

REPAYMENT OF LOANS MADE TO STATE UNEMPLOY- MENT COMPENSATION PROGRAMS

HEARING BEFORE THE SUBCOMMITTEE ON UNEMPLOYMENT AND RELATED PROBLEMS OF THE COMMITTEE ON FINANCE UNITED STATES SENATE NINETY-SIXTH CONGRESS

SECOND SESSION

ON

H.R. 4007

AN ACT TO AMEND THE INTERNAL REVENUE CODE OF 1954 TO
PROVIDE THAT THE PROVISIONS WHICH INCREASE THE FED-
ERAL UNEMPLOYMENT TAX IN STATES WHICH HAVE OUT-
STANDING LOANS WILL NOT APPLY IF THE STATE MAKES
CERTAIN REPAYMENTS

APRIL 28, 1980



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

65-627 O

WASHINGTON: 1980

HG 96-82

S361-53

COMMITTEE ON FINANCE

RUSSELL B. LONG, Louisiana, *Chairman*

HERMAN E. TALMADGE, Georgia	ROBERT DOLE, Kansas
ABRAHAM RIBICOFF, Connecticut	BOB PACKWOOD, Oregon
HARRY F. BYRD, JR., Virginia	WILLIAM V. ROTH, JR., Delaware
GAYLORD NELSON, Wisconsin	JOHN C. DANFORTH, Missouri
MIKE GRAVEL, Alaska	JOHN H. CHAFEE, Rhode Island
LLOYD BENTSEN, Texas	JOHN HEINZ, Pennsylvania
SPARK M. MATSUNAGA, Hawaii	MALCOLM WALLOP, Wyoming
DANIEL PATRICK MOYNIHAN, New York	DAVID DURENBERGER, Minnesota
MAX BAUCUS, Montana	
DAVID L. BOREN, Oklahoma	
BILL BRADLEY, New Jersey	

MICHAEL STERN, *Staff Director*

ROBERT E. LIGHTHIZER, *Chief Minority Counsel*

SUBCOMMITTEE ON UNEMPLOYMENT AND RELATED PROBLEMS

DAVID L. BOREN, Oklahoma, *Chairman*

BILL BRADLEY, New Jersey	JOHN H. CHAFEE, Rhode Island
--------------------------	------------------------------

CONTENTS

ADMINISTRATION WITNESSES

	Page
Green, Hon. Ernest, Assistant Secretary of Labor for Employment and Training, accompanied by Bob Kenyon, Special Assistant to the Deputy Assistant Secretary; Joseph Hickey, Chief, Division of Program Policy and Legislation, Unemployment Insurance Service; Jim Van Erden, Supervisor, Actuarial Division.....	10

PUBLIC WITNESSES

Brodhead, Hon. William M., a U.S. Representative from the State Michigan, accompanied by Elaine Fultz and Mary Pharis.....	19
Day, Leonard, director of labor relations, Illinois State Chamber of Commerce of the United States, accompanied by Michael J. Romig, director, employee benefits, U.S. Chamber of Commerce.....	144
Kay, Edward W. Jr., national manager of payroll taxes for Sears, Roebuck & Co., on behalf of the Council of State Chambers of Commerce.....	143
Kreyling, Conrad, payroll tax manager, J. C. Penny Co. on behalf of the New Jersey Business and Industry Association.....	147
Lieberth, Charles, secretary of labor and industry, Commonwealth of Pennsylvania, accompanied by Barry Stern, deputy secretary of labor and industry..	44
McMann, Hon. George, State representative from Vermont, accompanied by Wendell Hanford.....	24
O'Hern, Daniel J., Counsel to Gov. Brendan Byrne, State of New Jersey, accompanied by Arthur O'Neal, assistant commissioner.....	43
Taylor, S. Martin, director, Michigan Employment Security Commission, accompanied by Cheryl Templeman, Carol Haupt, and Don Whitely.....	33

COMMUNICATIONS

Bustin, David W., commissioner, State of Maine, department of manpower affairs.....	174
Crim, Bobby D., State representative, speaker of the house, Legislature of Michigan.....	180
Illinois State Chamber of Commerce of the United States, Leonard Day, director of labor relations.....	144
J. C. Penny Co., Conrad Kreyling, payroll tax manager.....	147
Jones, Grant, State senator from the State of Texas, on behalf of the National Conference of State Legislatures.....	184
National Association of Manufacturers.....	176
Sears, Roebuck & Co., Edward W. Kay, national manager of payroll taxes.....	143

ADDITIONAL INFORMATION

Committee press release.....	2
Text of the bill H.R. 4007.....	4
Opening statement of Senator Dole.....	9

REPAYMENT OF LOANS MADE TO STATE UNEMPLOYMENT COMPENSATION PROGRAMS

MONDAY, APRIL 28, 1980

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON UNEMPLOYMENT AND RELATED PROBLEMS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:40 p.m., in room 2221, Dirksen Senate Office Building, the Hon. David L. Boren (chairman of the subcommittee) presiding.

Present: Senators Boren, Bradley, Dole, Chafee, and Heinz.

[The press release announcing this hearing and the bill H.R. 4007 follow:]

P R E S S R E L E A S E

FOR IMMEDIATE RELEASE
April 3, 1980

UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON UNEMPLOYMENT AND
RELATED PROBLEMS
2227 Dirksen Senate Office Bldg.

FINANCE SUBCOMMITTEE ON UNEMPLOYMENT AND RELATED PROBLEMS
TO HOLD HEARINGS ON THE REPAYMENT OF LOANS MADE TO STATE
UNEMPLOYMENT COMPENSATION PROGRAMS

Senator David L. Boren, Chairman of the Finance Subcommittee on Unemployment and Related Problems today announced that the Subcommittee will hold a hearing on the status of outstanding State loans from the Federal Loan Account in the Unemployment Trust Fund.

The hearing will be held starting at 2:30 p.m. on Monday, April 28, 1980 in Room 2221 Dirksen Senate Office Building.

Senator Boren noted that the Federal-State unemployment compensation program provides that States may obtain interest-free loans from the Federal Loan Account in the Unemployment Trust Fund if State tax revenues prove insufficient to meet the costs of benefit payments. To give States time to remedy the inadequacies in their financing, these loans need not be repaid for approximately two years. During the recession of the mid-1970s a number of States found it necessary to draw heavily on the Federal loan provisions. At one point outstanding loans totalled in excess of \$5 billion. Because of this situation, legislation was enacted giving States an additional five-years to repay the outstanding loans. However, this extension was conditioned upon each State's taking action "substantially to accomplish the purpose of restoring the fiscal soundness of the State's unemployment account." The five year-deferral period has now expired. As of January 1, 1980 13 States continued to have outstanding loans with an aggregate balance of \$3.8 billion. Under existing law, the effective Federal unemployment tax in States with outstanding loans would automatically increase in order to recoup those loan balances. The Subcommittee hearing will examine the situation with respect to these loans, including proposals to deal with that situation. One proposal to be considered in these hearings is the bill H.R. 4007 which has been passed by the House of Representatives and referred to the Committee on Finance. H.R. 4007 would permit States to continue to carry outstanding loan balances provided that they transfer from the State account to the Federal account an amount equivalent to what would otherwise be recouped each year through the increased effective Federal tax rate.

Requests to testify.--Chairman Boren stated that witnesses desiring to testify at the hearing must make their requests to testify to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than the close of business on April 11, 1980. Witnesses who are scheduled to testify will be notified as soon as possible after this date as to when they will appear. If for some reason the witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance. Chairman Boren also stated that the Subcommittee strongly urges all witnesses who have a common position or the same general interest to consolidate their testimony and to designate a single spokesman to present their common viewpoint to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain.

Legislative Reorganization Act.--Chairman Boren stated that the Legislative Reorganization Act of 1946 requires all witnesses appearing before the Committees of Congress to "file in advance written statements of their proposed testimony and to limit their oral presentation to brief summaries of their argument." Senator Boren stated that, in light of this statute, the number of witnesses who desire to appear before the Subcommittee, and the limited time available for the hearings, all witnesses who are scheduled to testify must comply with the following rules:

- (1) A copy of the statement must be delivered to Room 2227 Dirksen Senate Office Building, not later than 5:00 p.m. on April 24, 1980.
- (2) All witnesses must include with their written statements a summary of the principal points included in the statement.
- (3) The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be delivered to Room 2227, Dirksen Senate Office Building, not later than noon on April 25, 1980.
- (4) Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.
- (5) All witnesses will be limited in the amount of time for their oral summary before the Subcommittee. Witnesses will be informed as to the time limitation before their appearance.

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

Written statements.--Persons not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearing. Written testimony for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with 5 copies to Michael Stern, Staff Director, Senate Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than May 9, 1980.

96TH CONGRESS
1ST SESSION

H. R. 4007

IN THE SENATE OF THE UNITED STATES

NOVEMBER 8 (legislative day, NOVEMBER 5), 1979
Read twice and referred to the Committee on Finance

AN ACT

To amend the Internal Revenue Code of 1954 to provide that the provisions which increase the Federal unemployment tax in States which have outstanding loans will not apply if the State makes certain repayments.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) section 3302 of the Internal Revenue Code of 1954
4 (relating to credits against unemployment tax) is amended by
5 adding at the end thereof the following new subsection:
6 “(f) CREDIT REDUCTION NOT TO APPLY WHEN
7 STATE MAKES CERTAIN REPAYMENTS.—

1 “(1) IN GENERAL.—In the case of any State
2 which meets requirements of paragraph (2) with re-
3 spect to any taxable year, subsection (c)(2) shall not
4 apply to such taxable year; except that such taxable
5 year (and January 1 of such taxable year) shall be
6 taken into account for purposes of applying subsection
7 (c)(2) to succeeding taxable years.

8 “(2) REQUIREMENTS.—The requirements of this
9 paragraph are met by any State with respect to any
10 taxable year if the Secretary of Labor determines
11 that—

12 “(A) the repayments during the 1-year peri-
13 od ending on November 9 of such taxable year
14 made by such State of advances under title XII of
15 the Social Security Act are not less than the sum
16 of—

17 “(i) the potential additional taxes for
18 such taxable year, and

19 “(ii) any advances made to such State
20 during such 1-year period under such title
21 XII, and

22 “(B) there will be sufficient amounts in the
23 State unemployment fund to pay all compensation
24 during the 6-month period beginning on Novem-
25 ber 1 of such taxable year without receiving any

1 advance under title XII of the Social Security
2 Act.

3 “(3) DEFINITIONS.—For purposes of paragraph
4 (2)—

5 “(A) POTENTIAL ADDITIONAL TAXES.—The
6 term ‘potential additional taxes’ means, with re-
7 spect to any State for any taxable year, the ag-
8 gregate amount of the additional tax which would
9 be payable under this chapter for such taxable
10 year by all taxpayers subject to the unemploy-
11 ment compensation law of such State for such
12 taxable year if paragraph (2) of subsection (c) had
13 applied to such taxable year and any preceding
14 taxable year without regard to this subsection.

15 “(B) TREATMENT OF CERTAIN REDUC-
16 TIONS.—Any reduction in the State’s balance
17 under section 901(d)(1) of the Social Security Act
18 shall not be treated as a repayment made by such
19 State.

20 “(4) REPORTS.—The Secretary of Labor may, by
21 regulations, require a State to furnish such information
22 at such time and in such manner as may be necessary
23 for purposes of paragraph (2).”

1 (b) EFFECTIVE DATE.—The amendment made by sub-
2 section (a) shall apply to taxable years beginning after De-
3 cember 31, 1979.

Passed the House of Representatives November 7, 1979.

Attest: EDMUND L. HENSHAW, JR.,
Clerk.

By BENJAMIN J. GUTHRIE,
Assistant to the Clerk.

Senator BOREN. We will begin the hearings at this time.

Today's hearing is to hear testimony on H.R. 4007. The bill would permit States with outstanding Federal unemployment insurance loans to avoid the automatic increases in the Federal UI tax specified under current law by either, one, repaying the full outstanding amount of the loan, as under current law, or two, repaying out of State UI funds the amount that would have been collected during the year if the increase in the Federal tax had taken place, plus the amount of any individual or additional Federal loans received during the year, and the State could use the second option only, of course, if it had enough reserves in its UI trust fund to cover benefits for a specified 6-month period.

The repayment to the Federal Trust Fund of money owed by the various State governments is a goal which I believe should be devoutly pursued. The economic conditions in the country are growing worse. Pressure will be brought to bear on the unemployment insurance program as can easily be seen by looking at the budget resolutions now pending in the two Houses of Congress.

The House Budget Committee, using economic forecasts devised by CBO, estimates unemployment will average 6.8 percent in 1980, reaching 7.3 percent in the final quarter of this year. In 1981, they estimate unemployment at an average of 7.5 percent.

The Senate version of the First Concurrent Budget Resolution contains equally gloomy economic forecasts. The Senate Budget Committee places unemployment at an average of 6.4 percent in 1980 and 7.4 percent in 1981. In addition, the Senate Budget Committee shows economic growth dropping six-tenths of 1 percent in fiscal year 1980 and an additional four-tenths of 1 percent in 1981.

These economic assumptions, based as they are on the moderate to heavy recession in 1980, make it more important than ever that the unemployment insurance program must be on sound financial footing. States that already must repay loans must take additional precautions to be sure that additional borrowing in the future will be kept to a minimum. The pressure on them to do otherwise will be very great.

I am happy that all the members of the subcommittee are present today, Senator Chafee, Senator Bradley. Senator Dole has also joined us today. Do any of the other members of the subcommittee have any opening statement or comment that they would like to make?

Senator Chafee?

Senator CHAFEE. Mr. Chairman, thank you very much.

I am interested in these hearings. We have a problem that affects us in our State in which we owe the federal system some \$118 million, which is a lot based on our total payroll, probably percentagewise one of the highest in the Nation. I see that Pennsylvania owes a very large sum, over \$1 billion, but based on their total payroll, probably ours, Rhode Island's, is as high as any.

Thus, I am, of course, acutely interested. The present system of the 0.3 percent going on each year is very, very onerous for a State such as mine, and pretty soon the thing becomes counterproductive. The costs become so expensive for the employer that the employer doesn't remain there, thus increasing our unemployment compensation costs, and you are in a vicious circle.

Also, those areas that are hardest hit in these recessions, and in our State hard hit by military cutbacks in 1973 and 1974, are the Northeast States. So I am glad that we are considering this bill, although I am also going to get into some questions of our witnesses dealing with the cap on the total payment. In other words, should the percentage keep rising by three-tenths of 1 percent every year up to the maximum, which is, I believe, 3.4 percent? I feel very strongly it should not.

I think if the State system is on a sound basis, and if you are making payments, then I don't think that the three-tenths of 1 percent should continue every year.

Thank you, Mr. Chairman. I am going to be drawing on those questions when I talk to the witnesses.

Senator BOREN. Thank you, Senator Chafee.

Senator Bradley, do you have any opening comments to make?

Senator BRADLEY. I would just like to thank you, Mr. Chairman, for holding the hearing, and say that unemployment insurance debt requirements is an issue of great concern to me. New Jersey is in debt \$651 million, and many of the same problems that Senator Chafee described apply to New Jersey. The purpose, in my judgment, of the unemployment insurance program is not to perpetuate a vicious cycle and increase discrepancies among regions of the country, but to try to alleviate some of the problems that State governments face and that unemployed people face.

So, I will be interested in the line of questioning as to ways that the Brodhead approach could be improved. I am pleased that Congressman Brodhead and representatives of the Department of Labor are here, and look forward to their testimony.

Senator BOREN. Thank you.

Senator Dole? Any comments?

Senator DOLE. I think this is a balanced hearing. There are two States that don't owe anything, Kansas and Oklahoma, and two States that owe a lot, Rhode Island and New Jersey.

I have a statement I would like to make a part of the record. We are fortunate. We don't owe any money in our State, but I think there is a problem. I hope we can properly address it in the committee.

Senator BOREN. It will be so included.

[The prepared statement of Senator Dole follows:]

OPENING STATEMENT OF SENATOR DOLE ON THE STATUS OF STATE LOAN
REPAYMENTS

SUBCOMMITTEE ON UNEMPLOYMENT AND RELATED PROBLEMS, SENATE FINANCE
COMMITTEE, APRIL 28, 1980

Mr. Chairman, the Senator from Kansas appreciates your effort to shed some light on the financial problems of the unemployment compensation program by holding these hearings on the status of outstanding State loans from the Federal Unemployment Account.

Fortunately, the State of Kansas has maintained a solvent unemployment trust fund and is not among the States that have had to borrow from the Federal account. Nevertheless, Kansas certainly has an interest in the functioning of the loan program in the event the State ever does need to use it.

Furthermore, we must all be concerned about the financial stability of the unemployment compensation program, and the issue of State loans is directly tied to the stability question. These hearings are particularly timely in view of recent projections of increased unemployment.

I understand that the specific legislation which is the subject of these hearings, H.R. 4007, will give the States more flexibility in repaying their loans, and I support the use of experience-rated funds, rather than a flat tax, wherever possible. On the other hand, I believe we should provide the necessary safeguards to insure that the States repay their loans at the earliest possible time. Therefore, I will be most interested to hear from our witnesses on how we can reconcile these goals.

I am also aware that there are a number of States which will not be affected by this bill and will, in fact, continue to be liable for an additional Federal unemployment tax whether or not H.R. 4007 is enacted into law. I hope to learn something today about the needs of these States and to hear suggestions for ways to assist them in meeting their financial difficulties while protecting the financial integrity of the Federal Unemployment Account.

Again, Mr. Chairman, I commend your actions in the unemployment compensation area, and I look forward to today's testimony.

Thank you.

Senator BOREN. Our first witness is Earnest Green, Assistant Secretary of Labor for Employment and Training.

Mr. Secretary, we are happy to have you with us today, and if you would, you might introduce the others who are with you as you begin your testimony.

STATEMENT OF HON. ERNEST GREEN, ASSISTANT SECRETARY OF LABOR FOR EMPLOYMENT AND TRAINING, ACCOMPANIED BY BOB KENYON, SPECIAL ASSISTANT TO THE DEPUTY ASSISTANT SECRETARY; JOSEPH HICKEY, CHIEF, DIVISION OF PROGRAM POLICY AND LEGISLATION, UNEMPLOYMENT INSURANCE SERVICE; JIM VAN ERDEN, SUPERVISOR, ACTUARIAL DIVISION

Mr. GREEN. Thank you very much, Mr. Chairman.

I would like to introduce the people accompanying me. To my far left is Bob Kenyon, who is Special Assistant to my Deputy Assistant Secretary. To my immediate left is Joseph Hickey, who is Chief, Division of Program Policy and Legislation, from the Unemployment Insurance Service, and to my far right is Jim Van Erden, and he is a supervisor in our Actuarial Division.

Mr. Chairman, I would like to read the statement, and I will be very brief with it.

Mr. Chairman and members of the subcommittee, I am pleased to have this opportunity to appear before you today to present the administration's views on the status of outstanding State loans from the Federal Loan Account in the Unemployment Trust Fund. I would also like to comment specifically on H.R. 4007, a bill which would allow for incremental payback of outstanding loans.

Since 1972, Mr. Chairman, 25 States have borrowed funds from the Federal Government to be able to continue the payment of unemployment benefits to claimants. These funds are made available interest free under title 12, of the Social Security Act. Although States borrowed from this account in the fifties and sixties, both the number of States involved and the dollar value of the loans were relatively small. This pattern continued into the early seventies when, as of the end of 1974, three States had borrowed a total of \$111.4 million. In 1975, however, and continuing into 1976, a total of 24 States borrowed an additional \$3.3 billion. While 1977 and 1978 were better years economically, more than \$2 billion was loaned to the States during those years. As the recession, which began in late 1974, deepened in 1975 and 1976, Congress believed it would not be appropriate to ask these States to begin to repay their

loans within approximately 2 years as required by Federal law, and granted authority to allow the States a deferral on their repayment obligations for up to 3 years and later extended the deferral authority another 2 years.

Twenty-two of the 25 States that borrowed during the seventies repaid to the Federal Government all or part of their loans, resulting in approximately \$2 billion being returned to the U.S. Treasury. About \$4.2 billion in debts are still outstanding in 15 States, with the largest debts existing in Illinois, New Jersey and Pennsylvania. Six States—Connecticut, Delaware, District of Columbia, Pennsylvania, Rhode Island, and Vermont—have already begun repaying their loans through a reduction in those States of the employer's credit against the Federal Unemployment Tax. This reduction in tax credit accelerates with each passing year and is applicable to all employers within a State, regardless of their experience with unemployment. H.R. 4007, which the subcommittee has before it, would provide an alternative to this approach by allowing borrowing States the option to repay either the full amount outstanding, as under current law, or the amount that would have been collected if the increase in the Federal tax had taken place. This approach has the advantage of allowing States to allocate the costs of the loan among employers on the basis of their experience with unemployment. The use of the option is conditioned on the State having enough reserves to cover benefits over a 6-month period and repaying any additional moneys borrowed for the year. We support the provisions of this bill as a creative means of allowing States to repay the Federal Government the money they owe, yet permitting the States if they choose to do so, to place the heaviest burden for repayment on those employers who were most responsible for it.

Thank you for the opportunity to testify on these matters. My colleagues and I will be happy to entertain any questions at this time.

Senator BOREN. Senator Bradley, I believe you were the first one at the hearings. Would you like to go ahead and begin the questioning?

Senator BRADLEY. I would like to ask the panel why you took this particular approach to the debt repayment problem. Why didn't you favor an extended repayment option, stretched out over a longer period of time?

Mr. GREEN. Generally, Senator, we believe that this piece of legislation allows us an opportunity to address the problem. We find that over an extended period of time, repayment would not be as prompt, and of course we are concerned, as all are, with the solvency of the trust fund.

Senator BRADLEY. Don't you think that the escalating penalty tax hurts the economic objectives you are trying to promote?

Mr. VAN ERDEN. Mr. Bradley, we understand that there are certain macroeconomic impacts of increasing the tax. The tax, as you know, is designed to be repaid on a countercyclical basis. If we have a certain cycle in the economy, the tax has a delay in terms of the imposition, and we would anticipate that this tax would be imposed during a period of recovery.

The deferral which we had during the 1975-80 period has delayed this repayment until, as you know, we are into a position where it looks like we are starting into a new recession, but in general, the imposition of the repayment provisions would occur in more or less a countercyclical nature.

Senator BRADLEY. When States that already have a serious debt are forced to pay a penalty tax because they have been unable to pay off that debt, the corporations in that State must pay an additional amount on the payroll tax. It appears to me that these States get into a vicious downward spiral that you have not completely considered in the legislation.

What is your reaction to that?

Mr. VAN ERDEN. Well, I think that is very possible. This could happen, especially when, as I said, we are going into a recession as now, and you are imposing additional taxes. That is certainly a possibility.

Senator BRADLEY. If the State fund, which in the Brodhead bill could be used to pay off the penalty tax, is exhausted, what recourse does the State have but to increase the taxes on existing businesses?

Mr. VAN ERDEN. At the present time that would be the recourse. The only recourse they would have would be to increase taxes.

Senator BRADLEY. In your judgment, would increased taxes be conducive to the growth of business in a State, or less than conducive?

Mr. GREEN. Senator, Congress authorized creation of the National Commission on Unemployment Compensation to look at long-term issues, and the final report is expected by or before the end of the session. The Commission is presently wrestling with financing and other things and as Secretary Marshall has said a number of times, at the end of that review, the administration will report back to the Congress on our position.

