groups. With field experiments, there is no need to make questionable modeling assumptions or to use sophisticated statistical analysis to yield meaningful results. Evidence from classically designed field experiments involving random assignment makes forging policy agreements easier.
Just as the U.S. Department of Labor has done, some states have undertaken their own tests of what works to promote reemployment. Several states have committed resources to undertake studies and have initiated programs based on the results. Some of the state studies have involved experimental designs. In the 1970s and 1980s, Nevada tested two Claimant Employment Projects that were found successful in reducing UI durations by having a UI and ES team provide more intensive reemployment services to UI claimants. The Reemploy Minnesota project duplicated the treatment of intensive job search assistance from the New Jersey experiment. The Washington Alternative Work Search Experiment evaluated alternative UI work search requirements and the provision of job search assistance (see U.S. Department of Labor 1990; Johnson and Klepinger 1991, 1994). In addition, in 1984, Illinois independently initiated the nation’s first experimental test of the reemployment bonus (Woodbury and Spiegelman 1987).

The Unemployment Insurance Experiments

Since the reemergence of worker dislocation as a national policy issue in the early 1980s, the Department of Labor has conducted eight experiments designed to test different reemployment service strategies to assist dislocated workers in making the transition to new employment. The following is a chronological list of the field experiments undertaken.

<table>
<thead>
<tr>
<th>Experiment</th>
<th>States involved</th>
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<tbody>
<tr>
<td>Multitreatment: job search assistance, training grants, relocation grants, and reemployment bonuses</td>
<td>New Jersey</td>
</tr>
<tr>
<td>Reemployment bonus</td>
<td>Washington and Pennsylvania</td>
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<tr>
<td>Self-employment assistance</td>
<td>Massachusetts and Washington</td>
</tr>
<tr>
<td>Work search</td>
<td>Maryland</td>
</tr>
<tr>
<td>Job search assistance</td>
<td>District of Columbia and Florida</td>
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The goal of these studies has been to determine what works for dislocated workers, what doesn't work, and why. More specifically, these field experiments were designed to determine the impacts of various reemployment services, or combinations of services, on the subsequent labor market experience of dislocated workers. They examined outcomes such as employment, earnings, and receipt of UI benefits and other income transfer payments. These studies have also attempted to estimate the cost-effectiveness of various services and to measure the return on investment of each service from the perspectives of participants, the government, and society as a whole (see Corson et al. 1992; Decker and O'Leary 1995; O'Leary, Spiegelman, and Kline 1995; Benus et al. 1995).

Conclusions about the Experiments

To date, analysis of the UI demonstrations has yielded three strong conclusions:

- Worker profiling and reemployment services: It is possible to develop a service delivery system such that the state UI and reemployment service providers can identify dislocated workers early in their unemployment spell, determine the unique needs of individuals, and then promptly match each worker with appropriate and effective reemployment assistance.

- Job search assistance: Comprehensive job search assistance is a highly cost-effective strategy for accelerating the reemployment of dislocated workers. The experiments suggest that more suitable jobs are available than are yielded by casual, undirected job search. This reemployment service provided net benefits to participants, the government, and society as a whole. Job search assistance is an option that can be effective and efficient when made widely available for dislocated workers.

- Self-employment assistance: Self employment is of interest to only a small portion of dislocated workers, but half of those who participated in experimental trials succeeded at starting their own microenterprises. The final evaluation of the Massachusetts demonstration provides impact and benefit-cost analyses indicating that self-employment has promise as a labor market intervention for a small share of unemployed workers.
The conclusions about the effectiveness of job search assistance are widely held, based on a number of state and federal experiments. For example, Meyer (1995) finds that

The job search experiments... try several different combinations of services to improve job search and increase the enforcement of work search rules. Nearly all combinations reduce UI receipt and... increase earnings. . . . The main treatments have benefits to the UI system that exceed cost in all cases, and societal-level cost-benefit analyses are favorable . . . (p. 128).

He recommends that “On the services side we should consider making job search assistance universal. The exact combination of services we should include is not completely clear, but jobs search workshops and individual attention by the same personnel seem promising” (p. 125. See also Ross and Smith 1993; The Economist 1996).

Implementation of Unemployment Insurance Reemployment Promotion Options

In March and October 1993, Congress enacted worker profiling legislation as sections of two extensions of the Emergency Unemployment Compensation Act. The October legislation required states to implement worker profiling provisions and to have their UI programs refer likely dislocated workers to reemployment services provided by existing state and federal programs. Under the Worker Profiling and Reemployment Services (WPRS) system, the UI role ends with the identification and referral of likely dislocated workers to reemployment services. The UI system cannot provide reemployment services and federal law does not allow UI trust fund money to pay for services. Traditional reemployment service providers must make the services available. With dislocated workers representing one to two million UI beneficiaries per year, the UI program is dependent on the ES and the EDWAA programs to devote substantial resources to providing these services.

To help with the implementation of this legislation, the Department of Labor provided states with technical assistance and over $20 million in funding to establish worker profiling mechanisms. The EDWAA program also provided states with nearly $20 million to build the capacity to provide reemployment services. By mid-1996, the WPRS
initiative was operational in all states. Nearly 400,000 unemployed workers had been profiled and referred to reemployment services during the early six-month operational period from October 1995 through March 1996.

As a result, implementation of the WPRS initiative generally has resulted in a cooperative and interdependent relationship between UI, the ES and the dislocated worker (EDWAA) portion of Job Training Partnership Act (JTPA) programs at the state level. This relationship has helped to create a kind of one-stop shopping for reemployment services that has been gradually introduced by the states and promoted by the federal government. The UI system has become a "gateway" through which dislocated workers pass to receive reemployment services from ES and EDWAA.

The primary emphasis of WPRS has been on the early identification of dislocated workers and referring them to reemployment services—primarily job search assistance. However, as both the New Jersey experiment and the early implementation of WPRS have shown, a small but significant portion of the dislocated workers cannot find employment through basic reemployment services alone. Many of these hard-to-place clients are referred to retraining, even though participation in training is voluntary under WPRS. About one-fifth of the unemployed workers referred to reemployment services under the WPRS initiative were referred to retraining during the early phase of implementation (Wandner 1996, 1997).

In another reemployment promotion option, the early evaluations of the self-employment demonstration projects had shown both substantial positive economic impacts and net savings to the federal budget by 1992. These findings were widely disseminated, and they made possible and encouraged two policy initiatives to enact enabling federal legislation. The first was inclusion of a budget-neutral, self-employment initiative in the comprehensive workforce development plan of the Clinton administration, which was first made public in August 1993 and later was introduced as the proposed Reemployment Act of 1994 (see Wandner 1992; U.S. Department of Labor 1994a, 1994b).

For the UI program the proposed Reemployment Act placed equal emphasis on income replacement and reemployment. This initiative was named "Unemployment Insurance Flexibility," and it had three components. The first was a self-employment allowance, to be given in
the form of periodic payments, which states would be authorized to adopt permanently. Secondly, states were authorized to adopt reemployment bonuses to be paid to permanently separated workers who speed their return to employment. Finally, the short-time compensation program to promote work sharing, which already existed in eighteen states, was encouraged and reauthorized.

A separate legislative effort was developed in mid-1993 by a group of legislators including Representative Ronald Wyden and Senators Edward Kennedy and Harris Wofford. They proposed a freestanding bill that would also authorize state self-employment programs involving periodic payments. The sponsors requested and received support from the Clinton administration for this bill which became an amendment to the North American Free Trade Agreement (NAFTA) implementation legislation (P.L. 103-182). As passed, the provisions expire five years after enactment, in December 1998.

Title V of the NAFTA Implementation Act provides that states may establish self-employment assistance (SEA) programs for unemployed workers as part of their UI programs. To establish such plans, participating states must enact legislation conforming to the federal legislation. The states of California, Connecticut, Delaware, Maine, Maryland, Minnesota, New Jersey, New York, Oregon, and Rhode Island have enacted legislation. Other states are considering similar legislative proposals. Self-employment programs can be initiated only after a state implementation plan is approved by the Department of Labor. On April 17, 1995, New York became the first state to implement a self-employment program. As of 1997, programs were operational in California, Delaware, Maine, Maryland, New Jersey, New York, and Oregon.