Senator BRADLEY. Mr. Chairman, I would prefer to come back to this issue.

Senator BOREN. Very well.

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Green, how many States would you estimate are eligible for the deferral option?

Mr. VAN ERDEN. Mr. Chafee, we estimate two States could take advantage of this action in 1981. Additional States could take advantage of it in further years.

Senator CHAFEE. Now, I think the option makes sense, and I assume from Mr. Green's testimony that the administration is supporting it.

Mr. GREEN. That is true, sir.

Senator CHAFEE. Now, let's move on to the next area. What about a cap on the increased percentage that under the currently existing law goes up three-tenths of 1 percent every year, to the maximum of 3.4 percent? Now, Mr. Green, I think it was you that mentioned the National Commission on Unemployment Compensation. It is my understanding that they have supported a cap.

Mr. GREEN. They have looked at that, and the final report, as I stated earlier to Senator Bradley, should come forward by the end of this session of Congress.

Senator CHAFEE. Well, I would be interested in your views on a cap. Here is the problem, Mr. Green. You take a State like Mr. Bradley's or mine that has a substantial debt. Now, it is going to take them some time to pay off this debt. By imposing the three-tenths of 1 percent on them, you are already imposing a penalty on the manufacturers, the businessmen, the employers in that State. Now, that is not going to produce enough revenue to pay off the debt in a year, yet every year the thing goes up three-tenths of 1 percent for 9 years, until you get up to the 3.4 percent.

Are there any arguments with what I have said now? The 3.4 percent is the maximum. Am I correct?

Mr. KENYON. Mr. Chafee, the maximum would be 2.7. What we are talking about is a reduction in credit, and the maximum credit we can give is 2.7. The FUTA tax is 3.4, but 0.7 of that is—

Senator CHAFEE. OK, but you've got a 0.7 to start with.

Mr. KENYON. Yes, sir.

Senator CHAFEE. In other words, you start with 3.4, you come down seven-tenths, so you can go up to 3.4. Am I correct?

I see heads going up and down. Does that mean yes?

Mr. GREEN. You are correct.

Mr. KENYON. There is a FUTA tax of 3.4. We are already collecting 0.7. So this bill only deals with the remaining 2.7.

Senator CHAFEE. OK, but you can go to a maximum of 3.4. OK. Now, you start it so that each year you are going up three-tenths of 1 percent, which obviously is a depressant on the employer. It puts a handicap on that employer. Yes?

Mr. KENYON. Yes, sir.

Senator CHAFEE. Yes, obviously it does. He is paying a higher expense. Now, does it make sense to continue this when to start with you are in a State that has problems to start with? These are all the Northeast and Midwest States. You mentioned Michigan, Maine, going down the list that owe, Pennsylvania, Connecticut, Illinois. Pennsylvania is the highest. Rhode Island and so forth. I guess that is the total list. The only Sun Belt State would be Florida. Well, Florida's loan is zero now.

So, they are all Northeastern and Midwestern States. Arkansas was in there for a while, but they are out. They are at zero.

So, what I am suggesting to you is that—and I would suggest that we do it in the Senate—would be that you place a cap. When they go to the three-tenths of 1 percent additional, or six-tenths of 1 percent, if in the judgment of the Labor Department the fund is on a sound basis, they can meet their obligations in the State and they can make some repayment, then don't keep escalating that three-tenths of 1 percent.

Could I get your reaction to that?

Mr. GREEN. The Department is really waiting until we see the final Commission report and will not have an official comment on it at this time.

Senator CHAFEE. Well, how long has this Commission been out? I mean, you know, we could wait for the "Second Coming" and here

the Commission hasn't reported on this particular bill that is before us.

Mr. GREEN. Well, the Commission was a body authorized by the Congress. The report is due June 30, as I think——

Senator CHAFEE. June 30 of this year?

Mr. GREEN. This year. Yes, sir. And it is anticipated that at that point final recommendations by the Commission will be made. There is a wide range of participants, employers, unions, concerned citizens, and many of the issues that we are discussing today will be involved in that report.

Senator CHAFEE. Thank you, Mr. Chairman. I may be back for more.

Senator BOREN. Senator Dole?

Senator DOLE. No questions.

Senator BOREN. Mr. Green, what are the two States that are capable of taking advantage of the second option now in terms of their reserves?

Mr. GREEN. Illinois and Massachusetts, sir.

Senator BOREN. Illinois and Massachusetts?

Mr. GREEN. Yes, sir.

Senator BOREN. And you estimated that next year there would be others?

Mr. VAN ERDEN. Under the current economic assumptions we are using for the estimates, we do not anticipate anybody would take advantage of it in 1982.

Senator BOREN. I see.

Mr. VAN ERDEN. It would be further on out before that would take place.

Senator BOREN. What is the impact of the additional three-tenths increase in the rate? What is the impact in terms of the amount that that raises in those States which still owe an outstanding balance? Do you know what that is annually?

Mr. VAN ERDEN. Yes, sir, Mr. Boren. In six States for this year the rate will be six-tenths of 1 percent, not three-tenths, because they did not qualify for a deferral some time in the 1975 to 1980 period.

Senator BOREN. So it will go up to six-tenths?

Mr. VAN ERDEN. In six States. Yes, sir. The remaining will pay three-tenths. That amount of money due in 1982 will be \$646 million. That is our estimate.

Senator BOREN. Does that automatically then come into the Federal——

Mr. VAN ERDEN. Yes, sir, that comes into our Federal——

Senator BOREN. \$680 million will come in?

Mr. VAN ERDEN. \$646 million.

Senator BOREN. \$646 million. All right.

How much do we estimate that if Massachusetts and Illinois took advantage of the option they would pay in this year?

Mr. VAN ERDEN. This would reduce revenues by \$94 million.

Senator BOREN. So in other words, instead of——

Mr. VAN ERDEN. Excuse me, Mr. Chairman. I gave you the 1982 number. The 1981 number is \$370 million.

Senator BOREN. So the automatic increase raises 300 and——

Mr. VAN ERDEN. \$370 million.

Senator BOREN. \$370 million.

Mr. VAN ERDEN. Sorry.

Senator BOREN. How much would Illinois and Massachusetts pay back if they took option two?

Mr. VAN ERDEN. \$94 million.

Senator BOREN. They would pay back \$94 million.

Mr. VAN ERDEN. Yes, sir.

Senator BOREN. And the others presumably would still be, then—

Mr. VAN ERDEN. It would be collected through the offset credit.

Senator BOREN. How would it reduce the amount of money to the Federal budget?

Mr. VAN ERDEN. Mr. Chairman, the money we anticipate would be transferred from the State trust funds. Therefore, it would be a transfer from the State trust funds to the Federal trust funds. It would not show up as revenue.

Senator BOREN. So it does not impact in terms of the Federal receipts?

Mr. VAN ERDEN. Yes, it is a reduction in receipts of that amount. Yes, sir.

Senator BOREN. Using this option—

Mr. VAN ERDEN. Yes, sir.

Senator BOREN [continuing.] Instead of using the present law.

Mr. VAN ERDEN. Now, the revenue would be made up in the out years, because the State would have to gather the money later on, but it wouldn't impact immediately.

Senator BOREN. Right.

Senator Bradley, have you additional questions?

Senator BRADLEY. Thank you, Mr. Chairman.

I would like the view of the Department of Labor in a general policy sense as to whether it makes sense to penalize a region or a State because of national economic problems. If I look at the amount of money that was advanced to the States from the Federal Unemployment Account—take my State, New Jersey—I see \$352 million in 1975, \$145 million in 1976, \$141 million in 1977, which means the recession hit New Jersey harder than it hit other places in the country. That recession was brought about by national and even international economic circumstances. Yet the way this bill is drawn, you are going to penalize those States that have been affected by national and international economic circumstances in order to pay back the loan.

Does that make sense from the standpoint of the administration?

Mr. GREEN. In reviewing this, some of the States were able to take action on their own, and not borrow. It certainly is true that we don't want to have a system that puts undue hardship on them, and part of the issue of the Brodhead bill is to move toward more solvency. We think that the policy that we are advocating here on this bill would be an assist to those things.

Senator BRADLEY. But if you have to repay your Federal account loan out of your State trust fund, and your State trust fund is running out of money, your only alternative is the penalty tax and increased payroll taxes on industry in your State, which leads to a further downward spiral, possibly prompting that industry to leave because they can't take the higher tax.

Mr. GREEN. Well, as it stands now, it is flat for all industries, regardless of their experience rate, and I think that is the question that this bill attempts to address.

Senator BRADLEY. Well, you have the three-tenths, the six-tenths, and the nine-tenths percent extra tax as the years pass, and that to me is an increased burden.

Mr. KENYON. But under this bill here, the State can go to the employer and experience rate that against—

Senator BRADLEY. He can what?

Mr. KENYON. Experience rate that against the level of unemployment that a given industry has had, so that an industry that hasn't had the highest unemployment levels and has not contributed to drawing funds from the trust fund—

Senator BRADLEY. So what you are saying is the State government, such as New Jersey, has the option of taxing more heavily the healthy industries of the State and not the unhealthy?

Mr. KENYON. It would work just the opposite.

Mr. GREEN. No, the opposite.

Mr. KENYON. Those industries which did not contribute to unemployment as much as others would pay a smaller share. What you would end up doing is taxing more heavily those firms which had more benefits paid or charged to them.

Senator BRADLEY. Well, I understand your theory, but only two States, according to your own testimony, are able to take advantage of this bill.

Mr. VAN ERDEN. Two States in 1981.

Senator BRADLEY. And none in 1982.

Mr. VAN ERDEN. Under present—

Senator BRADLEY. And if we are in a recession by late 1980, you are going to see many more loans drawn down from the Federal fund.

Mr. VAN ERDEN. Mr. Bradley, I think one thing is that all States potentially could take advantage of the bill. It is just the current status that affects only two.

Senator BRADLEY. But again, as a general policy point, do you think it makes a lot of sense to have national economic policy that pushes certain regions and certain States further and further down?

Mr. GREEN. Well, certainly, it has to be a problem—

Senator BRADLEY. You can extend the rope, but if a State can't reach the rope, it is not going to get out of the well.

Mr. GREEN. Well, it certainly is a national policy focus that would not put undue pressure on one region over the other. Under the present legislation, all employers pay the same percentage rate, regardless of whether their industry is affected or not affected. This would offer an alternative and some weighting to allow those who have less of an experience rate not to pay as heavy a penalty.

Senator BRADLEY. I understand that viewpoint.

Senator BOREN. Senator Chafee?

Senator CHAFEE. Mr. Green, do I understand your answer to the chairman's question about the revenues to the Federal Government? If this bill is enacted and a State should choose to repay under its terms, the effect on the Federal revenue is a wash, isn't it? It is no different—well, it depends on which category, but as far

as actual dollars going somewhere, to the Federal Government, it comes out the same, doesn't it?

Mr. VAN ERDEN. No, sir, both the State trust funds and the Federal trust funds, because of the unified budget, are considered to be in the Federal budget, and so we are merely transferring money from one account in the Federal budget to another. That is different from collecting an additional flat tax on employers.

Senator CHAFEE. Oh, I see. That is, if you considered the Federal trust fund in the Federal budget.

Mr. VAN ERDEN. Yes, sir.

Senator CHAFEE. Well, all right.

Mr. VAN ERDEN. The State trust fund is considered in there also. That is the kicker.

Senator BOREN. It does become a part of the unified budget, as I understand it.

Mr. VAN ERDEN. Yes, sir.

Senator BOREN. So we are comparing an increase in tax collections under current law versus a wash under the bill before us, so that comes out as a net reduction in the unified budget. Is that correct?

Mr. VAN ERDEN. The only other impact there is that if the State transferred the money out of the State trust fund, it may be an amount sufficient to increase the State's tax rate in a year further out, so that at some point down the line you would generate more revenue, but it wouldn't be an immediate impact. That is the difference.

Senator CHAFEE. I see.

Now, in order for the State to take advantage of this, its State fund must have a 6-month reserve?

Mr. VAN ERDEN. Yes, sir.

Senator CHAFEE. That in itself is a pretty substantial requirement. I mean, it doesn't help my State at all. We don't have a 6-month reserve.

Senator BRADLEY. Nor mine.

Mr. VAN ERDEN. Yes, sir.

Senator CHAFEE. Well, I would appreciate it if you gentlemen could give some thought to what might be done to help States like ours. You haven't chosen to comment on the maximum penalty or the penalty being substantially less than the current maximum penalty, which I think is very onerous, that is, the total of 3.4 percent. I personally think that a penalty of something like 0.6 percent, if the fund is solvent, and solvent in your judgment, and that that is adequate, it will eventually be paid off, but meanwhile it keeps this vicious cycle from going into operation.

Thank you, Mr. Chairman.

Senator BOREN. Senator Dole, any other questions?

Senator DOLE. No questions. Thank you.

Senator BOREN. Let's say we had a cap on this tax. How long would it take? Let's say it was capped out at 0.9 rather than at the 2.7. How long would it take the current balance outstanding to be paid back?

Mr. VAN ERDEN. Mr. Chairman, that would vary State by State, but for example—

Senator BOREN. Yes.

Mr. VAN ERDEN [continuing]. In Pennsylvania, we are estimating they would repay now by 1988.

Senator BOREN. 1988?

Mr. VAN ERDEN. Yes, sir, if you put a—this is with the current offset credit. If you were to put a six-tenths or a nine-tenths limit on it, that would extend that period well into the 1990's.

Senator BOREN. Are they in the worst shape?

Mr. VAN ERDEN. Yes, I think—not on a per capita basis, but they are in the worst shape.

Mr. GREEN. Overall.

Senator BOREN. Overall?

Senator CHAFEE. Excuse me, Mr. Chairman. I don't think the dollars are significant as far as—it must relate to the base, doesn't it, wage base?

Mr. VAN ERDEN. Yes, sir, that is why I said, on a per capita—Illinois is worst—excuse me. Pennsylvania is the worst overall, but actually the Virgin Islands has the worst per capita.

Senator BOREN. Worst per capita.

Mr. VAN ERDEN. And they only owe \$9 million.

Senator BOREN. Right. Has any thought been given—I wonder also, or wonder if this could be prepared, perhaps, if not by you, by staff—I am very sympathetic to what Senator Bradley and Senator Chafee have been saying, in terms of the fact that to some degree these States have no ability to control their own economic fate. They happen to be more intensive into industries that for national and international reasons have suffered declines than other States like mine, which have been more fortunate in terms of their economic makeup.

I am sympathetic to those problems, and toward not worsening the situation by imposing such a heavy tax that you then discourage the industries in those States, or you drive industries out of those States.

On the other hand, I seem to recall that in some of those States they had not done very much to reform their own State laws. For example, in Oklahoma we did several things in terms of voluntary quits and some other things that really tightened up eligibility for unemployment compensation. Has any kind of survey been made in terms of those States that have the heaviest debt?

Speaking personally, I would be willing to look at capping their contributions if I could look at the people in my own State and say, look, we have relieved Pennsylvania or whatever State it happened to be from paying some of these things, but we have made them clean up their own act in terms of their unemployment compensation laws first, because when I face the taxpayers in my State, and we have done away with voluntary quits and we have cut off people who won't accept a reasonable job when offered, and so on, and so that we can bail out Pennsylvania, that doesn't go down very well.

Now, we are one country, and we want to share our neighboring States', fellow States' problems, those problems not of their own making, but we don't want to bail them out when they are not doing what they should be doing to clean up their own house.

Has any thought been given to that possibility or has any survey been made of how well these States have cleaned up their own act in terms of tightening up their own State programs, I wonder?

Mr. GREEN. Well, there has been some thought to a standard of solvency. The Commission and the review by Department staff is to look at what some States have done. We would be happy to work with you and your staff in looking at that question.

Senator BOREN. I would appreciate it. Perhaps if we could have our staff of the subcommittee go back over the blue book report done for the full Finance Committee when we had markup on the unemployment laws, and do a checklist for us in terms of some of those suggested reforms, which ones have been adopted in these States and which haven't, I think that might be interesting for us to look at.

All right. Are there any other questions from members of the subcommittee before we go on to our next witness? [No response.]

Thank you very much, Mr. Secretary and members of your staff. We appreciate your being here and we appreciate your testimony.

Mr. GREEN. Thank you very much.

Senator BOREN. Our next witness is the principal author of this proposal, our colleague, Congressman William Brodhead, a Congressman from Michigan, one of the most knowledgeable people in this field.

Congressman, we are very pleased that you would take time to be with us today, and we appreciate your appearing in the hearings, and we will recognize you at this time.

STATEMENT OF HON. WILLIAM M. BRODHEAD, A U.S. REPRESENTATIVE FROM THE STATE OF MICHIGAN, ACCOMPANIED BY ELAINE FULTZ AND MARY PHARIS

Mr. BRODHEAD. Thank you very much, Mr. Chairman.

It is a pleasure for me to appear here, and I thank you for giving me the time. With me today are Elaine Fultz and Mary Pharis, two of my legislative assistants.

I have a written statement. It is brief, Mr. Chairman. I would like to read it if I might.

Senator BOREN. That would be fine.

Mr. BRODHEAD. Mr. Chairman, I am pleased to be here today to speak on behalf of H.R. 4007, my bill to provide an additional option for repayment of loans from the Federal Government which some States were forced to incur in previous times of high unemployment.

This bill would allow States to repay these loans with funds from their own unemployment trust funds. Such an option would allow States to fulfill their responsibilities to repay the loans while at the same time permitting them to avoid the automatic imposition of the penalty tax on employers which is mandated under current law.

I would like to draw attention to the unusual degree of support for this legislation. The Department of Labor supports it. The National Commission on Unemployment Compensation supports it. The Interstate Conference of Employment Security Agencies and the UBA are listed among the supporters.

In a poll taken last week, my office determined that every one of the States with loan balances outstanding had taken a position in favor of this bill or similar legislation.

It is important to point out, I think, that the bill passed the House of Representatives by a vote of 402 to 1, indicating unusually broad support.

Mr. Chairman, the reasons for this broad support are easily identified. First and most importantly, the bill increases the flexibility allowed to States in planning their payback arrangements, without releasing them from the payback responsibility in any way. The debtor States are struggling to return their unemployment compensation programs to solvency. In the 6 months since November, when H.R. 4007 passed the House, States have repaid the Federal account \$1.333 billion or 26 percent of the total outstanding balance which existed at that time. H.R. 4007 would offer the States an additional option in their efforts to pursue this fiscally responsible course.

Secondly, the bill aids a State in preserving the economic climate of its area, by giving it the opportunity to avoid a tax increase on employers. To businessmen considering their overall costs, these penalty tax assessments are a significant consideration. In five States, the penalty tax will escalate 8 months from now to 0.6 percent, while in eight other States the 0.3 percent assessment will begin.

If 4007 is enacted, States will be paying back their loans with experience-rated funds. Under current law, the payment comes from automatic increases in a Federal tax assessed equally on all employers in a State regardless of whether the employer has a stable or unstable employment pattern. Under 4007, employers would have a direct stake in stabilizing their employment patterns and holding down costs in order to earn the best experience ratings possible.

I would like to also address the issue of the cost of this bill. I don't believe it costs the Federal Government any money in any real sense. The so-called cost is a function of the fact that under the unified Federal budget State UI trust fund dollars are counted as Federal dollars. Therefore, any repayment a State might make under the option in 4007 is not counted as income to the Federal Government because these funds are already counted as Federal revenue; but the repayment "turns off" a portion of the Federal penalty tax prescribed under current law, and that is counted as a loss to the Federal Treasury.

So, it is only in that indirect and, I think, technical and even fictional sense that there is really any cost for this bill.

I see this paper cost as an unfair statement of the effect of H.R. 4007. The National Commission has on several occasions expressed its unanimous recommendation that State UI trust funds and benefit payments not be included in any totals of Federal revenue. That recommendation, I understand, will be reflected in the Commission's report, due out this summer. While I recognize that there is no way to avoid the presentation of this bill as a bill which has a cost under current law, I expect that the misleading nature of this cost estimate can be made as clear to the Senate as it was to the House.

Mr. Chairman, there are different projections as to how many States will actually be in a position to utilize the option provided in the bill. The Department of Labor's most recent estimate suggests that two States, Massachusetts and Illinois, will have sufficient reserves in their State trust funds after paying an amount equal to the penalty tax portion of their loans in the coming year to permit them to use 4007.

In my survey of the States' unemployment security agencies last week, more States, including Connecticut, Maine, Montana, Vermont and the District of Columbia, were optimistic that the bill would be useful to them this year. Others expected that the option would be of benefit to them in the future.

The difference of opinion between the Department of Labor and the States arises from the different economic assumptions that they are using in making their projections. I would like to suggest that perhaps the individual States themselves are in a better position to evaluate whether or not their economic situations in the coming year will permit utilization of the option offered in this bill.

In closing, Mr. Chairman, may I make a direct appeal for consideration of this bill without any significant amendments? Despite my pride of authorship I understand that this bill is not a major bill. If the bill is loaded with amendments, it will lose much of its bipartisan and broad-based support. I urge you to recommend to the Finance Committee that the bill undergo careful consideration on its own merits alone so that the States can be assured of the option they are eager to have.

Thank you.

Senator BOREN. Thank you very much, Congressman Brodhead. Again, I want to compliment you for your leadership and expertise in this field, and also for the overwhelming vote which this piece of legislation received in the House.

Senator Bradley, do you have any opening questions?

Senator BRADLEY. Yes. I would like to get a little more in-depth reaction to this escalating penalty tax. Do you think it should be left in place?

Mr. BRODHEAD. No, I don't. In fact, that is really the reason that impelled me to introduce the legislation in the first place, Senator. I think that the escalating penalty tax is a tremendous disincentive to the creation of employment opportunities in a State.

Senator BRADLEY. At what level do you think it becomes self-defeating?

Mr. BRODHEAD. Well, the people in Michigan tell us that they are very afraid that just the first imposition of the penalty tax itself is a disincentive and begins to hurt.

Senator BRADLEY. Why haven't you allowed the current criteria for loan repayment deferral to remain in your bill?

Mr. BRODHEAD. Well, I was attempting to put something in the bill, Senator, that would assure everyone that we are attempting to proceed in a responsible fashion, and frankly, at the time when I offered the bill, it appeared that my own State could meet those criteria. I understand that there are other States that perhaps may not be able to meet those, and I certainly would not have any strong objection if there were amendments made to that section that made adjustments to reflect different situations in different

States, while keeping in mind the spirit of the legislation and not changing the underlying idea of it.

Senator BRADLEY. Do you think it makes any sense to have the 6-month State fund rule?

Mr. BRODHEAD. Well, I think that it certainly complicates matters, but I felt that our State and a number of other States could live with it. Of course, the pattern in our State is worsening rapidly, and New Jersey has been impacted, as you are well aware, by the layoffs in the auto industry. Michigan has been impacted even more severely, and we may have problems down the road that we are not anticipating today.

Senator BRADLEY. So you are saying that the idea of paying the accumulated penalty out of the State trust fund might even present a problem in your own State?

Mr. BRODHEAD. Well, our State was able to make its payment last year, to make a lump sum payment, but yes, it could present problems in Michigan.

Senator BRADLEY. In which case, I assume you would be open for some modification of that 6-month—

Mr. BRODHEAD. I certainly would be willing to consider it at that point. Yes, Senator.

Senator BRADLEY. Thank you, Mr. Chairman.

Senator BOREN. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman. I want to join in the thanks that the chairman expressed, Mr. Brodhead, for your legislation. You are modest in calling it not a major bill. You are the only person who has ever come here with a piece of legislation of their own that said it was anything but major. [General laughter.]