In states that operate SEA programs, UI claimants identified through worker profiling are eligible to participate. State SEA programs provide participants with periodic (weekly or biweekly) self-employment allowances during start-up of the self-employment activity. These support payments are the same weekly amounts that the UI claimant would otherwise receive in benefits, but participants can work full-time on starting their business enterprise instead of searching for wage and salary jobs. They can also fully retain any after-tax earnings from self-employment without any impact on their weekly self-employment sti-
pend. The traditional UI work search provisions are waived and do not act as a barrier to self-employment for UI recipients.

Technology and the Decline of Unemployment Insurance Local Offices

Background

State UI program staff serve a large population of beneficiaries whose number varies inversely with the business cycle. In recent years, between 8 and 10 million claimants annually have received benefits. Funding for administration of the UI program, including staff salaries, also varies with the business cycle. The total of personnel staffing UI offices has fluctuated in recent years between 38,200 in 1990 (before the last recession) and 48,200 in 1993. This variation has been largely handled through the use of temporary employees. Among these workers, about two-thirds are front-line staff who deal directly with benefit payments, while the others work in the UI tax revenue function.

Since UI administrative costs are paid for with funds held in the U.S. Treasury, they must be appropriated by Congress. Of late, administrative funding of UI has come under increasing scrutiny. As the information economy expands, Congress expects more administrative efficiency. At the same time, there has been increased concern that the UI system serve its customers—beneficiaries and employers—with close personal attention that improves over time.

The result is a UI program under pressure to enhance administrative performance while constrained by ever-dwindling financial resources. Additionally, the UI program and all other federal programs have begun to operate in accordance with the Government Performance and Results Act of 1993, which requires the management of programs to achieve measurable and objective performance outcomes. The centerpiece of improved UI operational efficiency has been a steady process of automation. Simultaneously, there has been an effort to bring all states up to an acceptable level of overall performance, while supporting continuous improvement in all states.

The Decline of In-Person Claims Taking

The local UI office still has the public image of a place with long lines and lengthy waits to file for UI benefits. This image is perpetuated by the repeated use of television news library film clips from the 1982
recession showing long lines in large, urban UI offices. Such clips are frequently shown when the latest UI initial claims figures are announced. The present reality is much different. States have actively pursued alternatives to in-person claims filing, which can improve customer service and reduce administrative costs. Swarms of claimants rarely clog local UI offices today. Instead of coming to the local UI office, individuals increasingly file claims by mail or telephone, or employers file the claims for laid-off workers; alternatively, mass applications for benefits are taken by local UI office staff at the site of large layoffs. Claimants still filing in person find lines reduced by having their in-take interview scheduled in advance to reduce peak-load problems, and by redesigned local offices and operational procedures. As telephone initial claims spread, local office lines will disappear altogether, and in many states there will be no physical local UI offices, only "virtual" offices accessed by telephones and computers.

Originally, UI program operations were largely manual. Both initial and continued claims were filed in person. The move away from in-person claims began in the 1960s and 1970s, with the acceptance of continued claims by mail. Unemployed workers still initially filed for benefits in local UI offices, but states began giving them continued claims forms, which they could then mail in on a weekly or biweekly basis. In the 1990s, interactive voice response units combined the power of telephones and computers to allow individuals to call in their continued UI claims. With touch-tone phones, claimants could now dial up the UI system and enter the data requested.

Today, in all but two states, fewer than 25 percent of continued claims are filed in person. All states allow at least some of their claimants to file continued claims by mail, and, as a result, nearly four-fifths of claimants nationwide file continued claims that way. In addition, filing by telephone has rapidly begun to replace both claims by mail and in person. Continued claims filed by telephone went from zero in 1991 to 11 percent by 1994. Meanwhile, in-person claims filing has steadily declined, reaching 9 percent in 1994.