And the overwhelming vote, I don't know who that recalcitrant one was.

Mr. BRODHEAD. It is Mr. Jacobs of Indiana, Senator.

Senator CHAFEE. Well, maybe he didn't understand the measure.

Mr. BRODHEAD. That is what I told him, Senator. [General laughter.]

Senator CHAFEE. I campaigned heavily in a nursing home to get some shut-in ballots one time, and when it was all through, there were 48 against me and 1 for me, and I thought that the one person for me was confused as to who I was when I was through.

I agree with you on your rationale about—your remarks on the funding. To me, it is a paper loss to the Federal Government. I was astonished to find that the State funds count in that unified budget. I don't know how that came about.

Mr. BRODHEAD. Well, I don't know, either, and it is causing us some problems this year with the drive to balance the budget. There is going to be much more in payout from these funds than income in fiscal 1981. At least, that is the projection, and it has the effect of increasing the deficit and making it more difficult to balance the budget.

These revenues come in under State law, and they are levied on employers only within a State, and it seems to me that they should not be included in the Federal budget. I think we could simplify matters. Certainly there are other things that are not in the Federal budget that darn well ought to be. This seems to be one that is in the Federal budget that ought to be out.

Senator CHAFEE. Getting back to Senator Bradley's line of questioning, I wasn't quite sure why you had the 6-months' reserve. Is that in the current, existing legislation? Is that why you had it?

Mr. BRODHEAD. Well, yes, it is in the existing legislation, and we just carried it forward. The idea was to make sure that there wasn't a loophole which would permit States to pay back old loans and then borrow again immediately. Frankly, we were trying to increase support for the bill by giving the State a chance to pay back their money, not a further way of avoiding ever paying it back.

Senator CHAFEE. Were you in agreement with the suggestions that were made up here and that Senator Boren amplified on regarding the limitation on the maximum penalty?

Mr. BRODHEAD. Yes; I would think that would make sense. I don't know to what extent that maximum penalty is going to go into effect. It is pretty universally felt, I think, that the penalty tax would have a very detrimental impact, and as you well know, Senator, those States which are already down are going to be the ones that get kicked by the penalty tax. It really doesn't seem to make much sense when a State is in a hole trying to dig its way out for Congress to shovel some more dirt in there.

That is really what the impact of the penalty tax would do. Even the imposition of the minimum penalty would have an adverse impact, and if we went further than that and escalated to 0.6, 0.9, and up and up and up, the States would never be able to get out from under. I am in favor of a cap on the penalty.

Senator CHAFEE. All right. Thank you.

Thank you, Mr. Chairman.

Senator BOREN. Thank you very much, Congressman, for coming over. We appreciate your testimony and congratulate you on the successful shepherding of this bill to this point, and trust the Senate will not let you down in its assessment of it.

Mr. BRODHEAD. Thank you very much, Senator.

Senator BOREN. Thank you.

Before we have our next witnesses, let me say in deference to the administration and to the author of the bill that we have not imposed time limitations during their testimony, but because of action to take place in the Senate later this afternoon, it will be necessary for us to put a time limitation on those who will be testifying from this point on, and we would appreciate it, if possible, if you could summarize or highlight your written testimony. The full statements that have been submitted to us will be placed in the record as if read, but it would be helpful to us if you could summarize it, and we will attempt to stay within 5 minutes in the formal statements for each witness and utilize the rest of the time for questioning.

So, we will ask that the light system be used, and when 1 minute is remaining of that time, the yellow light will come on, indicating that, and we would ask the cooperation of the witnesses in holding within that time limitation.

Our next witness is Mr. George McCann, State representative of the State of Vermont, appearing on behalf of the Eastern Regional Conference of the Council of State Governments.

Representative McCann, we are very pleased to have you today, and welcome you to the committee.

STATEMENT OF HON. GEORGE McCANN, STATE REPRESENTATIVE, STATE OF VERMONT, ON BEHALF OF THE EASTERN REGIONAL CONFERENCE, COUNCIL OF STATE GOVERNMENTS, ACCOMPANIED BY WENDELL HANFORD, STAFF

Mr. McCANN. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I have with me today Wendell Hanford, who is the staff assistant to the Council of State Governments, and for questioning, he will be available.

I am going to keep it very brief. I am going to follow the outline that is on the cover of the presentation that we have prepared for you today.

Of course, you are quite familiar with the debt that exists, especially with the northeast States from the 1974-75 recession that has caused the debt that we are now talking about.

The UI program is and should continue to be a Federal-State system involving a partnership between both the State and Federal Government. We believe that H.R. 4007 would in fact make this relationship much easier in dealing with the local governments from the Federal standpoint.

The Federal Government shares with the State this responsibility for restoring our State UI systems to a condition of financial stability. We in the Northeast and those States that are affected by 4007 believe that the debt should not be alleviated, but that the debt should be paid back, but the existence of a penalty or a tax increase or, let's say, a tax credit reduction to our employers would be a hardship not only economically in the northeast, but, we believe, socially, and for those reasons, we support 4007.

We also further believe—you were mentioning a cap—we feel that a better word would be a "freeze." If we could place a freeze on the annual increase in the FUTA tax, let's say at the rate that is presently existing in those States who have been penalized with the increase in the FUTA tax, that I believe and the council believes that those States would be able to make a payment based on the penalty tax to the Federal Treasury and be on a system of financial stability for the years to come, and in fact, before the year 1988, be able to not only put their own State in order, but pay back the debt that they owe the Federal Government.

One point that was made here earlier is a point about the States putting their own UI systems in order. We in Vermont are tightening our eligibility requirements. We have in fact in the last session of the legislature that I served in required that carpenters who leave the State for 6 months at a time, let's say, go south, claim unemployment benefits down there from our State, could no longer do that. They have to be truly unemployed.

We are also emphasizing not only unemployment benefits, but our job service. We are trying to pick up people as fast as we can from the unemployment ranks and putting them back to work.

This we feel is a positive step, and one that I believe other States will initiate, and will put their own systems on a sound basis.

Thank you.

Senator BOREN. Thank you very much. I want to congratulate you on what you are doing in Vermont to tighten up the program. This is something I believe in, and I think we should keep the pressure on, while at the same time recognizing the problem in the States that have had economic downturns through no real fault of their own.

Senator Chafee, do you have any questions?

Senator CHAFEE. I think that is a good statement.

Senator BOREN. Let me ask you this. Might you be sympathetic to the committee mandating, if we were to decide some kind of freeze, and we are all thinking out loud here, freeze or cap, might you go along with us mandating in those States that have not made some of these reforms that owe large outstanding balances that to qualify for the freeze on their automatic escalation of the three-tenths of 1 percent that they might have to make some of these changes?

Mr. McCANN. I believe that I would agree with that personally, and I think that they will be doing that. I think they will recognize that the debt is there, that the other States are making changes, and that they are going to have to or you are going to create legislation that will in fact either mandate it or put the penalty tax back on those States.

Senator BOREN. Right.

Mr. McCANN. That is the last thing we want in terms of employment, employers.

Senator BOREN. I would share with you that in my home State of Oklahoma 2 years ago when we made changes, we were virtually broke. We had no balance, really, left in our reserves, and after we made some reforms in terms of voluntary quits, seasonal unemployment, as you mentioned, people who are really not employed but have seasonal work nature, our reserves went up to \$154 million within a year and a half, and we were able to lower the employer contributions. So, we found much greater response to reforms to the system even than we anticipated when we were passing it.

So, there is much that can be done. I want to join with Senator Chafee in thanking you for your very fine statement and for the ideas which you have expressed.

Mr. McCANN. Thank you very much.

Senator BOREN. We are happy to have had you.

Mr. McCANN. Thank you, sir.

Senator BOREN. Thank you.

[The prepared statement of Mr. McCann follows:]

TESTIMONY
BEFORE THE
SUBCOMMITTEE ON UNEMPLOYMENT COMPENSATION
AND RELATED PROBLEMS
OF THE
SENATE FINANCE COMMITTEE

BY

VERMONT STATE REPRESENTATIVE GEORGE MC CANN
MEMBER OF THE SPECIAL TASK FORCE
ON ECONOMIC AFFAIRS

OF THE
EASTERN REGIONAL CONFERENCE
OF THE COUNCIL OF STATE GOVERNMENTS

APRIL 28, 1980

MAJOR POINTS TO BE ADDRESSED IN STATEMENT BY
REPRESENTATIVE GEORGE McCANN OF THE ERC
SPECIAL TASK FORCE ON ECONOMIC AFFAIRS OF
THE COUNCIL OF STATE GOVERNMENTS

- A. DEBTS INCURRED BY THE NORTHEAST STATES ARE LARGELY A RESULT OF FACTORS BEYOND THE CONTROL OF INDIVIDUAL STATES.
- B. THE UNEMPLOYMENT INSURANCE PROGRAM IS AND SHOULD CONTINUE TO BE A FEDERAL-STATE SYSTEM INVOLVING A SHARING OF RESPONSIBILITIES BETWEEN THE TWO LEVELS OF GOVERNMENT.
- C. THE FEDERAL GOVERNMENT SHARES WITH THE STATES THE RESPONSIBILITY FOR RESTORING THE STATE UNEMPLOYMENT INSURANCE SYSTEMS TO A CONDITION OF FINANCIAL STABILITY.
- D. THE TASK FORCE SUPPORTS A PROPOSAL TO PLACE A FREEZE ON THE .3% ANNUAL ACCUMULATING INCREASE IN THE FUTA TAX.
- E. THE TASK FORCE SUPPORTS THE PASSAGE OF HR-4007, GIVING STATES AN ALTERNATIVE METHOD OF PAYMENT OF THEIR OUTSTANDING LOANS TO THE FEDERAL UNEMPLOYMENT INSURANCE LOAN ACCOUNT.

CHAIRMAN BOREN AND MEMBERS OF THE SUBCOMMITTEE ON UNEMPLOYMENT COMPENSATION AND RELATED PROBLEMS, MY NAME IS GEORGE McCANN, AND I AM A MEMBER OF THE HOUSE OF REPRESENTATIVES IN THE STATE OF VERMONT. I AM ALSO A MEMBER OF THE SPECIAL TASK FORCE ON ECONOMIC AFFAIRS OF THE EASTERN REGIONAL CONFERENCE OF THE COUNCIL OF STATE GOVERNMENTS. THE TASK FORCE ON ECONOMIC AFFAIRS REPRESENTS THE LEGISLATIVE INTERESTS OF THE SIX NEW ENGLAND STATES, NEW YORK, NEW JERSEY, PENNSYLVANIA AND DELAWARE (AND IS MADE UP OF FOUR LEGISLATORS FROM EACH OF THE TEN STATES). ON BEHALF OF THE TASK FORCE, I APPRECIATE THE OPPORTUNITY TO APPEAR TODAY TO MAKE OUR VIEWS KNOWN RELATIVE TO HR-4007 AND THE STATE UNEMPLOYMENT INSURANCE INDEBTEDNESS PROBLEM.

BEFORE PROCEEDING WITH OUR STATEMENT, I WOULD LIKE TO MENTION THAT THE TASK FORCE HAS BEEN WORKING ALONG WITH THE COALITION OF NORTHEAST GOVERNORS IN THIS AREA AND THAT THE CONCERNS EXPRESSED HEREIN REGARDING UNEMPLOYMENT INSURANCE FINANCING ARE SHARED BY THE COALITION.

AS YOU ARE ALL WELL AWARE, THE ROOTS OF THE CURRENT FINANCING CRISIS AFFLICTING THE FEDERAL-STATE UNEMPLOYMENT INSURANCE SYSTEM EXTEND BEYOND THE BORDERS OF ANY INDIVIDUAL STATE OR REGION. THIS STATEMENT IS SUPPORTED BY THE FACT THAT AS A RESULT OF THE 1974-76 RECESSION, 24 STATES WERE FORCED TO

BORROW FROM THE FEDERAL LOAN ACCOUNT TO MEET INCREASED UNEMPLOYMENT INSURANCE COSTS. THE LARGE DEBTS INCURRED BY MANY STATES DURING THIS PERIOD DEMONSTRATED THE URGENT NEED FOR REEXAMINING THE SYSTEM OF FINANCING UNEMPLOYMENT INSURANCE BENEFITS. THIS NEED WAS RECOGNIZED BY CONGRESS WHEN IT ESTABLISHED THE NATIONAL COMMISSION ON UNEMPLOYMENT INSURANCE WITH A MANDATE TO STUDY AND PROPOSE ALTERNATE FINANCING MECHANISMS.

ALTHOUGH THE INADEQUACIES OF THE UNEMPLOYMENT INSURANCE FINANCING STRUCTURE ARE OF NATIONAL CONCERN, THE FISCAL CONSEQUENCES FOR THE STATE UNEMPLOYMENT INSURANCE SYSTEMS IN THE NORTHEAST, RESULTING FROM THE INSTABILITY OF THE SYSTEM, HAVE BEEN ESPECIALLY SEVERE. AS OF JANUARY 1, 1980, SEVEN NORTHEASTERN STATES STILL OWE THE FEDERAL ACCOUNT APPROXIMATELY \$2.7 BILLION OUT OF A TOTAL AGGREGATE STATE DEBT OF \$3.8 BILLION.

THREE MAJOR FACTORS THAT HAVE CONTRIBUTED TO THE CONCENTRATION OF THE STATE DEBT IN THE NORTHEAST, AND THE INABILITY TO DISSOLVE THAT DEBT, ARE:

1. THE GREATER EXTENT TO WHICH THE RECESSION OF THE MID-70'S IMPACTED THE NORTHEAST RELATIVE TO THE REST OF THE COUNTRY;
2. THE CONTINUED LAGGING ECONOMIC GROWTH IN THE REGION;
3. THE HIGHER COST OF LIVING IN THE REGION AND, CONSEQUENTLY, HIGHER BENEFIT OUTLAYS.

FOR THE PERIOD 1974-76, THE AVERAGE INSURED UNEMPLOYMENT RATE IN THE NORTHEAST/MIDWEST WAS 26% HIGHER THAN THAT OF THE SOUTH AND WEST. THE DURATION OF UNEMPLOYMENT IN THE NORTHEAST/MIDWEST REGION

1

AVERAGED 16.3 WEEKS AS COMPARED WITH 13.4 WEEKS IN THE REST OF THE COUNTRY FOR THE SAME PERIOD. THE COST OF PROVIDING HIGHER BENEFITS, RESULTING FROM A HIGHER COST OF LIVING INDEX, IS GREATER THAN THE COST OF PROVIDING LOWER BENEFITS. EMPLOYERS IN THE NORTHEAST PAY STATE UNEMPLOYMENT INSURANCE TAXES THAT ARE AN AVERAGE OF THREE TIMES HIGHER THAN THOSE PAID BY EMPLOYERS IN THE SOUTH.

IT IS IMPORTANT TO NOTE THAT THESE THREE FACTORS ARE LARGELY BEYOND THE CONTROL OF INDIVIDUAL STATES. THE FACTORS OVER WHICH STATES DO HAVE CONTROL, SUCH AS DETERMINING THE LEVEL OF BENEFITS, DECIDING WHO IS ELIGIBLE, AND UNDER WHAT CONDITIONS BENEFITS MAY BE RECEIVED, HAVE BEEN SHOWN NOT TO HAVE A SIGNIFICANT EFFECT ON OVERALL UNEMPLOYMENT INSURANCE COSTS. A STUDY CONDUCTED BY THE UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH ON THE DETERMINANTS OF INTERSTATE DIFFERENCES IN UNEMPLOYMENT INSURANCE BENEFIT COSTS CONCLUDED:

FROM A STATE POLICY PERSPECTIVE, THEREFORE, ANY REALISTIC MANIPULATION OF STATUTORY PROVISIONS APPEAR NOT TO OFFER ENOUGH OF AN EFFECT ON OVERALL UNEMPLOYMENT INSURANCE COSTS TO OVERCOME, TO ANY GREAT EXTENT, THE DIFFERENCES IN COST RATES BETWEEN STATES. IN A COMPETITIVE INTERREGIONAL ENVIRONMENT, THIS FINDING IS IMPORTANT BECAUSE HIGHER STATE UNEMPLOYMENT INSURANCE TAX RATES, WHICH ARE ASSOCIATED WITH HIGHER BENEFIT COST RATES, HAVE BEEN ATTRIBUTED TO "LIBERAL" STATUTORY PROVISIONS. THE EMPIRICAL RESULTS OF THIS STUDY INDICATE THAT, ACROSS STATES, THIS WAS SIMPLY NOT THE CASE.

DUE TO THE INFLUENCE OF THE EXTERNAL FACTORS ENUMERATED ABOVE ON THE STATE UNEMPLOYMENT INSURANCE SYSTEM, IT IS THE BELIEF OF THE TASK FORCE THAT THE FEDERAL GOVERNMENT MUST SHARE WITH THE STATES THE RESPONSIBILITY FOR RESTORING THE STATE UNEMPLOYMENT

INSURANCE SYSTEMS TO A CONDITION OF FINANCIAL STABILITY. IT IS FURTHER THE FEELING OF THE TASK FORCE THAT IN THE FEDERAL-STATE PARTNERSHIP, UPON WHICH THE UNEMPLOYMENT INSURANCE PROGRAM IS BASED, THE STATES HAVE A RESPONSIBILITY TO EXAMINE THEIR OWN SYSTEMS WITH A VIEW TOWARD RESTRICTING THE WEEKLY AMOUNT AND DURATION OF BENEFITS ALLOWED UNDER STATE LAW, STIFFENING ELIGIBILITY REQUIREMENTS AND IMPROVING THE ADMINISTRATIVE EFFECTIVENESS OF THE SYSTEM.

THE SINGLE MOST CRITICAL ACTION THAT CONGRESS CAN TAKE AT THE PRESENT TIME TO ASSIST THE STATES IN REPAYING OUTSTANDING LOANS AND RESTORING THE UNEMPLOYMENT INSURANCE SYSTEMS TO CONDITIONS OF ACTUARIAL SOUNDNESS, IS TO PLACE A FREEZE ON THE ANNUAL ACCUMULATIVE .3% INCREASE IN THE FUTA TAX AT ITS CURRENT LEVEL. SUCH A FREEZE WOULD REMAIN IN EFFECT IN A STATE AS LONG AS THAT STATE CONTINUED TO REDUCE ITS OUTSTANDING DEBT BY MAKING PAYMENTS OUT OF ITS TRUST FUND IN THE AMOUNT THE FEDERAL GOVERNMENT WOULD HAVE COLLECTED DURING THE YEAR OR YEARS IN WHICH THE FEDERAL TAX INCREASE OCCURRED.

THE TASK FORCE IS OPPOSED TO THE CURRENT APPROACH OF RECOUPING STATE LOANS BY AN ANNUAL INCREASE IN THE FUTA TAX AS IT WOULD:

1. FORCE EMPLOYERS TO LAY OFF EMPLOYEES, THEREBY ADDING TO UNEMPLOYMENT;
2. DECREASE PRODUCTIVITY;
3. DIMINISH REAL INCOME;
4. RAISE PRICES;
5. FUEL INFLATION.

IN ADDITION TO THESE CONCERNS OF THE TASK FORCE REGARDING PROBABLE EFFECTS OF AN ACCUMULATING FUTA TAX INCREASE, WE FEEL THAT, IN LIGHT OF CURRENT CHANGING ECONOMIC CONDITIONS, A CAUTIOUS APPROACH TO RECOUPING THESE FEDERAL REVENUES IS ESPECIALLY WARRANTED AT THIS TIME.

ANOTHER MAJOR OBJECTION THE TASK FORCE FINDS WITH THE CURRENT FEDERAL REQUIREMENTS FOR RECOUPING STATE LOANS IS THAT BY INCREASING THE FUTA TAX, ALL EMPLOYERS IN THE REGION WOULD BE PENALIZED WITHOUT REGARD TO THEIR INDIVIDUAL EXPERIENCE WITH UNEMPLOYMENT. IF STATES ARE ALLOWED TO REPAY THESE FEDERAL LOANS OUT OF THEIR STATE TRUST FUNDS, WHERE EMPLOYER CONTRIBUTIONS ARE EXPERIENCED RATED, THE INCREASED TAX BURDEN WOULD BE MORE EQUITABLY DISTRIBUTED WITHIN THE STATE.

CONGRESSMAN BRODHEAD'S BILL, HR-4007, WHICH WOULD AMEND THE CURRENT LAW TO PROVIDE STATES WITH THE VALUABLE OPTION OF PASSING THE ADDITIONAL FEDERAL TAX INCREASES THROUGH THE STATE TRUST FUNDS, HAS THE WHOLEHEARTED SUPPORT OF THE TASK FORCE. AS THE UNEMPLOYMENT INSURANCE TAX RATE IS PERCEIVED AS A SIGNIFICANT INDICATOR OF THE "BUSINESS CLIMATE" WITHIN A STATE, OR REGIONALLY, WE FEEL IT IS VITALLY NECESSARY TO THE NORTHEAST TO HAVE THE OPTION OF AVOIDING THESE TAX INCREASES.

BY SUPPORTING A FREEZE ON THE FUTA TAX INCREASE AND GIVING STATES THE OPTION OF TRANSFERRING FUNDS FROM THEIR TRUST FUNDS IN LIEU OF INCREASED FUTA TAXES, THE TASK FORCE FEELS THAT CONGRESS WOULD BE PROVIDING THE STATES WITH AN ECONOMICALLY VIABLE AND FINANCIALLY SOUND APPROACH TO RESOLVING THE STATE UNEMPLOYMENT

INSURANCE DEBT PROBLEM.

ON BEHALF OF THE TASK FORCE ON ECONOMIC AFFAIRS, I WOULD LIKE TO THANK YOU AGAIN FOR ALLOWING ME TO PRESENT OUR VIEWS ON THIS MATTER OF VITAL CONCERN TO OUR STATES.

Senator BOREN. Our next witness is Mr. S. Martin Taylor, the director of the Michigan Employment Security Commission, and president of the Interstate Conference of Employment Security Agencies.

Mr. Taylor, it is a privilege to have you back with the committee again.

STATEMENT OF S. MARTIN TAYLOR, DIRECTOR, MICHIGAN EMPLOYMENT SECURITY COMMISSION, AND PRESIDENT, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, ACCOMPANIED BY CHERYL TEMPLEMAN, CHIEF, UI DIVISION, CAROL HAAPT, SPECIAL ASSISTANT FOR MICHIGAN STAFF, DON WHITELY, SECRETARY OF LABOR FOR DELAWARE AND SECRETARY-TREASURER OF ICESA

Mr. TAYLOR. Thank you very much, Mr. Chairman.

My name is S. Martin Taylor. I am director of the Michigan Employment Security Commission, and president of the Interstate Conference of Employment Security Agencies, commonly referred to as ICESA.

I have with me on my right Cheryl Templeman, chief of our UI Division of ICESA, Carol Haupt, special assistant for my Michigan staff, and Don Whitely, who is secretary of labor for Delaware and secretary-treasurer of ICESA.

We are pleased to come before you today in support of H.R. 4007, which you are now considering. The members of ICESA, which include the 50 States, Puerto Rico, the Virgin Islands and the District of Columbia, remain dedicated to a sound and efficient administration of the UI system, the Public Employment Service, and the several other programs which we operate.

To this end, we wish to share our views with you on H.R. 4007 which will provide an optional method of repaying outstanding loans to the Federal unemployment account.

H.R. 4007 will enable States with outstanding loans to elect an incremental repayment option providing they meet certain safeguarding criteria. We believe that passage of the bill will assist States in preserving the economic climate of the State. More specifically, most States which will be able to elect the repayment option have already taken serious steps to improve the solvency of their benefit trust funds. The provisions of this bill recognize this type of effort and permit partial payments through experience rated benefit trust fund transfers, rather than through assessing a flat tax against all State employers.

Such a flat tax increase also would be an added burden on employers during a period of economic instability or downturn. We also feel that this bill will assist States in preserving the experience rating systems. Specifically, those States which meet the qualifying criteria will be permitted to transfer funds from their

benefit trust fund equivalent to the amount of revenue which would have been generated by increased FUTA taxes.

Thus the repayment option permits repayments which are from primarily experience rated funds and distributes the responsibility for the repayment more equitably among the State's employers.

Mr. Chairman, we have a full written report which we have submitted to your staff, and which we would like to make a part of the record, and I would be happy to try to answer any of the questions that you might have.

Senator BOREN. Thank you very much. Without objection, your statement and report will be made a part of the record in full.

Senator CHAFEE, do you have any questions?

Senator CHAFEE. Just one, Mr. Chairman.

Do I understand from your testimony, Mr. Taylor, on the last page:

Michigan, my own State, made major improvements in its system and has been able to repay the entire balance of \$624 million during the month of December? However, we had to borrow again.

I see.

Mr. TAYLOR. Yes, sir.

Senator CHAFEE. Am I correct—now you owe? You owe what, some \$235 million?

Mr. TAYLOR. \$330 million, Senator.

Senator CHAFEE. \$330 million.

Mr. TAYLOR. The \$624 million debt was generated as a result of the 1974-75 recession. We paid that debt off in full. Unfortunately, there just simply wasn't enough time between recessions. We now have a total unemployment rate of 11 percent and an insured unemployment rate of 8.8 percent, and as a consequence we had to borrow once again in calendar year 1980.

Senator CHAFEE. What do you think of the suggestion the chairman made of the limitation with some requirements that would have to be met by the States?

Mr. TAYLOR. Yes. You mean putting a cap on the FUTA increase?

Senator CHAFEE. That's right.

Mr. TAYLOR. In listening to some of the earlier questioning, Senator, by way of example, in the State of Michigan, a 0.3 add-on, and you can call it a number of things—it is a reduction in the credit—

Senator CHAFEE. Yes. Just call it add-on. I think that is a good phrase.

Mr. TAYLOR. Yes; that is what it really amounts to. The 0.3 add-on in Michigan, for example, equates to about \$50 to \$60 million tax increase. The second year—

Senator CHAFEE. Annually?

Mr. TAYLOR. Annually. The second year it jumps up to about \$110, \$115 million. It is more than doubling because of the fact that your base increases. It would be my judgment, personal opinion—our conference has not taken a position—that it would certainly make sense to take a look at that.

As the credit reduction increases every year and goes up to the maximum, to wipe out their total credit of 2.7, you have at that point imposed an almost staggering—not almost. You have imposed

a staggering financial burden on that State's employers which you know by reason of the fact that they are in debt, that they are in trouble to begin with, so to have some sort of cap on the credit reduction would certainly be a viable thing to look at.

Our position, quite frankly, Senator, is that H.R. 4007 is better than nothing. We would not want to give you the impression that we are necessarily supporting the existing repayment provisions. This bill provides some flexibility. Even if only a half a dozen States in its life can use it, it is better than nothing.

Senator CHAFEE. Yes; I agree with you, and of course, the sponsor of the bill was leery of amendments. I personally would like to see amendments, but I thought the argument he made was a pretty good one, that if you put amendments on it, then there is the danger that the thing won't pass, and then we will have nothing.

Mr. TAYLOR. Specifically, Senator, the question about the 6-month business, I think one of the considerations was the fact that we wanted to avoid the possibility of a State making the transfer from a trust fund in lieu of a FUTA tax increase, then coming back immediately and borrowing again, and in effect it would be availing yourself of a loophole. That is the reason why it was put in there.

Now, maybe the 6 months is too long. You could use a dollar amount, a percent. You could fix some base period. There are a lot of ways to do that, but I think the attempt was to maintain integrity in the bill so that it couldn't be abused.

Senator CHAFEE. I thought the 6 months was pretty stiff, but that is the way it came.

Mr. TAYLOR. Yes. You could argue 3 months or whatever.

Senator CHAFEE. Thank you.

Thank you, Mr. Chairman.

Senator BOREN. But that is the purpose, so that you couldn't have a State paying back and then turning right around and coming back and saying, well, now we are going to borrow again, and that sort of starts the clock running all over again so that the penalty will not be imposed.

How many States under the present system in terms of repaying—Michigan repaid and then you borrowed again in the same year you repaid. Has that happened any place else as far as you know?

Mr. TAYLOR. Well, Senator, since the 1974-75 recession, there were some changes in the borrowing procedures and the criteria and so forth. There were a couple of instances of States repaying—at least one that I can recall of repaying the total debt and then coming back and borrowing within a few weeks later, and I think it was that history that was in mind.

Senator BOREN. Yes.

Mr. TAYLOR. Under this provision, I think it is adequately protected.

Senator BOREN. Yes. You mentioned that Michigan made some changes in the State laws and the State system which enabled you to repay the balance. What were some of the changes that were made? What were some of the highlights?

Mr. TAYLOR. The changes that were made in Michigan primarily related to tax rates as opposed to qualifications.

Senator BOREN. Yes.

Mr. TAYLOR. Our maximum tax rate now is 9 percent. We have one of the highest average tax rates in the country. Quite frankly, Senator, when you have an insured unemployment rate of 8.8 percent—

Senator BOREN. Yes.

Mr. TAYLOR [continuing]. And the bulk of those workers are mainline workers who have been attached to the labor force for an extended period of time, you could double qualifications in terms of work credits—

Senator BOREN. And they are still going to qualify?

Mr. TAYLOR [continuing]. And it would have no impact.

Senator BOREN. Your actual unemployment rate in Michigan translates out to about 12 or 13?

Mr. TAYLOR. The total rate is 11 percent.

Senator BOREN. Eleven percent.

Mr. TAYLOR. Yes, sir.

Senator BOREN. I know from your testimony on other occasions that the conference itself has been very leery of mandating any Federal requirements into State programs. Do you think that the conference might at least put on its agenda consideration of whether or not it might consider these, especially for States that are facing this credit if we reached what I might call a carrot-and-a-stick compromise in terms of—perhaps we wouldn't have to mandate them. Perhaps we could merely say that a State if it wanted to have its tax increase, this three-tenths frozen, or held to a certain cap, that it would have to adopt these savings proposals during that period of time. Do you think you might at least consider those, put them on the agenda of the conference? It might liven up the conference and improve attendance.

Mr. TAYLOR. I am sure it would. That would be a carrot with a sledge hammer attached to it. It would make it rather tough. You are correct, Mr. Chairman, in that we have consistently opposed increased Federal standards, however those standards happen to fall. So we would, based upon our position historically, be opposed to tying a cap to the FUTA increase to some qualification requirements.

It would strike me, for example, taking a case of Michigan that had a debt of \$624 million, if you were to cap the FUTA tax credit reductions to, say, 0.6, you are still talking in the neighborhood of a \$100 million plus tax increase.

Senator BOREN. Yes.

Mr. TAYLOR. Looking at that over a period of time, you are talking about 6½ years, that, to me, seems fairly reasonable without having attached to it any Federal standards regarding qualifications or disqualifications.

Senator BOREN. Well, I understand your position. I understand the historic position of the organization, and as I have said before, I myself have some mixed emotion about the Federal Government meddling into State business at all, but I would hope that you might at least consider it, again, going back to what I said earlier. We are one country. We on this subcommittee have States that are in very different positions economically, but we want to be fair. I want to be fair to Michigan and to Pennsylvania and New Jersey

and Rhode Island, because you do have problems that we don't have in Oklahoma, and I understand that.

No matter how good a job you did, how well you attempted it, your problems are still going to be more serious.

Senator HEINZ. Mr. Chairman, is that because Oklahoma has had such an outstanding Governor?

Senator BOREN. Oh, I think, Senator Heinz, it is undoubtedly due in part to past—I think it has to do with our principal source of employment right now, perhaps, although we are getting into the auto business, and we are fortunate enough that they are making the X car at the one auto plant that we have, so we have sort of lucked out in many respects.

On the other hand, I think that we are right in insisting that if we do in essence send tax dollars and provide loans over a period of time, that States should make some of the same sacrifices in terms of tightening up eligibility that we have made. I really feel that way. I think that is part of us all sharing burdens equitably.

Senator Heinz, you came in. Would you like to ask any questions of this witness?

Senator HEINZ. No, thank you, Mr. Chairman. I particularly wanted to be here, but for whom I think the next witness is going to be, namely, Secretary Lieberth, from the Commonwealth of Pennsylvania.

Senator BOREN. I thought you might have some special interest in that.

Mr. TAYLOR. Mr. Chairman, if I might add one thing—

Senator BOREN. Yes, sir.

Mr. TAYLOR [continuing]. We would support some of the discussion earlier, in the earlier testimony, regarding this unified budget. We really do believe that is something that the Congress should look at. The State taxes—it is a State tax. It is used to generate funds to pay State unemployment compensation.

Senator BOREN. Yes.

Mr. TAYLOR. It is a highly questionable practice to include it in the unified budget and call it in essence Federal dollars. I think that as was pointed out by Congressman Brodhead, as more and more States slide into the recession and the dollar amounts going out of the State trust funds exceed the dollars coming in, it might be an appropriate time for you to have—you could very easily cause a reduction in your deficit by taking this out of the Federal unified budget.

Senator BOREN. Right. I think you are very correct, and I think you make a very good point on that, and I hope that is something the Budget Committees will consider and correct.

Well, thank you very much, Mr. Taylor. I want to say again it is always a pleasure to have you, and we appreciate your cooperation and that of the conference in supplying us with information, and you are right on so many points. I still am holding out in hope that we will swing you around on one or two other unresolved points. I appreciate your being here.

Senator CHAFEE. Thank you very much, Mr. Taylor.

[The prepared statement of Mr. Taylor follows.]

Statement by S. Martin Taylor, Director of the
Michigan Employment Security Commission and President,
Interstate Conference of Employment Security Agencies

To

Subcommittee on Unemployment and Related Problems
Senate Finance Committee

April 28, 1980

INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES

SUMMARY

The Interstate Conference of Employment Security Agencies supports the provisions contained in H.R. 4007. The legislation will enable States with outstanding loans to elect an incremental repayment option, providing they meet certain safeguarding criteria. Passage of H.R. 4007 will assist States to:

Preserve the Economic Climate in the State

Most States which will be able to elect the repayment option have already taken serious steps to improve the solvency of their benefit trust funds. The provisions of H.R. 4007 recognize this type of effort and permit incremental repayments through experience rated benefit trust fund transfers, rather than through assessing a flat tax against all the State's employers. Such flat tax increases also would be an added burden on employers during a period of economic instability.

Preserve the Experience Rating Systems

Those States which meet the qualifying criteria will be permitted to transfer funds from their benefit trust fund equivalent to the amount of revenue which would have been generated by increased FUTA taxes. Thus, the repayment option permits repayments which are from primarily experience rated funds and distributes the responsibility for the repayment more equitably among the State's employers.

Mr. Chairman and members of the Subcommittee, my name is S. Martin Taylor and I am Director of the Michigan Employment Security Commission and President of the Interstate Conference of Employment Security Agencies. I am pleased to come before you today to support H.R. 4007 which your Subcommittee is now considering. As you know, the Interstate Conference is an organization which is committed to the continual improvement of the employment security system. Our members, which include the fifty States, Puerto Rico, the Virgin Islands, and the District of Columbia, remain dedicated to the sound and efficient administration of the unemployment insurance system, the public employment service, and the several other programs we operate. To this end, we wish to share our views with you on H.R. 4007 which will provide an optional method for repaying outstanding loans to the Federal Unemployment Account.

As this nation is again facing serious economic difficulties, it is only too easy to remember the impact of the 1974-75 recession on the unemployment insurance system, on the workers, and on the employers across the country. Many States which previously had remained solvent through other recessionary periods, were simply unable to generate sufficient revenue to meet their benefit obligations. Analysis shows that those States which had to borrow from the Federal Unemployment Account often were States with responsible and actuarially sound benefit financing structures. None of us anticipated that such catastrophic unemployment would occur. We believe that you will agree, however, that the unemployment insurance system did respond well under the circumstances and has continued to make major efforts to improve the benefit financing structures throughout the States.

While the Interstate Conference agreed that the deferral of repayment for outstanding loans was appropriate during the years immediately following the 1974-75

Page 2

recession, we believe H.R. 4007 is a crucial step toward repayment. The current law, however, only permits States to repay their entire outstanding loan in one lump sum or requires that the State's FUTA tax rate be increased by 0.3 percent each year until the loan is repaid. The provision of H.R. 4007 will allow States which can meet certain criteria to make a partial repayment which is equivalent to the amount of funds which would be generated if FUTA taxes were increased. The criteria a State must satisfy in order to elect the incremental repayment provisions in H.R. 4007 are:

1. There must be sufficient funds in the State trust fund to pay all compensation during a six month period without receiving any federal loans, and
2. The State must repay any additional federal loans made during the year.

These requirements will ensure that only States with improved solvency will be able to qualify for the provisions in H.R. 4007 and are important safeguards in our view.

The Interstate Conference believes there are two crucial advantages to the options which this legislation will offer the States:

The State's Economic Climate will be Preserved

The primary advantage of H.R. 4007 is that it permits States that cannot afford full payment of the entire outstanding loan the option of making a partial payment to avoid a FUTA increase for the employers in that State. In order to avoid abuse, States could only elect this option if they satisfied the criteria mentioned above. It is critically important for a State to have the opportunity to select this type of option for the purpose of preserving their economic climate by avoiding

Page 3

tax increases. This is especially true in most States which will be able to qualify for the option, since by and large, they have taken serious steps which have improved their benefit financing structures and have already increased State taxes.

Funds to repay the outstanding loans will be collected through experience rated taxes, not flat-rated taxes.

Under current law, the repayment of outstanding loan balances requires that increments of 0.3 percent added FUTA tax be assessed of all employers in the subject State, regardless of whether the employer has stable or unstable employment patterns. These added increments are flat increases and are not experience rated. Under the repayment provisions in H.R. 4007, permitting a State to transfer funds from its trust fund in lieu of increased FUTA taxes, the payment from the State trust funds would be primarily from experience rated funds and not a flat tax increase. Therefore, the experience rating system would distribute the responsibility for repayment more equitably among the States employers and preserve the experience rating system.

It may be interesting to the Subcommittee to know that of the States which will probably be able to qualify for the repayment options in H.R. 4007, the clear majority of those States have taken serious steps to enhance their benefit financing structures. Some examples may be helpful. Illinois has increased its tax base from \$6,000 required by Federal law to \$6,500. They have raised their maximum tax rate from 4.0 percent to 5.0 percent and they have tightened the requirements for qualification to receive benefits. Another State probably eligible for this option is Massachusetts which has increased their maximum tax rate and has greatly improved the solvency of their trust fund. Other states have taken

Page 4

similar measures to improve the ability of the benefit structure to finance unemployment insurance obligations and may be able to qualify for this option in the years to come. Michigan, my own State, made major improvements in its system and has been able to repay the entire balance of \$624 million during the month of December. Due to the declining economy in our region, however, we have had to borrow again, but will be able to repay our loans in a more responsible fashion if H.R. 4007 is passed. When we consider that Michigan employers have already been paying increased taxes, it seems most reasonable to me that the optional repayment through the experience rating system is indeed the most equitable approach we could take to repay additional loans we may require.

Our research indicates that the majority of States which can be expected to qualify for the incremental repayment of loans within the next several years are those States which have made major improvements in their benefit financing structures. The few States which have not been able to enact legislation which will improve the solvency of their trust funds will not be able to meet the criteria required to elect this option. Therefore, in those States the FUTA taxes will be increased and the loans will be repaid through the provisions currently in the law. As States continue to make improvements in their benefit trust funds balances, they could become eligible for the repayment option at later dates, thereby reducing the flat tax rates assessed of all their employers. To the Interstate Conference, the provisions of H.R. 4007 offer a reasonable middle ground, with sufficient safeguards to avoid abuses, between the lump sum repayment of loan balances and requirement to increase FUTA taxes. We urge the Subcommittee to support H.R. 4007 and seek its early passage.

Senator BOREN. The next testimony will be given in panel form, as I understand it. We will have a panel consisting of Mr. Daniel J. O'Hern, counsel to Gov. Brendan Byrne, of the State of New Jersey, and Mr. Charles Lieberth, secretary of labor and industry of the Commonwealth of Pennsylvania, and I believe you are accompanied by Mr. Barry Stern—is that correct—assistant secretary of labor and industry for Pennsylvania.

We are very glad to have both of you, and if we could, perhaps, have each one of you give an opening statement 5 minutes each, and then we will, after you have both done so, then we will open up to questions and comments from the committee. We are very glad to have you.

STATEMENT OF DANIEL J. O'HERN, COUNSEL TO GOV. BRENDAN BYRNE, STATE OF NEW JERSEY, ACCOMPANIED BY ARTHUR O'NEAL, ASSISTANT COMMISSIONER

Mr. O'HERN. Thank you, Mr. Chairman, distinguished members of the subcommittee. My name is Daniel O'Hern, counsel to Gov. Brendan Byrne of New Jersey, and Arthur O'Neal, an assistant commissioner from our department of labor and industry, is here with me and will assist me in the panel discussion.

I am here today to comment on the provisions for repaying the State unemployment compensation loan which is a matter of great concern to New Jersey, and Governor Byrne has asked me to come personally to testify before you.

New Jersey has been doing something about it. During the past 2 years, New Jersey has reduced its outstanding loan balance from \$735 million through loan repayments of \$40 million in 1978 and \$43 million in 1979. But like the others, we are very concerned about the escalating increases which we will face in years ahead, and under the current loan repayment provisions these FUTA increases would climb from \$45 million in 1980 to possibly \$300 million in 1984.

The Governor asks the members of this committee to realize and recognize the severe burden that these escalating rates will place on employers in States such as ours which have experienced abnormally high unemployment because of national recessions, we believe, beyond the State's control.

We ask you to recognize the desirability of repaying these outstanding debts in an orderly manner which will not severely undermine crucial economic development efforts in States which have borne the brunt of past recessions and continue to struggle with depressed local economies.

As I said, New Jersey tried to meet these problems. There were a series of measures increasing the statutory maximum employer tax rate by 44 percent. We have increased our taxable wage base by 92 percent, and doubled the worker contribution rate, a debatable issue which is dedicated to this important social program.

From 1970 through 1974, the legislature passed four separate bills increasing tax rates and the taxable wage base.

Those are steps which we have taken. We have discussed in our testimony other far-reaching and more significant reforms which you will be taking up at other times.

With respect to the loan repayment schedule, during the 3-year period from 1975 to 1977, New Jersey's unemployment rate averaged 10 percent. The years prior to that had never been anything like that, so we slipped into this debt through the very severe recession which seemed to hit New Jersey deeper and harder even than other States in the northeast region.

With respect, Senator Boren, to what we are doing about reforming our program, New Jersey is in fact studying the report of our employment security council, and with respect to a voluntary quit and other issues that you have suggested, we are considering those. There is a Senate bill already in which is a little stiffer than the employment security bill, and we are going through a legislative debate about that.

Basically, with respect to H.R. 4007, our position is similar to some of the others who have testified here. We would hardly be eligible for it because of the 6-month reserve provision—very doubtful that we can take advantage of that—and we would also be concerned about the escalating tax rate. So, we would be interested in some form of a freeze provision which would flatten this out over an extended period of time and not create, we believe, a cycle of depression.

Senator BOREN. Thank you very much.

STATEMENT OF CHARLES LIEBERTH, SECRETARY OF LABOR AND INDUSTRY, COMMONWEALTH OF PENNSYLVANIA, ACCOMPANIED BY BARRY STERN, DEPUTY SECRETARY OF LABOR AND INDUSTRY

Mr. LIEBERTH. Mr. Chairman, I will abbreviate my testimony. I have already submitted the full context of that, so to conserve time for more questions, I will make significant abbreviations.

Pennsylvania recognizes that other States have repaid their debts, and that in fairness to them as well as to Congress, Pennsylvania must take substantial steps to repay our debt before we can expect any consideration or help from the Federal Government. That is a fact.

You will note, too, that in Pennsylvania we had an \$800 million surplus in that fund in 1970, and since that time we are into a \$1.4 billion debt, which means that \$2 billion have been paid out.

If your first reaction to that is the same as mine when I became Secretary of the Department, it is, how could any State allow this kind of thing to happen? I wish I could in an eloquent or reasonable way explain that away, but I can't. But it seems to me that the particular problem is endemic to the Northeast as well as the Midwest.

I would like to submit to the committee here for the record and for your review a copy of Pennsylvania's report on its unemployment compensation program. This report, developed by my department, at the request of Governor Thornburgh, outlines specifically Pennsylvania's unemployment compensation program as it stands, describes its present problems and failures, and discusses the consequence of Pennsylvania if it fails to deal with these problems.

Senator BOREN. We would be glad to receive that and put it in the record in full.

[The material referred to follows.]

BACKGROUND: PENNSYLVANIA'S UNEMPLOYMENT COMPENSATION CRISIS

(A review by the Pennsylvania Department of Labor and Industry of the Commonwealth's unemployment compensation system, its continued fiscal imbalance since 1970, and its accumulated debt.)

Pennsylvania Department of Labor and Industry

Published: March 27, 1980

PREFACE

When Pennsylvania Governor Dick Thornburgh took office on January 16, 1979, the Commonwealth was faced immediately with a fiscal problem of immense proportions. The Pennsylvania Unemployment Compensation Fund was more than \$1 billion in debt to the federal government.

The amount of the debt was astounding in view of statistics that show there was an \$841 million reserve in the state's Unemployment Compensation Fund at the end of 1970. The reversal represented a drain on the fund of more than \$2 billion in eight years.

Other facts confirmed the near collapse of an unemployment insurance system that was purportedly designed to be self-sustaining. In all but one year since 1970, benefit costs had exceeded the fund's income. Estimates indicated that again in 1979 the fund would have to pay out at least \$125 million more than the revenues it received. And, without modifications, the system would continue to generate annual deficits ranging from \$365 million in 1980 to \$650 million in 1984.

On top of that, the federal government was preparing to collect the accumulated past debt through tax penalties on the state's more than 208,000 employers at a time when additional borrowings would be necessary.

The situation posed an economic threat to individual workers, their employers and, indeed, to the Commonwealth, itself.

To clarify the circumstances that had placed the state in this desperate condition, Governor Thornburgh turned to the Commonwealth's Department of Labor and Industry. He charged that agency, which has overall responsibility for administering the unemployment compensation system through the then Bureau of Employment Security, to study the financial crisis and to explore the feasible alternatives that were available to remedy the situation.

The Department's objective was to find equitable methods to restore the system to fiscal solvency and eliminate the Unemployment Compensation Fund's accumulated debt.

The Department responded in various ways.

An internal review of the legislative requirements, administrative procedures and judicial interpretations of the unemployment compensation system was initiated. Detailed studies and statistical projections were made.