While in-person continued claims taking has gradually declined over the past three decades with the spread of mail and telephone procedures, the taking of initial claims remained almost exclusively in person until the 1990s. States began to take some initial claims over the telephone in the 1980s, but this was largely a low-volume, manual pro-
cess, introduced in rural areas where geographically fixed local offices could not cost-effectively serve the small number of widely dispersed claimants. The taking of initial claims by telephone has recently gained in popularity because of new communication technologies, budget constraints on UI administrative funding, and new approaches to customer service. Colorado led the way by eliminating all of its local UI offices in 1992, leaving ES offices open, but without any UI counterpart. Since then, other states are following suit. California, Massachusetts, and Wisconsin are operating or implementing telephone initial claim systems. Many other states are now actively involved in planning or implementing remote initial claims taking.

The Changing Labor Force and Unemployment Insurance

For some time, permanent, full-time attachment to the labor force among U.S. workers has been declining. There has been a corresponding increase in looser and more intermittent attachment. This has meant a rise in the number of workers categorized as part-time, seasonal, intermittent, and low wage.

The UI program, at both the federal and state levels, has maintained its traditional focus on providing strict insurance benefits for strongly attached workers and has not adapted to these changes. This fact has been discussed for decades. It was raised by the NCUC. More recently it has been raised by the ACUC. The following are some potential policy options for adapting the UI system to the current labor market environment. Taken together, these proposals might help to adapt the UI program to the changing nature of the labor force in the United States.

1. Low-wage worker eligibility for UI: At present, all states, except Washington State, determine UI eligibility using quarterly wages during a one-year base period. This means that workers with higher hourly earnings are eligible for UI with fewer hours worked than are low-wage workers. A remedy for this situation could be to base eligibility on quarterly or annual hours worked instead of on quarterly earnings. The ACUC has recommended that the annual amount worked be set at 800 hours—the equivalent of about two full days of work a week throughout a year.

To put this idea in perspective, one should note that the Canadian government has adopted a similar proposal involving hours
worked. The Canadian plan ties the hours-of-work requirement to the unemployment rate in the area. A claimant could be eligible with as few as 420 hours of work in the base year if the regional unemployment rate were 13.5 percent or more, or need at least 700 hours if the unemployment rate were below 5.5 percent.2

2. Part-time worker eligibility: In most states, part-time workers who are unemployed and seeking part-time work cannot receive UI unless they are searching for full-time work. Thus, individuals who chose to work part time are not eligible for UI. The ongoing and continued part-time status of these workers could be recognized and encouraged by allowing previously part-time workers to collect UI while they are again seeking part-time work.

3. Seasonal worker eligibility: In many states, the ability of seasonal workers to receive UI benefits is limited. Fifteen states permit workers in seasonal industries to collect UI only during the season in which the industry work is normally conducted. In addition, thirteen of these states do not allow earnings in seasonal employment to count toward the monetary eligibility requirement, even if the worker subsequently works in a nonseasonal job. The purpose of these provisions is to prevent workers with only seasonal labor force attachment from collecting UI benefits during the off-seasons.

Eligibility could be broadened by allowing the use of seasonal wages for establishing eligibility, as long as workers also have nonseasonal employment. The Wisconsin approach might be followed. Wisconsin allows workers to use seasonal wages if they earned at least $200 in nonseasonal employment during the year preceding the date of filing a UI claim.

4. Relatively recent labor force entrants: The standard base period, geared to the cycle of wage record systems, is the first four of the last five completed calendar quarters. With frequent movement into and out of the labor force, labor force attachment may be too recent to establish monetary eligibility using the standard base period. Six states—Maine, Massachusetts, Ohio, Rhode Island, Vermont and Washington—have responded to this situation by allowing workers who are not able to qualify for benefits using
the normal base period to use an alternate, and more recent, one. It could be the last four completed calendar quarters or the most recent 52 weeks. Use of these more recent base periods generally requires requesting recent wage and employment data from the prior employer(s), rather than relying on previously reported quarterly wage records.

The ACUC has recommended that such an alternative base period be adopted nationwide. Recent estimates indicate that this approach would increase UI beneficiaries by 6 to 8 percent and raise total costs by 4 to 6 percent (Vroman 1995).