To clearly define the responsibility for the administrative aspects of the unemployment compensation program, the old Bureau of Employment Security, primarily unchanged in 42 years, was reorganized and newly

titled, the Office of Employment Security (OES). A separate bureau was made directly accountable for the unemployment compensation benefits, providing better management and avoiding the confusion of priorities that often occurred in the past when the old organization's other main field function, job placement services, was a joint operation.

Consultations with leaders of both private industry and organized labor were undertaken. An informal advisory committee was convened on June 28, 1979. Composed of top executives from both the employer and labor communities, the committee met on several occasions in an attempt to settle on a course of action. The members were unable, however, to reach a consensus.

Another area explored was federal action to alleviate some of the financial difficulties and other deficiencies with the unemployment compensation program. Federal officials and legislators held out no hope for any immediate relief. Some possibility remains for future legislation that would increase financial support to Pennsylvania during times of economic hardship and that would ease the repayment schedule for federal loans; but even those possible measures were conditioned upon the Commonwealth undertaking significant action to remedy the fiscal problems of the state trust fund.

For the present, therefore, only the state can salvage the floundering unemployment compensation program.

The sole purpose of this report, compiled by the Department of Labor and Industry, is to provide general background information as the Administration and the General Assembly prepare to seek remedies to the long-term deficiencies of the program.

January 31, 1980
Harrisburg, Pennsylvania

TABLE OF CONTENTS

PREFACE	1
CHAPTER I, CURRENT STATUS	1
Pattern of Imbalance	1
The Federal Loans	2
Fund Solvency	3
CHAPTER II, RETROSPECTIVE: UNEMPLOYMENT COMPENSATION FUND	5
Financial Base	5
Soc'al Goal	6
Pennsylvania Fund	6
Federal Misgivings	7
CHAPTER III, FEDERAL INVOLVEMENT	9
Federal Financing	9
Mandated Coverage and Entitlement	9
Conformity and Compliance	11
Federal Loans and Repayment	12
Jobs and Economic Development	12
Modified FUTA Repayment	13
Other Changes Considered	14
CHAPTER IV, STATE OPERATION AND ADMINISTRATION	15
Federal Funding	15
OES Missions	16
Related OES Programs	16
Cost and Quality Control	17
OES Reorganization	18
CHAPTER V, CRITERIA FOR CHANGE	21
Policy Objectives	22
Jobs and Economic Development	22
Practical Guidelines	23
CHAPTER VI, RESTRUCTURING THE STATE SYSTEM	25
Financial Needs	25
Basic Flaw	26
Cost-Saving Potential	28
Contribution Alternatives	28
Summary	31
ADDENDA	
A -- Charts, graphs and tables depicting past activity and projecting future needs of the Unemployment Compensation Fund.	
B -- Compilation and comparisons of recent federal advances to states for unemployment insurance programs.	
C -- Past average tax rates for Pennsylvania and projections of additional contributions that could be raised by various changes in the tax structure.	
D -- Summary of aggregate benefit data from 1953; selected benefit changes from 1938; current benefits schedule; projections of potential cost savings; and narrative explanation of current benefit provisions.	

CHAPTER I

CURRENT STATUS

Pennsylvania currently owes the Federal Unemployment Trust Fund \$1,222,300,000 (as of December 31, 1979). That staggering debt has accumulated since 1975 as the Commonwealth borrowed each year to meet the costs of high unemployment for its citizens under the state's unemployment compensation system.

The debt, however, reflects a more basic and long-term fiscal problem. Since 1970, the state's Unemployment Compensation Fund has had only one positive cash-flow year, that occurred in 1973, but even then the extra income exceeded total benefit costs by less than \$4 million.

The system's financial structure is such that it threatens to deteriorate further, despite the fact that the debt repayment procedures required by the federal government started to burden the state's economy with additional federal taxes in January of 1980.

An additional problem, the federal refusal to certify the state's unemployment compensation system, was overcome through Administration-sponsored legislation in the General Assembly. That legislation (Act 108) corrected minor conflicts between the state and federal laws.

Without that "conformity" legislation, the state's employers faced the loss of federal tax credit under the Federal Unemployment Tax Act (FUTA). The pressing need for corrective legislation temporarily diverted the Administration's resources from the long-term fiscal problems of the state's Unemployment Compensation Fund. But the bill did prevent the loss of more than \$700 million in federal tax credits by the state's employers for the taxable year 1979, and nearly \$120 million in federal funding needed to operate the state unemployment compensation system.

Although of critical importance for the Commonwealth and the Administration, the conformity issue tended to obscure the long-term fiscal dilemma of the state's unemployment compensation system. In fact, conformity issues can be expected to crop up again and again as new requirements are imposed by the federal government on state unemployment insurance programs.

Pattern of Imbalance

The crisis in the Commonwealth's Unemployment Compensation Fund started in 1970 when a persistent pattern of imbalance began. The shortfall between annual contribution and obligation levels was \$54.1

million that year (as shown in Addendum A-4). In each year since, the disparity has continued, resulting in a depletion of reserves built up in the 1960's and eventually in borrowing from the federal government to finance fund obligations.

Considering insolvency as the point at which the fund's contributions and reserves were no longer sufficient to meet obligations, the fund became insolvent in 1975, a year of record demand for unemployment benefits. A federal advance of \$173.8 million was necessary in 1975 to meet the Commonwealth's share of obligations, which was \$1.03 billion. Additional borrowings (as shown in Addendum A-1 and A-2) have been necessary each year since. Federal advances were not necessary earlier only because the fund reserve had reached its high point of \$853.8 million by the end of 1969.

Despite the critical nature of the fund imbalance, adequate measures were not taken during the 1970's to insure that legislated contribution and benefit levels would match, or that sufficient reserves were provided to meet unexpected demands upon the fund.

Although both fund solvency and the federal debt are inextricably entwined, the Department has chosen to deal with them separately for discussion purposes in this report.

The Federal Loans

Under FUTA, loans from the national trust fund must be repaid by one of two methods -- either in direct payments from the state fund or by additional FUTA revenue collected from state employers. For the Commonwealth, a direct retirement of the \$1.2 billion debt was not a feasible alternative. Instead, the state's employers, who traditionally pay for costs of the unemployment insurance system through federal and state payroll taxes, will be required to make up the deficit.

Commencing in January (1980), all Pennsylvania employers became subject to increased payments to the federal government of three-tenths of one percent (0.3) on their taxable payrolls for 1979. In the federal-state revenue sharing arrangement under FUTA, the federal tax rate is now set at 3.4 percent on each employe's annual wages up to \$6,000; but in practice, a tax credit provision results in a federal tax of only 0.7 percent. The remainder of the FUTA rate is forgiven in exchange for participation in a certified state program.

In practical terms, the loss of a 0.3 percent tax credit will mean increased taxation for employers. In January, the effective FUTA rate for Pennsylvania employers went to 1.0 percent, imposed on 1979 wages.

The FUTA tax increase will provide only \$67 million toward the retirement of the federal debt in 1980, a payment that will be reflected for the calendar year 1979.

The mandated repayment structure, however, has a graduated tax penalty that will escalate until it reaches its maximum level by 1984. The repayment scheme will, in effect, eventually force employers to pay the full FUTA rate (3.4 percent) to the federal government without receiving any tax credit. In addition, employers must continue to pay separate state taxes to finance the state's unemployment compensation benefits.

At the maximum FUTA rate, in 1984, it is estimated that the annual payment towards the retirement of the federal debt will reach \$678 million without reducing the debt balance. (Refer to Addendum A-7 for the rate analysis and estimated revenues generated.)

The Office of Employment Security (OES) has calculated that the federal repayment procedure, coupled with the current imbalance in the state's Unemployment Compensation Fund, will not remove the Commonwealth from its debtor status. Instead, it is estimated that -- if no changes are made in the Pennsylvania Unemployment Compensation Act -- the annual borrowings through 1985 will exceed the amount repaid.

Without any changes to the system, the OES specialists have concluded it is probable that the magnitude of the current debt and projected annual fund imbalance will condemn Pennsylvania to perpetual debt.

Even in the unlikely event that the state's economic growth should improve under these uncertain financial conditions, Pennsylvania could expect the maximum 2.7 percent federal penalty to continue for an additional five to ten years while making their regular contributions to support the unemployment compensation system.

Fund Solvency

The prolonged period of imbalance in the Unemployment Compensation Fund has converted an \$841 million reserve in 1970 to a \$1.2 billion debt in 1979. (The loan balance in Addendum A-2 has been reduced by \$67 million, the anticipated amount generated by the FUTA increase and chargeable to reduce the debt in the 1979 calendar year.)

The OES projections clearly indicate that under the current state law the costs to the fund will continue to exceed contributions so that by the end of 1985 the outstanding debt will have risen to \$1.4 billion. In addition, Pennsylvania's employers will have paid -- during the same period -- \$2.8 billion to offset past debt. (Addendum A-6.)

To continue under the present arrangement will insure that this year's (1980) benefit costs will outstrip contributions by \$365 million or nearly 50 percent more than the revenue generated. Each of the years from 1981 through 1985 would also leave the fund out of balance, forcing new borrowings from the federal trust fund to meet disbursements. Assuming an average insured unemployment rate of 5.2 percent in 1980 and an average 5.0 percent thereafter, the OES projections indicate shortfalls of \$405 million, \$490 million, \$565 million, \$650 million and \$740 million in successive years.

Those estimates do not include any calculation for the imposition of interest on the federal loans, a subject of current Congressional debate.

Unless the system is restructured, the Commonwealth will not be able to recover from the deficits of the 1970's and will not be able to develop the reserves necessary for the 1980's.

CHAPTER II

RETROSPECTIVE: UNEMPLOYMENT COMPENSATION FUND

The Pennsylvania unemployment compensation system is a hybrid of federal and state laws and regulations.

The U.S. Congress enacted the first legislation in this field with the Wagner-Peyser Act of 1933, which established a nationwide system of public employment offices. Shortly after, the foundation for the state-operated unemployment compensation program, also known as unemployment "insurance," was laid by the Social Security Act.

Financial Base

The federal legislation provided for the basic financing of a national system by imposing a federal payroll tax of 3.0 percent on employers. After 1939, the payroll tax was limited to the first \$3,000 of each employe's annual wages with a provision that employers could take credit against this federal tax to the extent of 90.0 percent against any taxes ("contributions") they paid to states that enacted nationally approved unemployment compensation laws.

Pennsylvania, which had passed its unemployment compensation law in 1936, quickly won approval of its program, as did all the states eventually.

In addition to their federal taxes, employers were also taxed by the states.

The taxes that the states collect under their unemployment compensation laws are forwarded to the national government, which maintains interest-bearing individual funds for each state to pay the benefits due its own citizens who became unemployed through no fault of their own.

The effective federal tax rate now is normally 0.7 percent on an annual wage base of \$6,000, as defined under the Federal Unemployment Tax Act (FUTA). The total federal tax has increased to 3.4 percent, but the 2.7 balance is "forgiven" for participation in a program certified by the federal government.

The FUTA provisions also allow states to borrow from a Federal Unemployment Trust Fund to meet unexpected demands upon their own accounts during periods of high unemployment. Under FUTA, debt repayment methods include direct reimbursement from fund reserves or a graduated schedule of tax payments by employers. The latter method is accomplished by reducing the 2.7 percent FUTA credit employers normally apply for contri-

bating to state unemployment compensation systems. In effect, the federal tax escalates -- up to its maximum of 3.4 percent -- without allowing employers to take their normal tax credit.

Social Goal

The social rationale for the system, then and now, was to provide temporary benefits for workers covered under the law while they were involuntarily jobless and actively seeking employment.

Under the system, minimum standards for funding and eligibility were established by the federal government while the states -- through their legislative bodies -- adjusted the system to meet the individual needs of their citizens and their economy.

The performance of the economy is, of course, the major external factor affecting the unemployment compensation system. During times of favorable economic conditions, with low unemployment and high payrolls, income exceeds disbursements and the reserves grow. Economic downturns have the opposite results, necessitating periodic revisions to insure continued solvency.

Pennsylvania Fund

A review of the Pennsylvania Unemployment Compensation Fund from 1937 through 1978 largely reflects the economic conditions of the Commonwealth. (Note the chart and graph that illustrate the fund balances during those years: Addendum A-2 and A-3.)

For Pennsylvania, a steady growth of fund income quickly accelerated during World War II when unemployment dropped to minimum levels. This early growth peaked at \$640 million in 1948 as post-war changes were made to the system. A major adjustment was the introduction of experience ratings, which provided for scaled down contribution levels for employers who maintained a stable labor force.

Adverse economic conditions, beginning in the early 1950's, began to deplete the fund balance. Three recessions during this period (1953-54, 1958 and 1961) saw the fund drop to \$2.7 million by the end of 1961. A federal loan of \$112 million also was made during that time to meet benefit costs. In most of those years, the fund outgo continued to exceed income.

Legislative restructuring of the system during the decade did not cure the defects. Improved benefits, including a uniform duration of benefits for 30 weeks, and broadened eligibility standards were not offset by matching contributions.

In the 1960's, the fund buildup began again, spurred by adjustments to the taxable wage base, revised eligibility requirements and the repayment of the debt to the federal government. The taxable wage base went from \$3,000 to \$3,600 in 1964.

The fund reserve hit its record peak of \$853.8 million by the end of 1969, just a decade ago.

During the last ten years, the fund reserves were quickly exhausted by successive years in which costs to the fund were far in excess of income, forcing Pennsylvania in 1975 to borrow from the national trust fund for the first time since 1961.

Federal Misgivings

During the 1974-76 recession, 24 states were forced to borrow money from the federal government in order to pay unemployment insurance benefits to jobless workers. The total of all state trust funds fell from \$10.9 billion in 1973 to less than \$3 billion in 1977, a reserve that would have been non-existent had the debts incurred by the borrowing states been considered.

It was apparent that the national system of unemployment compensation was in jeopardy. Mounting debt and inflation, shortcomings in the financing, disparities in benefits and eligibility, and other apparent inequities led to the formation of a National Commission on Unemployment Compensation, which is still reviewing the situation.

The concern over the stability of the federal-state system of unemployment compensation has also spurred new legislative proposals that may impact upon Pennsylvania and the other states. A review and discussion of those proposals has been included in the next chapter.

Meanwhile, Pennsylvania, which was forced to borrow \$173.8 million in 1975, did not come to grips with the obvious inadequacies of the system. It was forced to borrow additional amounts in each of the succeeding years, and will have to do so again in 1980. The Commonwealth's continuing fund insolvency, coupled with an unemployment rate that has remained above the national average, has resulted in the current accumulation of debt that totals \$1.2 billion.

The state must restructure the unemployment compensation system to restore its financial capacity. This is especially true if Pennsylvania is to reverse its lagging economic growth.

The Commonwealth, as compared with the nation for the years between 1969 and 1979, has fared badly in these ways:

- A loss of about 220,000 manufacturing jobs, a 13.7 percent decline; the nation gained 602,000 jobs for a 3.0 percent increase.
- An improvement in non-manufacturing employment of only 19.2 percent while the national increase was 33.8 percent.
- A 7.3 percent growth in all non-agricultural jobs while the national job level grew by 25 percent.

In the state and the nation, new recessionary trends have again set in. The Commonwealth's unemployment rate averaged 6.9 percent of the total civilian labor force in 1979, leaving an estimated 367,000 Pennsylvanians without jobs. Projections indicate a state annual average unemployment rate that may reach 8.0 percent in 1980, a potentially--devastating drain on the Unemployment Compensation Fund.

The Pennsylvania unemployment compensation system must now be adjusted to perform in a responsible way the social and economic tasks for which it was designed. Pennsylvania's 5.2 million workers and their families depend upon unemployment compensation to temporarily offset their loss of income when they become jobless through no fault of their own. The state's business community also counts on unemployment compensation's cushioning affect, enabling jobless customers to continue making purchases and paying bills, even at a reduced rate. The system has also stabilized the work force, preventing the migration of skilled workers and the erosion of labor standards during times of temporary economic setbacks.

Those social and economic goals and benefits should be given primary consideration as the state seeks to put the unemployment compensation system back on sound financial footing.

CHAPTER III

FEDERAL INVOLVEMENT

The federal-state partnership in the national unemployment insurance program has been a successful but uneasy relationship over the years.

Each state, for the most part, still determines -- within federal limits -- to whom it will pay its benefits, how much and under what circumstances.

The Congress, however, has established and expanded coverage and entitlement under the program. And the U.S. Department of Labor, through its regulations, exercises tight control over the funds that are granted to the states for the operating costs of the unemployment compensation system.

Federal Financing

The tax contributions collected from employers under the Federal Unemployment Tax Act (FUTA) are used to finance both the federal and state administration of the unemployment insurance program. That federal tax is also used by the Department of Labor to support the federal share of the extended benefits program that has been imposed by federal law. The federal regulations, reviews and audits, which direct the proper expenditures of federal funds, are more fully examined in the next chapter, "State Operation and Administration."

Under the federal-state partnership, employers in Pennsylvania and other states also pay varying taxes for unemployment insurance at the state level. These tax contributions are used to support the actual benefits paid to the jobless citizens who are eligible under the system.

Mandated Coverage and Entitlement

Once the Social Security Act established the national unemployment insurance program, proposals were soon made to set uniform benefit standards at a minimum level for all states. The first serious effort to impose national benefit levels was defeated in the late 1940's, but the movement has been renewed periodically ever since.

Varying economic needs in the individual states, however, have not meant that Congress has left the system entirely to state legislatures. Federal law has expanded the coverage of unemployment insurance to the point where it now includes about 97 percent of the wage and salaried workers in the United States.

The original law exempted from unemployment taxation all employers who did not have eight or more persons on their payrolls for at least 20 weeks a year. By 1970, business entities paying even one employe for 20 weeks (or \$1,500 in a three-month period) were added to the federal tax rolls.

The last major expansion of coverage was mandated by Congress to be effective in 1978. It extended coverage to all employes of political sub-divisions, including schools, to most domestic workers and to hired hands on farms with at least 10 employes. In Pennsylvania alone, the 1978 expansion added 7,830 new employers to the tax rolls, entitling an additional 408,000 employes to coverage. It brought the statewide totals to about 208,000 business contributors with 4.4 million covered employes.

The federal government has also placed a "floor" on the taxable wage base used to finance state and national programs. From 1939 to 1963, the wage base was the first \$3,000 of annual wages. Federal amendments stepped up the wage base to \$4,200 in 1972 and \$6,000 in 1978, but in each instance more than half of the states had already been compelled to exceed the federal "floor" level.

While the states cannot set a wage base lower than the federal government, they can and do vary the tax rates imposed on the state's business and corporate citizens who pay for unemployment benefits.

The federal role in entitlement has been asserted from the start of the unemployment insurance program, limiting the conditions under which individual states may refuse benefits to citizens. For instance, if a claimant is otherwise eligible, a state may not deny compensation based on the refusal of a new job under any of the following conditions:

- The position offered is vacant due to a labor dispute.
- The wage, hours or other working conditions are less favorable than those prevailing in the area.
- The individual would be required to join a company union or to resign or refrain from joining any legitimate labor organization.

Other federal restrictions on the disqualification of citizens have been added over the years. States are precluded from refusing benefits solely on the basis of pregnancy, or because the claimant files in another state, or while a claimant is in a government-approved training program.

These federal mandates, and additional restrictions on how states may spend the administrative funding provided through the Department of Labor, have had a pronounced influence on all state-operated unemployment compensation programs.

Although the mandates have been limited, the federal influence has been felt even in the area of benefit standards applied by the states. The Department of Labor recommends guidelines that often result in near uniformity in the area of benefit standards. Nearly all states meet the federal recommendation for a maximum of at least 26 weeks of benefit entitlement, and most approach the suggested 50 percent of weekly wage replacement for eligible claimants. A few states, Pennsylvania included, have adopted the federal goal of indexing the maximum weekly benefit amount to equal two-thirds of the statewide average weekly wage.

Conformity and Compliance

The federal government's ability to impose its mandates is enhanced by the tax credit provisions of FUTA. The maximum FUTA rate is a potential 3.4 percent to be paid by employers on each worker's annual wages up to \$6,000. But a tax credit provision reduces that amount to an effective rate of 0.7 (seven-tenths) percent in return for the employer's participation in a state unemployment insurance program that is annually certified by the U. S. Secretary of Labor.

Failure by the state to include employers who are specified in the federal law would subject those employers to the full FUTA rate (3.4 percent).

In fact, any failure by the state to conform to the federal law or its administrative requirements has an even harsher, collective penalty. The Department of Labor is empowered to impose the total loss of federal tax credits for the non-conforming state's entire employer community, and also to withhold the administrative grants that finance the state-operated unemployment insurance program.

The Commonwealth faced such a conformity issue in 1979. Although the differences were not major conflicts, a finding of "non-conformity" by the Department of Labor threatened a total loss of FUTA credits that would have cost Pennsylvania's employer community more than \$700 million in additional federal taxes in 1979. The state's Office of Employment Security (OES) also would have been denied nearly \$120 million in federal funding needed to operate the unemployment compensation system and related programs during the non-conforming year.

Governor Dick Thornburgh signed into law on December 12, 1979, the corrective legislation (Act 108) passed by the General Assembly, preventing the implementation of the federal penalty provisions. The legislation enabled the OES to meet the federal requirements for the handling of claims brought by non-professional employees of educational institutions between school terms, and by other workers, such as municipal school-crossing guards, who were not actual employees of the educational institutions although they performed services for them.

One other area of federal law -- the borrowing and repayment provisions for unemployment insurance under the Social Security Act -- has had the greatest impact on Pennsylvania's unemployment insurance program.

Federal Loans and Repayment

Sparked by the national recession that began in 1974, state unemployment compensation programs have borrowed more than \$5.5 billion from the federal government. Thirteen states, including Pennsylvania, still had outstanding balances on those federal advances as of December 31, 1979. Of the \$3.8 billion currently owed, Pennsylvania's debt of \$1.222 billion is the highest. (Refer to Addendum B-1.)

In addition, the continuing shortfall between legislated contributions and obligations in the Commonwealth will compel additional advances in 1980 estimated at about \$250 million (\$222 million has already been authorized).

The federal law provided for the advances from the Federal Unemployment Compensation Trust Fund to meet unexpected demands during times of high unemployment and economic distress. It did not envision a situation where the interest-free advances would be used to subsidize innate shortcomings in the programs operated by the individual states or to postpone needed remedies at the state level.

The federal repayment procedure mandates either direct reimbursement from the state's unemployment compensation funds or a graduated loss of FUTA credits to retire the loans.

For Pennsylvania and Delaware, the only states that have made no loan repayments and have not restructured their state tax rates so that contributions exceed obligations, the FUTA repayment procedure was implemented this year. In effect, FUTA rates on 1979 taxable payrolls were increased from 0.7 to 1.0 percent.

The other eleven debtor states postponed the mandated FUTA repayment scheme until January, 1981, when it will automatically be imposed on 1980 payrolls unless the loan balance has been satisfied.

The FUTA repayment scheme escalates each year, as discussed in the "Current Status" chapter, until it entirely eliminates the federal tax credit provision, resulting in an effective FUTA rate of 3.4 percent for contributing employers.

All but 0.7 percent of the FUTA taxes raised by the mandated debt repayment scheme will be applied toward the retirement of federal advances. Even so, as detailed earlier, the federal measure will be inadequate to remove Pennsylvania from its debtor status without substantial changes in the state's financing structure.

Jobs and Economic Development

Even worse, from the Commonwealth's point of view, the FUTA loss of credit will place the state in an unenviable position in its attempts to encourage job opportunities and economic revival.

While other states competing for new business enterprises will be showing an effective FUTA rate of 0.7 percent, Pennsylvania's will be climbing from the current 1.0 percent to 3.4 percent on 1984 taxable payrolls. In some cases, the disadvantages may be more apparent than real as tax burdens are distributed through the experience-rated state taxing structures, which are difficult to compare. But the flat FUTA tax differential will be readily apparent and discourage business locations and expansions in the state.

Modified FUTA Repayment

A priority consideration for the Commonwealth, as already indicated by Governor Thornburgh, will be the introduction of federal legislation that will ease the FUTA repayment schedule. It is unlikely that any such measure will become law without corresponding legislation at the state level that will insure loan repayment in a timely fashion.

If, however, federal legislation did provide an alternative state method for repayment, the Commonwealth would benefit in several ways.

Supplanting the FUTA repayment scheme -- or even modifying it -- with one utilizing the state contribution system could relieve new Pennsylvania employers of sharing debts for which they had no responsibility.

Additional contributions needed by the state to offset the federal loans also should be funneled through the state's experience-rated tax structure, which rewards businesses with lower tax rates for stable employment records. Unlike the flat rate imposed under FUTA, the graduated state tax schedule -- currently ranging from 1.0 to 4.0 percent -- would distribute the repayment more equitably among employers.

By utilizing a state repayment scheme, the revenues generated would also be reflected in the individual employer accounts. Those accounts -- the "paper" record showing the differences between contributions and benefits charged -- are of primary concern in the periodic calculation of graduated tax rates. Additional tax payments under FUTA would not be recorded in the individual state accounts.

Any federal amendment that would suspend or rescind the automatic increases in the effective FUTA rate would help the Commonwealth move ahead in its economic development plans. There are other proposed changes in federal law that would favorably impact on the Pennsylvania crisis, but none more necessary than a revision of the loan repayment scheme.

One proposal now under consideration is the Brodhead Bill (HR 4007), which would allow states to offset the FUTA loss of credit by paying an equivalent amount from their unemployment compensation funds. That bill would have a favorable impact for Pennsylvania, but only if the Unemployment Compensation Fund were restructured to produce sufficient reserves.

Other Changes Considered

The faltering financial conditions--exposed by the massive injection of loans to the state unemployment insurance programs have led to a new round of federal proposals. Most would tend to lessen the obligations on Pennsylvania's Unemployment Compensation Fund, but none would deliver the Commonwealth from its current problems -- continued imbalance, repayment of past debt, and the likelihood of additional federal advances.

Among the possible revisions under discussion by the National Commission on Unemployment Compensation are changes in the taxable wage base from its current \$6,000 floor; requiring a waiting week for benefits; standardizing the maximum duration for benefits at 26 weeks; revising the availability of national extended benefits and providing for 100 percent federal financing instead of the current 50 percent; and establishing an "active search for work" requirement on all recipients of unemployment compensation.

The difficulty experienced in the replacement of federal advances over the last five years has also raised some Congressional sentiment for imposing interest on loans, a move that will be detrimental to Pennsylvania in its current situation.

Major federal changes, however, are not likely until the National Commission on Unemployment Compensation finishes its review of the federal-state program, a task that is not scheduled for completion until July 1, 1980.

In fact, it will require a determined and unified stance by the Pennsylvania Congressional delegation to succeed in altering the FUTA repayment formula. That effort is probably doomed unless the Commonwealth first restructures its state system in a responsible way, a legislated modification that will bring the system back into balance and generate enough reserves to retire the federal advances at a measured and substantial pace.

CHAPTER IV

STATE OPERATION AND ADMINISTRATION

The Office of Employment Security (OES), a state agency under the overall supervision of the Pennsylvania Department of Labor and Industry, spent \$96.8 million for regularly budgeted programs in the federal fiscal year that ended last September 30.

Slightly more than half of that amount was spent on the processing of unemployment benefit claims and the collection of employer contributions to the State's Unemployment Compensation Fund.

Additional supplementary funding for special federal programs brought the total operational spending figure to nearly \$120 million.

All of that operational funding -- most of it for salaries and related personnel costs -- came from the federal government.

Federal Funding

Under the federal-state partnership in the unemployment insurance program, and its related employment training and labor exchange programs, the U. S. Department of Labor (DOL) determines the operational funding needed by each state's employment service agency. These federal grants are derived in part from revenues collected from all employers under the Federal Unemployment Tax Act (FUTA). The FUTA statute also contains provisions that insure the states meet the administrative and record-keeping standards required by DOL by authorizing the withholding or suspension of administrative grants.

Among those legal requirements for the state-operated unemployment compensation systems are provisions for:

- A fair hearing procedure for claimants denied benefits.
- Personnel standards on a merit (civil service) basis.
- Expenditure of federal grants only for the purposes and in the amounts found necessary by the Secretary of Labor.
- State laws providing for the entitlement of claimants made eligible by federal law, and procedures to insure full payment of benefits when due.

The OES, and before it, the Bureau of Employment Security, has operated under those federal standards and within those federal grants since 1937.

OES Missions

The primary function of the OES is twofold. The agency operates the unemployment insurance program that is designed to help unemployed Pennsylvanians maintain acceptable standards of living when they have lost a job through no fault of their own. The related goal is to help Pennsylvanians find jobs suitable to their talents and skills and to aid in the upgrading of those abilities where necessary.

The operation of the unemployment insurance program during the 1978-79 fiscal year resulted in an expenditure of \$51.6 million of the total operational budget of \$96.8 million. Those funds were spent to process unemployment benefit claims and in the collection of employer contributions to the Commonwealth's Unemployment Compensation Fund. As described in previous discussions, the revenues of the fund are generated by a state tax on employers and are used solely to meet the benefit obligations that are mandated by the Pennsylvania General Assembly.

The basic personnel complement assigned to the unemployment insurance function during the fiscal year was 2,313 positions of the total 4,367 state employees who staff the OES.

During the calendar year 1979, which overlaps the federal fiscal year by three months, those OES employees processed more than 800,000 applications for unemployment compensation that resulted in the payment of more than \$870 million to 771,289 individual beneficiaries. The majority of those compensation funds, about \$819 million, were financed solely by employer tax contributions.

Special federal unemployment programs, also administered by OES, include benefits paid to former civilian employees of the federal government, to personnel separated from the armed services, and to Pennsylvanians unemployed as a result of major disasters or foreign imports. These benefits, financed entirely by the federal government, brought the total amount of benefits paid in 1979 to \$934 million.

The federal government also shares half the costs of unemployment benefits that are extended (13 weeks) during periods of high unemployment beyond the maximum duration that states normally provide (26 weeks).

During 1979, the federal operational funds for unemployment insurance also covered the cost of tax accounting services to nearly 208,000 employers whose tax contributions pay for state benefits.

Related OES Programs

The other major element in the OES operational budget is the Job Service, which has 110 statewide offices that placed about 184,000 Pennsylvanians in jobs during the last fiscal year. Federal funding budgeted in that program totaled \$33 million and was supported by 1,457 state employees.

In addition to counseling, testing and placement, Job Service also administered other federal programs, each with special federal budgets, designed to deliver specialized employment and job training services to unemployed youths, handicapped persons, women, welfare recipients, veterans, minorities and seasonal workers.

Among those specialized services, most reflecting federal priorities, are:

- WIN (The Work Incentive program), a cooperative effort to reduce welfare costs by providing specialized services to clients receiving allowances under the federal Aid to Families with Dependent Children (AFDC).
- MET (Management, Employment and Training), formerly the National Alliance of Businessmen (NAB) program, designed to foster job development for the needy in the private sector.
- Food Stamps, a concurrent job registration requirement for food stamp applicants.
- Job Corps, follow-up services to youth who complete training in the federal program.
- Disabled Veterans Outreach, specialized centers and staff to provide job opportunities to disabled and handicapped veterans.
- TJTC (Targeted Jobs Tax Credit), an incentive to hire the hard-to-employ and disadvantaged by providing employers with a federal tax credit.

Cost and Quality Control

Federal allocations for these programs are under tight fiscal controls. Basic staffing levels have remained at the 30,000 national positions it took to operate all the state employment service agencies in 1966.

Federal priorities, past achievements and attainable goals at the state level, all play an important role in the formula that allots the FUTA revenues and other federal appropriations to each state for operational funding. To achieve these tight budget allocations, the Department of Labor's Employment and Training Administration demands statistical documentation on each state's performance in 300 specific activities in the unemployment insurance program.

The claims-taking process, management control over payments, the monitoring of employment records and notification to employers of claims, the appeals process and the staffing patterns are all reviewed annually for improvements that will result in cost savings.

In a quality appraisal program for the last fiscal year, the Commonwealth's OES performance was ranked among the top ten states. Among the federal criteria exceeded by OES were its promptness in processing claims and appeals and its effectiveness in collecting delinquent employer accounts.

Federal auditing procedures are supplemented by internal audits to achieve budgetary controls and detail expenditures. For the federal fiscal year that began last October 1, the OES has been given a basic allocation of slightly more than \$100 million with a basic staff complement of 4,580 positions. Through the year special grant programs and contingency funding are expected to place the actual operational spending at close to \$125 million and raise the staff complement temporarily to more than 5,000. That additional spending will have to be justified on the basis of increasing workloads, expected as the current recessionary trend deepens, and the capability of meeting new federal initiatives in the employment and training field to offset the economic downturn.

The staffing pattern for the OES programs has actually decreased over the years, even though the Pennsylvania labor force and the number of contributing employers in the unemployment insurance program has steadily increased. In its first full year of operation, the predecessor agency of the OES employed 5,226 persons in 1937-38.

OES Reorganization

During the past year, the state employment service underwent a major reorganization and its name was changed to the Office of Employment Security from the Bureau of Employment Security.

Although some cost savings eventually may result, the major impetus for the change was to provide clear lines of authority and administration to the main field operations of the OES. Those two primary functions, unemployment insurance and Job Service, were placed in separate bureaus to avoid the sometimes conflicting priorities that occurred when they operated as a joint enterprise.

More efficient and effective use of personnel and programs are expected as a result of the reorganization. Among the major improvements scheduled are:

- An upgrading of the OES computer system to provide more sophisticated data and availability. The new capability will improve management planning and forecasting, productivity in the field with direct computer access, and more comprehensive fraud control measures.
- Additional Job Service "satellite" offices targeted to areas of need and opportunity. The related goal will be to deliver job placement for 205,000 individuals and for 30,500 individuals who are receiving unemployment compensation, a 10 percent increase over the year earlier.

- Installation of video-display units in field accounting offices to speed the flow of information to and from the contributing employer community.
- Revision of field audit procedures to insure better compliance with the taxing provisions and to select audits with potentially high returns.
- A tightening of procedural and physical controls over the handling of benefit checks at the central and local offices to prevent internal fraud.
- Establishing production standards for unemployment compensation referees to provide a more orderly flow of appeals to the Unemployment Compensation Board of Review.

Although these cost-saving management initiatives will reduce operating costs and provide for the better utilization of the federal funding dollar in other programs, they will have little impact upon the flow of benefit obligations from the Unemployment Compensation Fund.

For example, an expanded campaign against fraudulent claims last year produced the recovery of about \$1.8 million from individuals who illegally accepted unemployment compensation benefits. In addition, 645 claimants were successfully prosecuted for fraudulently receiving benefits. That effort does replace fund dollars and it will be continued and improved. But its impact is small considering the massive debt and continuing imbalance in the Unemployment Compensation Fund.

The current fiscal crisis, caused by state legislated obligations exceeding legislated contributions for each year since 1970, can only be corrected through a restructuring of the system by the Pennsylvania General Assembly.

CHAPTER V

CRITERIA FOR CHANGE

The unemployment compensation system is designed to be a self-sustaining insurance program. It is totally financed by employers as required by state and federal laws, which also determine eligibility and benefits.

In restoring fiscal soundness to the system, primary consideration should be given to the purposes and limitations of the unemployment compensation system.

In an interim report by the National Commission on Unemployment Compensation, the social and economic objectives were stated as follows:

"The basic reason for the unemployment compensation program is to provide a system of cash benefits during periods of temporary unemployment to workers who are out of work due to no fault of their own.

"This economic support to workers between jobs maintains community purchasing power and thus sustains the economy in general."

Pennsylvania has adhered to those primary objectives since it began participating in the federal-state insurance program more than 40 years ago.

Unemployment benefits over the years have enabled unemployed workers to bridge the gap between jobs. The weekly payments, adjusted as the economy and the legislature have dictated, served to help temporarily unemployed citizens meet their non-deferrable expenses in a manner that maintained their self-respect without resorting to public welfare.

The employer-financed benefits also prevented dispersal of a trained work force, the abandonment of needed skills, and the breakdown of labor standards during temporary unemployment.

Periodic adjustments to the employer tax contributions were made to increase the pooled reserves that financed benefit payments from the Unemployment Compensation Fund. The tax structure also was subjected to experience rating to provide the incentive of lower rates to employers who controlled their levels of unemployment.

At the same time, however, other legislative mandates evolved that have saddled the program with demands and limitations that go beyond the scope and purpose of unemployment insurance. The structure of benefits has occasionally resulted in payments that approach total wage loss replacement. Low ceilings placed on tax rates have left high-cost

employers with no incentive to control costs. Eligibility for benefits sometimes has been based on need rather than active participation in the insurance program. And the total contribution rates in recent years have not produced enough income to offset benefit payments and build reserves against times of high unemployment.

Policy Objectives

In developing possible alternatives to bring the Commonwealth's Unemployment Compensation Fund into solvency and repay its accumulated debt, the underlying principles of the system should be given great weight.

Any restructuring of the unemployment compensation system should:

- Maintain the program as an economic-social insurance system that is self-supporting.
- Distribute the costs of the system in as equitable manner as possible.
- Limit entitlement under the program to those workers who have genuinely established themselves as continuing members of the labor force.

Jobs and Economic Development

An additional policy consideration concerns overall job opportunities and economic development of the state. In attaining fund solvency and repaying the debt to the federal government, every attempt should be made to minimize the program's affect as a deterrent to economic development.

Obviously, increased contributions from our state's employers will be unavoidable regardless of any final resolution of the fiscal crisis. It is less apparent but just as true that a resolution, however it is structured, at least will relieve employers of uncertainty. In terms of overall planning for economic development -- for both individual employers and the Commonwealth -- a long-term program that corrects the fiscal shortcomings of the unemployment compensation system will be beneficial.

In addition, the consequences of continuing under the present provisions can cripple the state's efforts to expand resident industries and attract new ones.

The mandated rate increases under the FUTA debt retirement scheme will create an invidious comparison between the Commonwealth and other competing states. The federal rate is a flat tax that is easily comparable, unlike the experience-rated state unemployment taxes, which often are applied to differing taxable wage bases.

The growing gap between the 0.7 percent effective FUTA rate of other states and Pennsylvania's FUTA rate, expected to escalate to the maximum 3.4 percent in 1984, would create a disincentive to the expansion and location of new enterprises within the state. The obviously higher FUTA rate will also be a major stumbling block to the creation of new jobs that could reduce the unemployment rate and the anticipated drain on the Unemployment Compensation Fund.

A major effort, therefore, should be made to restructure the state system so that sufficient reserves are generated to enable debt repayment to be made from the Unemployment Compensation Fund.

Any change in the FUTA debt repayment schedule, however, would require new legislation at the federal level, as discussed in Chapter III.

Practical Guidelines

Seven additional points are suggested to provide practical guidelines for developing possible alternative solutions. They are:

- Maintain and broaden the experience rating nature of the tax structure.
- Provide a mechanism for generating additional income to the fund to restore solvency when the fund balance is depleted.
- Permit the taxable wage base to increase as benefits are increased.
- Preserve the fiscal integrity of the system for the workers and employers of Pennsylvania.
- Eliminate the possibilities for individual claimants to receive more in after-tax income while unemployed than while working regularly.
- Keep costs and contributions in line with those experienced by other similar states in the Northeast and Midwest.
- Avoid unnecessary benefit reductions while preserving the primary function of the system.

Although it is unlikely that all of the criteria can be met in any restructuring of the state system, the parameters can provide a useful framework to measure proposed changes as legislation is developed.

CHAPTER VI

RESTRUCTURING THE STATE SYSTEM

Since 1970, the Commonwealth's Unemployment Compensation Fund has been unable to finance its legislated obligations with the contributions it receives each year from state unemployment insurance taxes.

The annual shortfalls between legislated obligations and contributions ranged from a low of \$25.4 million in 1973 to a high of \$630.4 million in 1975. In the process of meeting those deficits, fund reserves were depleted and federal advances totaling \$1.2 billion were registered by the end of 1978.

Those years of deficit financing have now saddled Pennsylvania's employers with a loan repayment procedure that will involve increases in the rate paid each year under the Federal Unemployment Tax Act (FUTA). The additional federal revenues raised will be applied to retire the past loans (as discussed in earlier chapters), but will do nothing to replenish or bring into balance the state's Unemployment Compensation Fund.

Only a restructuring of the state provisions for the unemployment insurance program can return the system to solvency and repay the accumulated debt in the most equitable way. To accomplish that objective, the Pennsylvania General Assembly will have to pass the enabling legislation.

The Department of Labor and Industry, through its Office of Employment Security (OES), has developed the economic projections and statistical data that can measure the impact of most potential alternative provisions. Based on nearly a year's study of the fiscal crisis, the Department has also indicated that any responsible restructuring of the system should include provisions that will produce cost savings from the current obligation levels as well as increases in the contribution levels.

Financial Needs

The financial shortcomings of the system have been clearly traced and projected. The root cause of the current crisis is the continuing shortfalls between obligations and contributions.

Assuming the predicted downturn in the national and state economies for 1980, the OES has projected a shortfall this year of about \$365 million in the Unemployment Compensation Fund. That annual figure only

represents the amount needed to balance the fund's income and expenditures; it leaves no room to build reserves or to provide for any payments toward the past debt.

The OES projection (as shown in Addendum A-6) uses an "insured unemployment rate" of 5.2 percent for 1980, and 5.0 percent for subsequent years. The insured unemployment rate (IUR), which excludes those persons in total unemployment who are not eligible for fund benefits, more exactly measures the drain on the fund. The IUR normally ranges from 1.0 to 2.5 percentage points below the rate of total unemployment.

For example, the average total unemployment rate for Pennsylvania in 1978 was 6.9 percent, but the IUR was only 4.16 percent; in 1977, the total rate was 7.7 percent versus an IUR of 5.57 percent; in 1976, 7.9 percent versus 6.03 percent; and in 1975 -- when the state hit its highest unemployment rate over the last 20 years -- 8.3 percent versus 7.62 percent. (Total unemployment rates are given in Addendum A-8; the IUR in Addendum A-1.)

For the Unemployment Compensation Fund, an increase of 1.0 percent in the IUR in 1981 would represent a \$215 million disbursement for the year.

In order to prevent further federal borrowing the OES basic projection indicates the unemployment system will need a combination of cost-savings and additional contributions that will total \$3.215 billion over the next six years. If the system were restructured to produce that combination of cost savings and new revenue, it would still fall short of generating funds that would be needed to supplant the mandated FUTA loan repayment scheme (as discussed in earlier chapters).

Balancing the fund is only one aspect of the current problem. Without adequate modification to generate reserves, the FUTA rate increases, as currently mandated, would have to continue to operate through 1985 to retire the accumulated debt.

Basic Flaw

The basic flaw in past restructurings of the system has been the tendency for fund obligations to escalate because benefit levels are tied to income growth while contributions are not. In addition to relatively high unemployment rates over the past five years, persistent inflation and the way the system is geared to income brackets has contributed its share to the drain on the Unemployment Compensation Fund.

The contribution levels, however, have tended to lag behind because they have depended, for the most part, on the slower pace of overall economic growth. Despite a nearly five-fold increase in contribution levels during the past decade, they have never caught up with obligation levels. (See Addendum A-4.)

The level of contributions reached \$722.5 million last year after being at only \$158.4 million in 1970. The main factors in that staggered incline was the lifting of the taxable wage base, under federal mandate, from \$3,600 to \$4,200 in 1972 and again to \$6,000 in 1978. The new wage bases caused temporary spurts in revenue, although never quite enough to match fund outlays. The higher tax base in 1972 brought in \$43 million in new revenue; another jump of \$106 million was registered in 1973 as many new employers and workers were required to participate by the federal government; and the 1978 change produced an additional \$176 million.

During the same period, the fund obligation levels went from \$212.5 million in 1970; peaked at a record \$1.03 billion in 1975; and fell back slightly to finish the decade at \$819.1 million in 1979.

There is no doubt that a primary cause of these tremendous outlays was the relatively high unemployment rates in Pennsylvania. At its peak in 1975, the average total unemployment rate was 8.3 percent, the equivalent of 421,000 Pennsylvanians without jobs. After only a 5.1 percent unemployment rate in 1974, the fund obligation level jumped \$554.6 million in the record recessionary year.

However, with the same average unemployment rate for 1978 and 1979, a still high 6.9 percent, the obligation level has resumed its inexorable climb. It went from \$757.6 million in 1978 to \$819.1 million in 1979.

In past modifications of the system, the role played by linking benefits to income growth has often been underestimated.

With a schedule of benefits geared to provide the replacement of about 50 percent of weekly income, the average unemployment check gets larger every year. During 1979, the average weekly check was \$93.03, a \$2.63 increase over the year earlier.

The average weekly check was only \$49.33 in 1971, the year the maximum weekly benefit was gradually indexed to the average weekly wage. Since then the maximum benefit has been changed each year to equal two-thirds of the statewide average weekly wage, another element that produces higher obligation levels. The maximum benefit amount since 1971 has climbed from \$81 a week to the current \$162, which represents a \$10 rise for 1980 that will cost the Unemployment Compensation Fund an estimated \$28 million this year.

Some of those basic inflationary and income growth factors have been built into the OES projections and calculations that have been a major part of this study. But any legislative adjustments will have to consider how rising income levels will impact upon the obligations of the fund, and how to counteract that inevitable trend with offsetting contribution provisions.

Cost-Saving Potential

Substantial contribution increases, already begun under the FUTA repayment schedule, will be required from employers just to retire the \$1.2 billion debt accumulated over that decade. In addition, the magnitude of the sums needed to strike a balance between contributions and obligations in the state's Unemployment Compensation Fund will require cost reductions to avoid negative comparisons with neighboring states and states with competing economies.

Within the framework of criteria suggested in the previous chapter, there is room for significant cost-saving measures in the current unemployment insurance program. A relatively low cost reduction of 12 percent in total fund expenditures would produce a savings of about \$133 million in 1980, a sum nearly equal to the amount the FUTA loss of credit will generate this year for past debt.

A 12 percent reduction would produce slightly larger savings in subsequent years, generating a savings through 1986 that would offset the projected total shortfall of \$3.215 billion by \$1.155 billion. Even using the above cost-saving example leaves total benefit payments that would still average well over a billion dollars in each of those years, unless the state's economy made an unexpected and rapid turnaround.

Whatever the level of cost savings eventually determined by the legislature, there are a variety of eligibility and benefit provisions that can be modified without reducing the entitlement of individual workers who are genuinely attached to the labor force. Nor would reductions be required that would damage the primary objectives of the unemployment insurance program.

Many of the current provisions and possible modifications have been researched and prepared by the OES for use and reference by state legislators. A selection of those provisions, with explanations and a table projecting potential cost reductions to the fund, has been included in Addendum D.

Contribution Alternatives

In redesigning the rate structure, there are fewer variables to consider. The traditional taxing variables that determine the amount of revenues generated for the state's unemployment compensation system have been the taxable wage base and the rates imposed on each individual employer.