Another method for incorporating more recent wages would be to accelerate the use of the lag quarter as part of the base period. This approach would require employers to report employment and wage data more rapidly. The state would process and use these data for benefit eligibility determinations as soon as they became available. This technique would have two advantages. It would allow states to use the most recent four quarters of data within one to two months after the end of a quarter. It would also obviate the need for states to return to any wage request reporting by employers. Employer wage requests result in added employer and state agency administrative costs and in decreased data accuracy.

5. Expanding agricultural coverage: The UI system covers almost all wage and salary workers except agricultural workers on small farms. Eight states, including the major farm states of California, Florida, and Texas, provide broader UI coverage of agricultural work. While a percentage of American agricultural workers are covered because they work on large farms or in states that already provide small-farm coverage, the remaining workers on small farms in other states are still left without the protection of UI benefits. The steps taken in the eight states might be used as models for all states.
Looking Ahead

Looking ahead to the future of the UI program, there seem to be at least four major themes. First, given the national political environment, the prospect for and likely scope of UI reform appear to be only modest in the near term. While the program is not likely to disappear or shrink precipitously, it is also not likely to expand greatly.

Arguing for its continued existence is the widespread belief that the UI program, like social security, is a social insurance critical to the well-being of the American workforce and the U.S. economy. The UI program is also likely to benefit from its highly decentralized form of administration. Its cooperative federal-state partnership has frequently been cited as a model working relationship between the states and the federal government.

Yet, the program that survives is not likely to have much in the way of enhancements in its benefit structure or increased revenues to fund these benefits or program administration. The UI program grew for the first three decades of its existence, but, in the 1970s to early 1980s, it reached a peak from which little further development can be expected in the near term.

The most uncertain area is extended benefits. It is not likely that there will be reform of the permanent EB program prior to a recession, if at all. It generally takes an economic downturn to draw congressional attention to the needs of constituents back home who experience prolonged periods of unemployment. As noted, Congress has shown its preference for creating temporary emergency unemployment benefit programs in times of recession, and that may be its response to future downturns. Nonetheless, the permanent EB program is moribund and needs to be revived. It is good public policy to have an automatically triggered, second-tier UI program available, such that Congress only needs to add emergency extended programs during particularly severe recessions.

Second, public policies regarding the tax system and administrative financing are deficient and need repair. The taxable wage base has been inadequate for many years and puts an undue burden on tax rates for the system to remain solvent. Experience rating is limited and calls out for improvements. Administrative financing is proving inadequate to
process the benefit and tax function of the program. The federal budget process needs to be modified to recognize that both the benefit and administrative portions of the UI program should be treated as "mandatory" under federal budget law. Instead of being treated as a discretionary part of the UI program, administration should be treated as an entitlement.

Third, the public and its elected officials are intent on getting "value for money" in all government programs, including UI. The pressure of budget deficits has heightened the emphasis for a solid return on investment. For UI, this has meant increased concern about customer service, meeting a set of outcome goals, and continuous improvements in effectiveness and efficiency. As we have seen, the UI program has been working to enhance efficiency for many years. It has been automating its processes for decades and is increasingly making use of remote claims taking. Always relatively goal-oriented, it is becoming more so. This trend is likely to continue.

At the same time, the UI system is likely to retain its emphasis on program performance and on continuous improvement of that performance. Whereas, in the past, UI has tended to rely largely on objective measures of customer service, in the future, it will also incorporate measures of customer satisfaction, which will be used for program assessment and policy development.

Finally, the issue of worker dislocation is likely to remain a major concern to the UI program, as well as to the rest of the employment and training system. The fact that the UI program sees most dislocated workers when they first become unemployed is likely to keep the program at the focal point of the reemployment system. It is not anticipated that the UI program itself will provide or fund reemployment services, but UI will probably continue to be a referral agency, identifying and sending dislocated workers to reemployment service providers.

NOTES

1 A redesigned CPS was implemented in January 1994 and appears to have increased the measured TUR somewhat; the ACUC recommendation was based on the old CPS methodology

2. See Government of Canada 1995. This provision was implemented on January 5, 1997. It also includes a higher hours requirement of 900 hours for reentrants and new entrants to the labor force
References


UNEMPLOYMENT INSURANCE IN THE UNITED STATES

Analysis of Policy Issues

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