In all states, the amount of contributions (taxes) for which an employer is liable is determined by applying a percentage rate against a taxable wage base.

The graduated contribution rates in the various states range from a minimum of 0.0 percent to a maximum of 8.0 percent per employer; the established taxable wage bases range from \$6,000 (minimum level under federal law) to a maximum of \$11,000 per employe.

In Pennsylvania, the taxable wage base used to compute employer liability was raised from \$4,200 to \$6,000 in 1978. In addition, an individual employer's contribution rate is determined by a formula designed to measure his experience, or use of the fund by his employes and ex-employes, and his share of the general cost.

The formula, as prescribed by state law, considers three factors to determine an individual employer's rate. A funding factor measures his "paper" account balance between contribution and benefit charges attributable to him over the past years; an experience factor is a short-term comparison of the employer's taxable payroll and benefits charged; and a state adjustment factor spreads the common costs that cannot be attributed to any specific employer account.

The effective rates, as limited by Pennsylvania law, range from 1.0 percent to 4.0 percent maximum.

Although the present rate structure was designed to be responsive to changes in benefits charges, the range of graduation is too limited to reflect actual experience. More than 30,000 employers would be assessed above 7.0 percent if the experience-rated tax did not limit their liability for past payments from the Unemployment Compensation Fund.

The average tax rate for all 208,000 contributing employers has been over 3.0 percent for the past three years. In 1970, the average tax rate was about 1.3 percent, an average that has escalated each year to culminate in an estimated 3.2 percent for 1979.

Despite the fact that two increases in the taxable wage base during the 1970's have proved inadequate, the maximum tax rate has remained unchanged since 1961.

Increases in the taxable wage base tend to put a burden on larger companies that employ workers at higher salaries. Industries with a large number of part-time employes, or with employes earning smaller wages, would be less affected by increases in the wage base.

At present, there are 14 states that have a higher taxable wage base than Pennsylvania's \$6,000 limit. They range from Alabama and New Mexico at \$6,600 to Utah's \$11,000.

Using the present rate structure, an increase in the taxable wage base to \$6,600 would result in \$53 million in additional 1980 revenues; a \$7,000 base would produce \$90 million. (See Addendum C-3.)

Upward adjustments in the rate structure enables the impact of contributions to be distributed in a more equitable -- if more complex -- fashion. A higher rate in the experience factor, currently ranging from 0.0 to 3.0 percent, would require additional contributions only from those employers whose experience is such that their benefit costs exceed their contributions. It could, of course, impact on those very employers who are not in strong economic positions.

A change in the range of the funding factor, currently from 0.0 percent to 1.0 percent, would also be based on past performance; while the state adjustment factor, from 0.0 to 1.0 percent, acts as a flat tax on all employers.

Charts showing varying combinations of rate changes have been prepared (in Addendum C). One example -- an increase of the effective maximum rate to 5.0 percent with an expansion of the experience factor to a ceiling of 4.0 percent -- would produce additional contributions of about \$96 million in 1980. With a maximum rate of 6.0 percent, using the same factors, \$165 million could be added to the contribution level. These rates were applied to the current \$6,000 wage base.

Some states have considered or employed supplementary taxes to increase their contribution levels.

These special purpose taxes supplement the regular rate structure. Examples are:

- Solvency tax. Usually "triggered" at "perils points" in connection with fund balances, the solvency tax insures continued reserves and solvency. The tax, which can be graduated according to the internal rate structure and also escalate at critical levels, normally "triggers" off when fund objectives are obtained.
- Surcharge. Usually a flat tax that can be applied to all employers or just to a selected group with very poor experience records, a surcharge is normally applied to repay past debt or unexpected obligations, and is repealed when the situation is remedied.
- Employe tax. A non-traditional approach for financing unemployment insurance programs, employe taxes are currently being tried by Alaska, Alabama and New Jersey. Alabama and Alaska have "triggering" mechanisms for their tax on employes, depending upon the level of their fund balances. Alaska's ranges from 0.3 to 0.8 percent on earnings of \$10,000; Alabama's is a flat 0.5 percent on \$6,600 in earnings. New Jersey's tax is a flat 0.5 percent on each employe's first \$6,900 in earnings with no "trigger" mechanism.

Variations of these supplemental taxes and their potential for contributions are calculated in Addendum C-5.

Summary

In summary, the Pennsylvania General Assembly, with the aid of the Administration, should resolve as soon as possible the long-term fiscal crisis that is facing the state's unemployment insurance program. A combination of cost-saving and revenue-producing measures should be devised to fairly share the burden of past neglect and future demands on the Commonwealth's Unemployment Compensation Fund.

Little help can be expected from the federal government, which has already advanced more than \$1.2 billion to rescue the fund in six straight years. No significant savings for the fund can be made in the program's administration, a cost that is picked up entirely by the federal government.

A failure to act now will leave the fund, its employer supporters and worker beneficiaries at the mercy of a deteriorating economy that will make even greater demands on the Commonwealth's ability to responsibly offset the rigors of unemployment.

To allow the program to continue its fiscal drift will:

- Perpetuate a federal loan repayment scheme that will impose a flat, escalating tax on all the Commonwealth's employers without any beneficial impact on their liability under the state tax structure.
- Default on the Commonwealth's responsibility to provide a sound financial basis for the unemployment insurance program.
- Condemn the fund to future borrowings that will rapidly escalate a federal loan balance that will total more than \$1.4 billion by the end of next year.
- Place the fund and its contributors at the mercy of federal amendments that could impose interest on loans made to support state unemployment insurance programs.
- Deter the Commonwealth's ability to attract and retain industries, thereby lessening its ability to foster new employment that could reduce the drain on the fund.

Finally, another year of drift would only make it more difficult to produce corrective measures in the future as current state provisions legislate the continued insolvency of the Pennsylvania Unemployment Compensation Fund.

A D D E N D U M A

Contents

- A-1 Pennsylvania Unemployment Compensation Fund activity from 1953 through 1979, focusing on annual dollar amounts of contributions, other income, loans and benefit costs.
- A-2 Pennsylvania Unemployment Compensation Fund activity from 1953 through 1979, focusing on the annual fund balances.
- A-3 A graphic illustration of the annual balances in the Unemployment Compensation Fund from 1937 through 1979.
- A-4 A graphic illustration of the annual contribution and obligation levels of the Unemployment Compensation Fund from 1970 through 1979; the graph shows the employer tax totals, the state's share of benefit obligations, and the shortfalls between for each year.
- A-5 A graphic illustration of the projected levels of contributions and obligations in the Unemployment Compensation Fund, assuming no changes are made in the state law governing the program, from 1980 through 1986.
- A-6 A table projecting the activity of the Unemployment Compensation Fund through 1986, assuming no change in the current laws. Annual costs, contributions, and the resultant federal advances, loan repayments and loan balances are estimated on an annual basis.
- A-7 A table calculating the projected financial activity of the unemployment compensation system through 1986, assuming no changes in current laws.
- A-8 A table providing the average employment and unemployment data for Pennsylvania and the nation from 1961 through 1979.

Pennsylvania Unemployment Compensation Fund Activity
1953 - 1979
(Dollars in Millions)

Year	*IUR	Contributions	Interest	Other ^{1/} Income	Federal Loans	Total Income	Benefit Cost
1953	3.06%	\$ 84.4	\$12.8			\$ 97.2	\$ 102.4
1954	7.32%	87.9	12.0			99.9	260.8
1955	4.92%	125.4	8.3			133.7	180.3
1956	4.45%	185.8	8.1	\$ - 2.7		196.6	160.2
1957	5.00%	142.3	9.3	6.7		158.3	195.4
1958	9.70%	156.2	7.1	2.7		166.0	385.1
1959	6.71%	220.2	2.5	0.3	\$ 96.4	319.5	263.3
1960	6.62%	249.5	2.2	0.2	5.6	257.6	265.3
1961	8.13%	259.8	0.9	11.4	10.0	282.1	341.2
1962	6.19%	274.0	0.4	13.0		287.3	252.8
1963	5.81%	267.3	0.9	0.3		268.5	236.5
1964	4.28%	292.5	2.0	0.4		294.9	175.7
1965	2.77%	305.0	6.5	0.4		311.9	118.8
1966	1.93%	302.9	13.4	0.7		317.0	86.5
1967	2.27%	278.7	22.5	0.0		301.2	109.1
1968	2.08%	174.4	30.3	0.3		205.0	118.7
1969	1.92%	164.4	35.2	0.3		199.9	118.7
1970	3.16%	158.4	40.9	0.3		199.6	212.5
1971	4.24%	170.0	41.3	15.0		226.3	315.1
1972	3.73%	213.4	33.1	33.4		279.9	403.9
1973	3.05%	316.0	28.8	0.4		345.1	341.4
1974	4.05%	382.1	32.3	9.9		424.3	476.3
1975	7.62%	400.5	19.5	220.1	173.8	813.9	1,030.9
1976	6.03%	440.2	0.0	332.0	379.2	1,151.4	885.1
1977	5.57%	448.5	0.3	215.3	373.3	1,077.5	860.0
1978	4.16%	664.9	0.0	41.5	261.0	967.4	757.6
1979	4.00%	722.5	0.0	15.7	35.0	773.2	819.3

^{1/} Includes Special Administration Fund transfers and reimbursements for Extended Benefits, Federal Supplemental Benefits and other miscellaneous programs.

*IUR -- The insured unemployment rate.

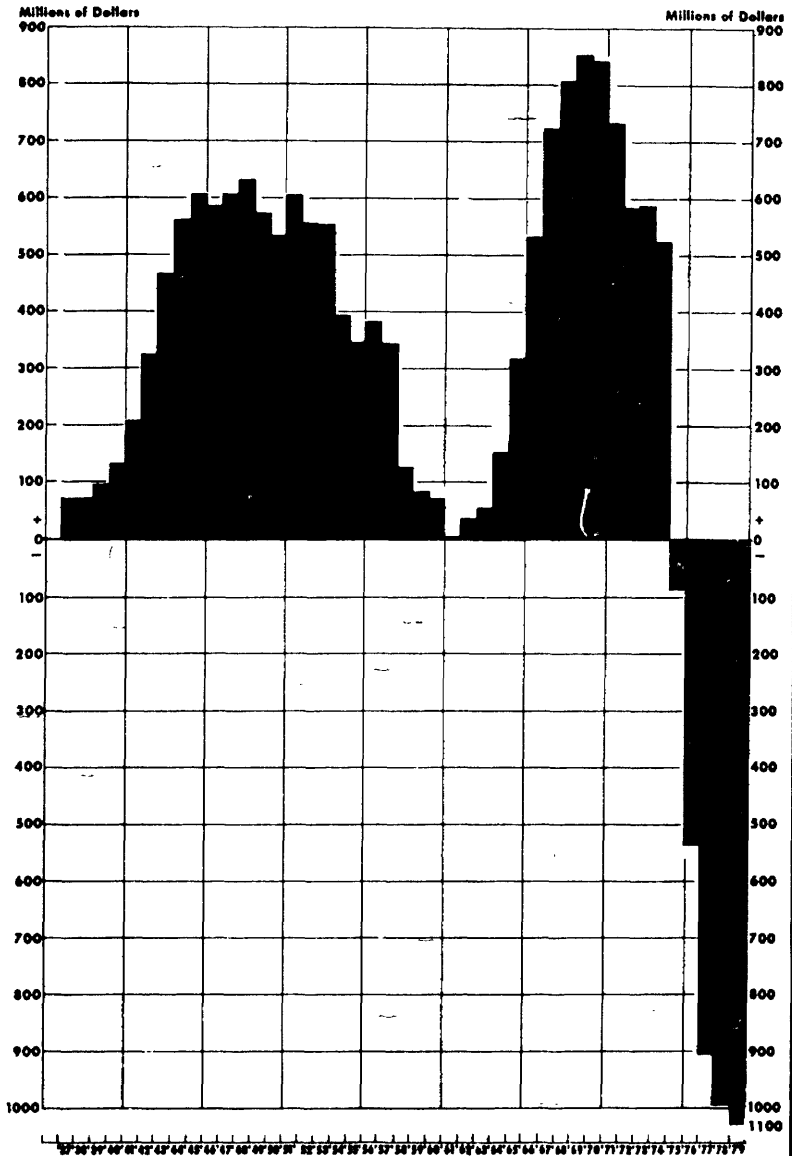
Pennsylvania Unemployment Compensation Fund Activity
1953 - 1979
(Dollars in Millions)

Year	Repayment of Loans	Other Fund ^{1/} Expenditures	Total Expenditures	Net Change in Reserves	Reserves (Excluding Loans)	Reserves (Including Loans)	Federal Loan Balances
1953			\$ 102.4	\$ (5.2)	\$ 552.6	\$552.6	
1954			260.8	(160.9)	391.7	391.7	
1955			180.3	(46.6)	345.1	345.1	
1956			160.2	36.4	381.5	381.5	
1957			195.4	(37.1)	344.4	344.4	
1958			385.1	(219.1)	125.3	125.3	
1959			263.3	(40.2)	85.1	181.5	\$ 96.4
1960			265.3	(13.3)	71.8	173.8	102.0
1961			341.2	(69.1)	2.7	114.7	112.0
1962			252.8	34.5	37.2	149.2	112.0
1963	\$ 12.6	\$ 12.6	261.7	19.4	56.6	156.1	99.4
1964	12.6	25.2	213.5	94.0	150.6	237.4	86.8
1965	12.7	26.2	157.7	167.0	317.6	391.7	74.1
1966	74.1	17.0	177.6	213.4	531.0	531.0	0.0
1967			109.1	192.1	723.1	723.1	
1968			118.7	86.3	809.4	809.4	
1969		36.8	155.5	44.4	853.8	853.8	
1970			212.5	(12.8)	841.0	841.0	
1971		20.1	335.2	(109.0)	732.0	732.0	
1972		25.4	429.3	(149.4)	582.6	582.6	
1973			341.4	3.7	586.3	586.3	
1974		13.5	489.8	(65.6)	520.7	520.7	
1975		217.7	1,248.6	(608.5)	(87.8)	86.0	173.8
1976		337.0	1,222.1	(449.9)	(537.7)	15.3	553.0
1977		210.9	1,070.9	(366.7)	(904.4)	21.9	926.3
1978		41.0	798.6	(92.2)	(996.6)	190.7	1,187.3
1979		16.7	835.8	(30.6) ^{2/}	(1,027.2) ^{2/}	128.1	1,155.3 ^{2/}

^{1/} Includes repayment of debt for Temporary Unemployment Compensation (TUC), refund of employer taxes, and Extended Benefit and Federal Supplemental Benefit payments.

^{2/} Includes estimated loan repayment of \$67 Million through additional 0.3% Federal tax assessed on Pennsylvania employers in 1979 and payable by January, 1980.

**PENNSYLVANIA UNEMPLOYMENT COMPENSATION FUND
ANNUAL FUND BALANCES CALENDAR YEARS 1937-1979**



Millions of Dollars

1000—

900—

800—

700—

600—

500—

400—

300—

200—

100—

0

U.C. FUND ANNUAL CONTRIBUTION AND OBLIGATION LEVELS

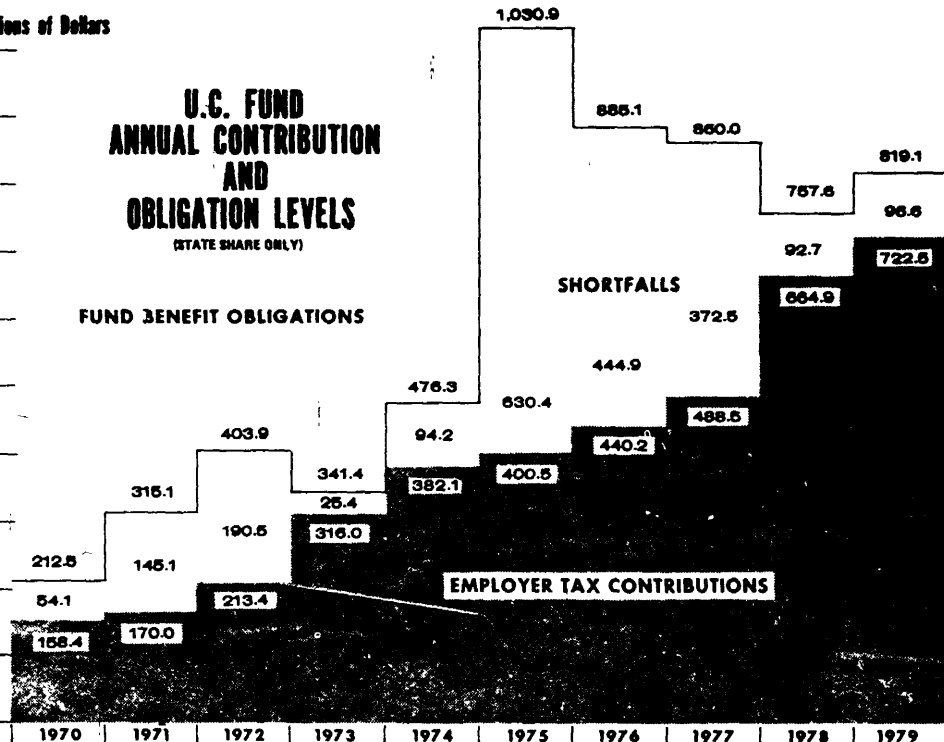
(STATE SHARE ONLY)

FUND BENEFIT OBLIGATIONS

SHORTFALLS

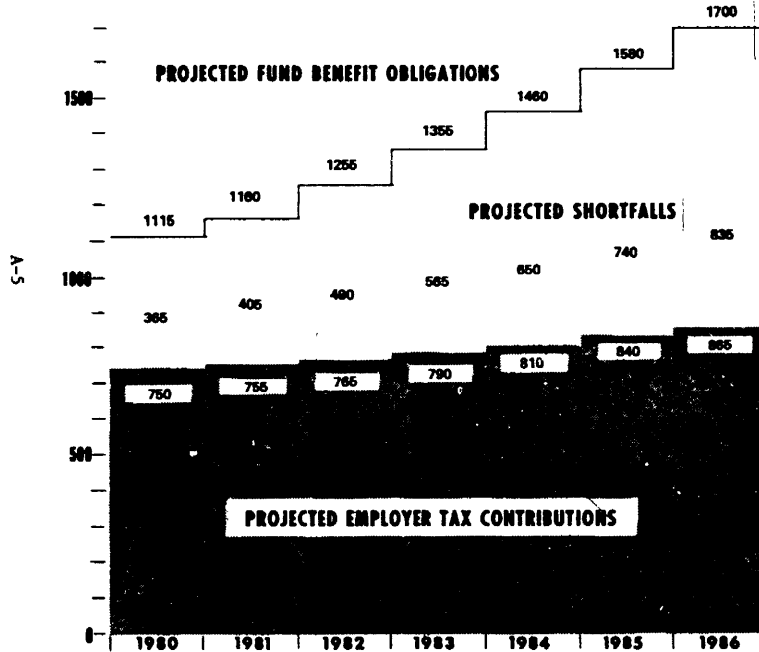
EMPLOYER TAX CONTRIBUTIONS

y-y



Billions of Dollars
2000-

PROJECTED UC FUND ANNUAL CONTRIBUTION & OBLIGATION LEVELS (STATE SHARE ONLY)



BASIC ASSUMPTIONS USED FOR PROJECTIONS

1. The 5.2% insured unemployment rate (IUR) for 1980 was based on the assumption of a mild recession ending in 1980. With a 5.2% IUR, there will be 234,000 average weekly claims for unemployment compensation benefits. For 1981 through 1985 a 5.0% IUR (total unemployment rate = 6.7%) was used which approximates the 1954-1978 average rate.
2. A moderate rate of growth was assumed for covered employment. Covered employment will reach 4,500,000 (+0.4%) in 1980. For 1981 through 1985 covered employment was projected to increase by 50,000 employees (approximately 1.1%) in each year.
3. Average annual wages were projected to increase 6.0% annually. Taxable wages were also estimated based on the relationship between the taxable wage base and the average annual wage.
4. The contributions shown for each year were calculated on a continuing \$6,000 taxable wage base.

A-5

Pennsylvania Unemployment Compensation Fund Activity

Projected for 1980-1986

(Dollars in Millions)

<u>Year</u>	<u>Assumed *IUR</u>	<u>Contributions</u>	<u>Benefit Cost</u>	<u>Excess of Benefits Over Contribution</u>	<u>Federal Loans</u>	<u>Repayment of Loans</u>	<u>Federal Loan Balance</u>
1980	5.2%	\$750	\$1,115	\$365	\$250	\$136	\$1,269
1981	5.0%	755	1,160	405	392	209	1,452
1982	5.0%	765	1,255	490	490	477	1,465
1983	5.0%	790	1,355	565	565	612	1,418
1984	5.0%	810	1,460	650	650	678	1,390
1985	5.0%	840	1,580	740	740	696	1,434
1986	5.0%	865	1,700	835	835	716	1,533

*IUR -- The insured unemployment rate.

PROJECTION (CURRENT LAW)
SUMMARY OF FINANCIAL MEASURES
(Dollars in Millions)

	1980	1981	1982	1983	1984	1985	1986
<u>Benefit and Contribution Analysis</u>							
Assumed IUR	5.2%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost Savings	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Additional Contributions	0	0	0	0	0	0	0
<u>Rate Analysis</u>							
Avg. Contribution Rate	3.1%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%
Total FUTA Rate	1.3	1.6	2.7	3.2	3.4	3.4	3.4
FUTA - Basic	0.7	0.7	0.7	0.7	0.7	0.7	0.7
FUTA - Loss of Credit	0.6	0.9	2.0	2.5	2.7	2.7	2.7
<u>Trust Fund Analysis</u>							
Beginning Fund Balance	\$ 128	\$ 13	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Federal Advances	250	392	490	565	650	740	835
Contributions	750	755	765	790	810	840	865
Benefit Cost	1115	1160	1255	1355	1460	1580	1700
Ending Fund Balance							
Including Federal Loans	13	0	0	0	0	0	0
Excluding Federal Loans	(1256)	(1452)	(1465)	(1418)	(1390)	(1434)	(1553)
<u>Federal Loan Analysis</u>							
Beginning Loan Balance	\$1155 ^{1/}	\$1269	\$1452	\$1465	\$1418	\$1390	\$1434
Federal Advances	250	392	490	565	650	740	835
FUTA Repayment by Loss of Credit	136	209	477	612	678	696	716
Repayment from State Trust Fund	0	0	0	0	0	0	0
Ending Loan Balance	1269	1452	1465	1418	1390	1434	1553

^{1/} The \$67 million FUTA loss of credit assessed in 1979 and payable in January 1980 is reflected in the 1980 Beginning Loan Balance and not in the FUTA Repayment.

Resident Employment, Unemployment and Unemployed Rate
(Thousands)

Year	PENNSYLVANIA				UNITED STATES			
	Civilian Labor Force	Em- ployment	Unem- ployment	Total Unem- ployment Rate %	Civilian Labor Force	Em- ployment	Unem- ployment	Total Unem- ployment Rate %
1961	4,508.0	4,080.9	427.1	9.5	70,459.0	65,746.0	4,714.0	6.7
1962	4,474.2	4,110.5	363.7	8.1	70,614.0	66,702.0	3,911.0	5.5
1963	4,422.9	4,090.0	332.9	7.5	71,833.0	67,762.0	4,070.0	5.7
1964	4,430.9	4,155.2	275.7	6.2	73,091.0	69,305.0	3,786.0	5.2
1965	4,469.3	4,263.4	205.9	4.6	74,455.0	71,088.0	3,366.0	4.5
1966	4,558.3	4,395.0	163.3	3.6	75,770.0	72,895.0	2,875.0	3.8
1967	4,637.0	4,467.0	170.0	3.7	77,347.0	74,372.0	2,975.0	3.8
1968	4,634.0	4,475.0	159.0	3.4	78,737.0	75,920.0	2,817.0	3.6
1969	4,720.0	4,566.0	154.0	3.3	80,734.0	77,902.0	2,832.0	3.5
1970	4,833.0	4,618.0	215.0	4.4	82,715.0	78,627.0	4,088.0	4.9
1971	4,803.0	4,543.0	260.0	5.4	84,113.0	79,120.0	4,993.0	5.9
1972	4,875.0	4,609.0	265.0	5.4	86,542.0	81,702.0	4,840.0	5.6
1973	4,988.0	4,747.0	241.0	4.8	88,714.0	84,409.0	4,304.0	4.9
1974	5,036.0	4,778.0	258.0	5.1	91,011.0	85,935.0	5,076.0	5.6
1975	5,069.0	4,647.0	421.0	8.3	92,613.0	84,783.0	7,830.0	8.5
1976	5,094.0	4,690.0	404.0	7.9	94,773.0	87,485.0	7,288.0	7.7
1977	5,168.0	4,770.0	398.0	7.7	97,401.0	90,546.0	6,855.0	7.0
1978	5,252.0	4,888.0	364.0	6.9	100,420.0	94,373.0	6,047.0	6.0
1979	5,296.0	4,930.0	366.0	6.9	102,910.0	96,946.0	5,963.0	5.8

ADDENDUM B

Contents

- B-1 A table reflecting the total annual amounts advanced from the federal government to help finance the unemployment insurance programs of the various states, including Pennsylvania. Dating from 1972, the table also shows repayments and the total amounts outstanding as of December 31, 1979.
- B-2 A table comparing states with outstanding federal loans on the basis of population and participation in the unemployment insurance program.
- B-3 A table comparing states with outstanding federal loans on the basis of total annual benefits and total annual wages.

Comparison of States with Outstanding Loans
By Population and Covered Employment

	Federal Loans Outstanding 4/30/79 (Millions)		Civ. Pop. 7/1/77 (Millions)	Loans Per Capita		Covered Employment March 1978 (Millions)	Loans Per Covered Employee	
	Amount	Rank		Amount	Rank		Amount	Rank
Pa.	\$1,222.3	(1)	11.8	\$103.58	(3)	4.4	\$227.80	(3)
Conn.	370.9	(4)	3.1	119.65	(1)	1.3	285.31	(2)
Del.	47.0	(9)	0.6	78.33	(8)	0.2	235.00	(6)
D.C.	70.5	(8)	0.7	100.71	(4)	0.4	176.25	(10)
Ill.	946.5	(2)	11.2	84.51	(6)	4.4	215.11	(7)
Me.	36.4	(11)	1.1	33.09	(10)	0.4	91.00	(12)
Mass.	231.7	(5)	5.8	39.95	(9)	2.3	110.74	(11)
Mont.	7.1	(13)	0.8	8.88	(11)	0.2	35.50	(13)
N.J.	651.9	(3)	7.3	89.30	(5)	2.7	241.44	(5)
P.R.	88.7	(7)	INA	INA		0.5	177.40	(9)
R.I.	102.8	(6)	0.9	114.22	(2)	0.4	257.00	(4)
Vt.	40.8	(10)	0.5	81.60	(7)	0.2	204.00	(8)
V.I.	10.4	(12)	INA	INA		0.03	346.67	(1)

Comparison of States with Outstanding Loans
By Benefits and Total Wages

	Benefits 12 Mos. as of 3/31/78 (Millions)	Loans as % of Benefits		Total Wages 1977 (Millions)	Loans as % Total Wages		Average Employer Tax Rate (1978) Based on Total Wages	
		Percent	Rank		Percent	Rank	Percent	Rank
Pa.	\$823.7	148.4%	(5)	\$44,432.9	2.8%	(3)	1.6%	(9)
Conn.	183.1	202.6%	(2)	14,451.6	2.6%	(5)	1.4%	(11)
Del.	30.2	155.6%	(4)	2,587.0	1.8%	(8)	1.1%	(13)
D.C.	55.0	128.2%	(8)	4,536.4	1.6%	(9)	1.2%	(12)
Ill.	645.1	146.7%	(6)	45,177.2	2.1%	(7)	1.5%	(10)
Mo.	50.3	72.4%	(11)	2,795.6	1.3%	(10)	1.9%	(2)
Mass.	288.0	80.5%	(10)	21,645.3	1.1%	(11)	1.9%	(3)
Mont.	27.9	25.4%	(12)	2,255.2	0.3%	(12)	1.7%	(7)
N.J.	507.0	128.6%	(7)	28,115.2	2.3%	(6)	1.8%	(4)
P.R.	83.0	106.9%	(9)	3,304.5	2.7%	(4)	3.0%	(1)
R.I.	61.8	166.3%	(3)	3,247.9	3.2%	(1)	1.7%	(8)
Vt.	19.8	206.1%	(1)	1,318.9	3.1%	(2)	1.8%	(5)
V.I.	INA	INA		INA	INA		1.8%	(6)

ADDENDUM C

Contents

- C-1 A table reflecting average annual tax rates for the employer community from 1960 through 1979. (Note: The graduated state tax rates, and the component factors used in the experience-rating formula, are discussed beginning at page 26.)
- C-2 A table projecting the amounts of additional contributions that could be raised with a variety of changes to the tax rate structure for the years 1980 through 1985. This table uses the current taxable wage base of \$6,000.
- C-3 A table projecting the amounts of additional contributions that could be raised with a variety of changes to the tax rate structure for the years 1980 through 1985. This table uses a taxable wage base of \$6,600.
- C-4 A table projecting the amounts of additional contributions that could be raised with a variety of changes to the tax rate structure for the years 1980 through 1985. This table uses a \$7,000 taxable wage base.
- C-5 A table projecting the amounts of additional contributions that could be raised through the use of supplementary taxes such as a solvency or employe tax. Estimated totals are given for the years 1980 through 1985.

Pennsylvania Unemployment Compensation
Employer Average Tax Rates

Year	State Computed	Adjustment Carryover	Factor Applied	Average Experience Factor	Average Funding Factor	Average Total Rate	
						Assigned <u>a/</u>	Actual <u>b/</u>
1960*	0.60X	—	0.6X	1.755X	0.790X	2.968X	2.963X
1961	1.08	<u>c/</u>	1.0	1.834	0.763	3.256	3.234
1962	2.09	1.09X	1.0	1.849	0.752	3.249	3.259
1963	1.15	1.24	1.0	1.788	0.732	3.194	3.190
1964*	1.31	1.55	1.0	1.734	0.677	3.074	3.062
1965	0.85	1.40	1.0	1.602	0.651	2.967	2.957
1966	0.42	0.82	1.0	1.381	0.626	2.763	2.751
1967	0.19	0.01	1.0 <u>d/</u>	1.028	0.594	2.461	2.454 <u>d/</u>
1968	0.08	—	0.1	0.719	0.570	1.369	1.404
1969	0.02	—	0.1	0.677	0.571	1.331	1.369
1970	-0.01	—	0.0	0.699	0.587	1.273	1.290
1971	0.06	—	0.1	0.762	0.588	1.430	1.440
1972*	0.27	—	0.3	0.978	0.604	1.833	1.552 <u>e/</u>
1973	0.70	—	0.7	1.344	0.593	2.438	2.150 <u>f/</u>
1974	0.83	—	0.9	1.417	0.625	2.717	2.535 <u>g/</u>
1975	0.99	—	1.0	1.322	0.599	2.780	2.713
1976	2.21	1.21	1.0	1.508	0.656	2.936	2.886
1977	3.26	3.47	1.0	1.810	0.679	3.156	3.096
1978*	3.34	5.81	1.0	1.957	0.678	3.252	3.177
1979	2.36	7.17	1.0	1.092	0.669	3.201	NA

a/ Includes all employers who were liable January 1 of rate year.

b/ Includes contributions due and taxable payrolls of all employers liable at any time during the rate year.

c/ The Pennsylvania Law provided for carryover beginning in 1962.

d/ Subsequently reduced to 0.6 by Commonwealth Court decision 10-3-68. Refunds of \$36,762,374 reduced the actual total rate to 2.126.

e/ Includes a 15% discount given to all regularly rated employers during 1972.

f/ Includes a 10% discount given to all regularly rated employers during 1973.

g/ Includes a 5% discount given to all regularly rated employer during 1974.

* The taxable wage base was \$3,000 in 1960; went to \$3,600 in 1964; to \$4,200 in 1972; and to \$6,000 in 1978.

Estimated Additional Contributions
Based on Various Tax Revisions
\$6000 Taxable Wage Base
(Dollars in Millions)

Maximum Contribution Rate	(E.F.	F.F.	S.A.F.)*	1980	1981	1982	1983	1984	1985
				\$ 98	\$ 99	\$100	\$100	\$100	\$100
4.0%	(3.0%	1.0%	2.0%)	84	84	85	87	90	92
5.0	(3.0	1.0	2.0)	227	225	225	227	232	233
5.0	(4.0	1.0	1.0)	96	96	100	103	106	109
6.0	(3.0	1.0	2.0)	311	307	305	308	311	315
6.0	(4.0	1.0	1.0)	165	165	167	171	176	181
6.0	(4.0	1.0	2.0)	330	326	324	328	331	335
6.0	(4.5	1.0	1.5)	253	251	250	255	259	263
6.0	(5.0	1.0	1.0)	172	172	174	179	183	188
7.0	(4.0	1.0	2.0)	392	398	405	416	427	439
8.0	(4.0	3.0	1.0)	460	468	476	490	502	513

* The three component factors that determine individual employer tax rates graduated up to the maximum contribution rate.

- E.F. -- Experience Factor, ranging from 0.0% to the maximum shown.
 F.F. -- Funding Factor, ranging from 0.0% to the maximum shown.
 S.A.F. -- State Adjustment Factor, ranging from 0.0% to the maximum shown.

Estimated Additional Contributions
Based on Various Tax Revisions
\$6600 Taxable Wage Base
(Dollars in Millions)

Maximum Contribution Rate	(E.F.)	F.F.	S.A.F.)*	1980	1981	1982	1983	1984	1985
4.0%	(3.0%)	1.0%	1.0%	\$ 52	\$ 51	\$ 50	\$ 48	\$ 47	\$ 46
5.0	(3.0)	1.0	1.0)	142	142	144	146	149	151
5.0	(3.0)	1.0	2.0)	296	295	295	297	299	302
5.0	(4.0)	1.0	1.0)	155	155	159	161	163	165
6.0	(3.0)	1.0	2.0)	386	384	386	391	395	399
6.0	(4.0)	1.0	1.0)	230	230	234	238	245	248
6.0	(4.0)	1.0	2.0)	407	409	407	409	410	413
6.0	(5.0)	1.0	1.0)	238	238	242	246	252	256

* The three component factors that determine individual employer tax rates graduated up to the maximum contribution rate.

E.F. -- Experience Factor, ranging from 0.0% to the maximum shown.

F.F. -- Funding Factor, ranging from 0.0% to the maximum shown.

S.A.F. -- State Adjustment Factor, ranging from 0.0% to the maximum shown.

Estimated Additional Contributions
Based on Various Tax Revisions
\$7000 Taxable Wage Base
(Dollars in Millions)

Maximum Contribution Rate	(E.F.	F.F.	S.A.F.)*	1980	1981	1982	1983	1984	1985
4.0	(3.0%	1.0%	1.0%)	\$ 90	\$ 88	\$ 87	\$ 85	\$ 84	\$ 82
5.0	(3.0	1.0	1.0)	184	184	187	189	191	182
5.0	(3.0	1.0	2.0)	346	345	344	346	348	352
5.0	(4.0	1.0	1.0)	198	198	200	201	203	204
6.0	(3.0	1.0	2.0)	440	438	438	441	445	449
6.0	(4.0	1.0	1.0)	276	276	278	282	287	292
6.0	(4.0	1.0	2.0)	462	460	458	461	464	468
6.0	(4.5	1.0	1.5)	375	373	371	376	380	384
6.0	(5.0	1.0	1.0)	284	284	286	290	295	301

* The three component factors that determine individual employer tax rates graduated up to the maximum contribution rate.

E.F. -- Experience Factor, ranging from 0.0% to the maximum shown.

F.F. -- Funding Factor, ranging from 0.0% to the maximum shown.

S.A.F. -- State Adjustment Factor, ranging from 0.0% to the maximum shown.

Estimates of Additional Contributions
Based on Solvency Tax and Employe Tax Provisions
(Dollars in Millions)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Solvency Tax						
(\$5000 taxable wage base)						
Flat 1.0%	\$227	\$233	\$238	\$245	\$251	\$258
Flat 1.0% less FUTA loss of credit	91	23	0	0	0	0
Flat 1.0% surcharge on employers whose benefit liability exceeds contributions						
a) over the prior two years	67	67	67	67	67	67
b) in <u>each</u> of the prior two years	29	29	29	29	29	29
Employe Tax						
Flat 0.25% on \$6000 tax base	57	58	60	61	63	65
0.30%	68	70	71	74	75	77
0.40%	91	93	95	98	100	103
0.50%	114	117	119	123	126	129

A D D E N D U M D

Contents

- D-1 Annual benefit payment data from 1953 to 1979; includes aggregate number of payments and compensated weeks and average duration and amounts.
- D-2 Selected benefit changes from 1938 and their effective dates, tracing modifications of the waiting week, benefit ranges and duration, and the calculation of benefit amounts.
- D-3 The benefit schedule for 1980, incorporating the calculation used to determine financial eligibility and the rates of weekly payments.
- D-4 A description of the current eligibility and benefit provisions that were subjected to cost-saving projections in D-5.
- D-5 A table providing cost-saving estimates that would result if various changes were made by law to eligibility and benefit provisions.

Pennsylvania Benefit Payment Data

<u>Year</u>	<u>Average Weekly Benefit Amount</u>	<u>Number of First Payments</u>	<u>Weeks Compensated</u>	<u>Number of Claimants Exhausting Benefits</u>	<u>Average Duration For Clmts (Weeks)</u>	<u>Insured Unemployment Rate</u>
1953	\$24.23	429,370	4,225,251	72,005	9.84	3.06
1954	25.48	724,902	10,233,581	207,534	14.12	7.32
1955	25.53	506,001	7,063,716	163,592	13.96	4.92
1956	26.22	453,164	6,109,470	83,437	13.48	4.45
1957	27.19	525,084	7,185,357	88,896	13.68	5.00
1958	28.83	765,449	13,357,641	207,718	17.45	9.70
1959	27.99	549,815	9,407,155	164,498	17.11	6.71
1960	29.68	602,579	8,937,694	112,443	14.83	6.62
1961	31.11	609,868	10,966,943	179,342	17.98	8.13
1962	30.73	531,626	8,228,121	121,866	15.48	6.19
1963	30.64	489,209	7,720,866	108,347	15.78	5.81
1964	29.69	391,470	5,916,315	72,598	15.11	4.28
1965	30.99	316,972	3,833,481	42,896	12.09	2.77
1966	31.75	253,095	2,725,865	26,426	10.77	1.93
1967	33.86	294,871	3,222,740	28,195	10.93	2.27
1968	39.24	273,311	3,023,859	29,199	11.06	2.08
1969	42.14	257,910	2,815,925	26,656	10.92	1.92
1970	45.81	400,199	4,638,923	42,607	11.59	3.16
1971	49.33	453,056	6,226,713	80,440	13.74	4.24
1972	61.00	432,731	6,516,241	85,669	15.06	3.73
1973	64.16	358,463	5,320,909	66,432	14.84	3.05
1974	66.73	498,426	7,075,892	80,099	14.20	4.05
1975	76.24	721,903	13,165,050	202,239	18.24	7.62
1976	81.96	650,188	10,444,972	177,394	16.06	6.03
1977	86.08	672,110	9,717,844	144,751	14.46	5.57
1978	90.70	598,843	8,501,927	110,088	14.20	4.16
1979	93.03	648,603	8,783,695	102,556	13.54	4.0 (Est.)

Selected Benefit Changes to Pennsylvania Unemployment Compensation Law
1938 - 1979

Effective Date	Waiting Weeks	Computation of Weekly Benefit Amount (Fraction of High Quarter Wages)	Weekly Benefit Rate Range	Duration Range
1/1/38	3	1/26	\$7.50 - \$13	1 - 13
7/1/42	2	"	8 - 18	3 - 16
6/1/43	"	1/25	"	7 - 16
6/1/45	1	"	8 - 20	9 - 20
10/1/45	"	"	"	9 - 20
10/1/47	"	"	"	9 - 24
7/1/49	"	"	8 - 25	9 - 24
10/1/51	"	"	10 - 30	13 - 26
5/1/55	"	"	10 - 35	30 - 30
1/1/60	"	"	10 - 38	"
7/1/60	"	"	10 - 40	"
7/1/64	"	"	10 - 45	18 - 30
1/1/68	"	1/23 - 1/25	11 - 60	"
10/1/71	" <u>a/</u>	1/21 - 1/25	12 - 81 <u>b/</u>	30 - 30
1/1/72	" <u>a/</u>	"	12 - 85 <u>b/</u>	"
1/1/73	" <u>a/</u>	"	12 - 91 <u>b/</u>	"
1/1/74	" <u>a/</u>	"	12 - 96 <u>b/</u>	"
1/1/75	" <u>a/ c/</u>	1/20 - 1/25	13 - 111 <u>d/</u>	"
1/1/76	0	"	13 - 125 <u>e/</u>	"
1/1/77	"	"	13 - 133 <u>e/</u>	"
1/1/78	"	"	13 - 143 <u>e/</u>	"
1/1/79	"	"	13 - 152 <u>e/</u>	"
1/1/80	"	"	13 - 162 <u>e/</u>	"

a/ Becomes compensable when claimant has been paid benefits equal to 4 times his weekly benefit rate.

b/ Flexible maximum weekly benefit rate effective each Jan. 1 based on 60% of average wage in covered employment during preceding fiscal year. Does not include \$5 for first dependent and \$3 for second dependent which became effective 10/1/71.

c/ No waiting week as of 7/1/75.

d/ Flexible maximum as indicated in b/ of 64 2/3%.

e/ Flexible maximum as indicated in b/ of 66 2/3%.

HOW TO FIGURE YOUR WEEKLY BENEFIT RATE

If you qualify for benefits, the most you can receive is \$162 weekly unless you are entitled to dependents' allowances. The least you can receive is \$13 weekly, unless you are partially employed or receiving a deductible pension. Your weekly benefits will vary with the amount of wages you were paid.

In order to figure out your weekly benefit rate, you must first determine your base year as described in the handbook on pages 5 and 6. Next, you must find the total (Gross) wages you received during the base-year period and then find out how much you received during each calendar quarter in that base year. Be careful to use Gross wages—not take-home pay.

After you have determined how much you were paid in each quarter, find the quarter in which you were paid the most money. Your wages in this quarter are your highest quarterly wages. In the following table, in the column headed "Highest Quarterly Wage", find your highest quarterly wages. Then look at the dollar amount in the "Qualifying Wages" column on the same line. If your total base-year wages are as much or more than the dollar amount in this column, then you are entitled weekly to the amount in the "Rate of Compensation" column.

Even if your total wages are not as much as the amount listed in the "Qualifying Wages" column, you may still be eligible for a lesser amount. Look at the next smaller dollar amount in the "Qualifying Wages" column. If your total base-year wages are the same as or more than this amount, then your benefit rate would be the amount in the column "Rate of Compensation" to the left. If your total base-year wages are not as much as this "Qualifying Wage" amount, you can check in the same way any of the next three smaller figures in the "Qualifying Wages" column to determine how much you may be eligible to receive.

For example, suppose you were paid \$6,000 in your base year. Breaking the total down into quarters, you may have received —

\$1,500 (April, May, June) \$1,300 (Oct., Nov., Dec.)
\$1,700 (July, Aug., Sept.) \$1,500 (Jan., Feb., March)

Your highest quarterly wage would be the \$1,700 you were paid in July, August and September. Reading down the "Highest Quarterly Wage" column for \$1,700, you find that the weekly rate of compensation would be \$70. Also note under the next column "Qualifying Wages", that you would need to have been paid a total of \$2,720 during the base year to qualify for the \$70 which you did.

Your weekly benefit rate as established under the high quarter formula, explained above, should equal approximately one-half of your full-time weekly wage in your base year. If the weekly benefit rate shown on your Form UC-44F, Notice of Financial Determination, is not equal to or more than 50% of your full-time weekly wage, your rate may be redetermined on the basis of your full-time weekly wage. If you have any questions ask your claims interviewer.

RATE AND AMOUNT OF BENEFITS (Effective January 6, 1980 for new applicants only)

Highest Quarterly Wage	Rate of Compensation	Qualifying Wages	Amount of Compensation
\$ 120 - 262	13	\$ 440	\$ 390
263 - 287	14	490	420
288 - 312	15	520	450
313 - 337	16	580	490
338 - 362	17	600	510
363 - 387	18	640	540
388 - 412	19	690	570
413 - 437	20	720	600
438 - 462	21	760	630
463 - 487	22	800	660
488 - 512	23	840	690
513 - 537	24	890	720
538 - 562	25	920	750
563 - 587	26	960	780
588 - 612	27	1000	810
613 - 637	28	1040	840
638 - 662	29	1080	870
663 - 687	30	1120	900
688 - 712	31	1160	930
713 - 737	32	1200	960
738 - 762	33	1240	990
763 - 787	34	1280	1020
788 - 812	35	1320	1050
813 - 837	36	1360	1080
838 - 862	37	1400	1110
863 - 887	38	1440	1140
888 - 912	39	1480	1170
913 - 937	40	1520	1200
938 - 962	41	1560	1230
963 - 987	42	1600	1260

(CONTINUED ON NEXT PAGE)

* If the total amount of your base-year wages is less than \$600, you will be ineligible for benefits unless such wages were earned in 18 different weeks.

Provisions Subjected
To Cost-Saving Analysis in D-5

Step-Down Provision

To be eligible for benefits, a claimant must meet certain financial criteria. Those qualifications are incorporated by law in a schedule of benefit payments (see Addendum D-3) that is designed to approximate 50 percent of average weekly earnings to persons who have worked approximately 18 weeks within a stated base-year period.

To identify a specific rate of benefits and determine his eligibility, a claimant's total earnings for the base year are calculated, then his high quarter earnings are used to determine his weekly benefit amount. At least 20 percent of the total earnings must fall outside the high quarter to qualify, a factor utilized to prevent claimants from qualifying after only short-term employment.

Using the schedule of benefit payments, the claimant's high quarterly wages determine the weekly benefit amount he will receive if his total earnings meet or exceed the required qualifying wages.

But the "step-down" provision of the Pennsylvania law allows a claimant with insufficient total base-year earnings to reduce the required qualifying wages by moving to the next four lower ranges on the schedule. If his total base-year earnings falls within one of the next four lower steps on the schedule, the claimant becomes eligible for that weekly benefit amount for a maximum of 30 weeks.

For example, a claimant worked a total of 12 weeks at \$100 each. He earned \$800 in his high quarter and the \$400 balance in four weeks prior to his high quarter. Under the benefit schedule, he would not

initially be entitled to benefits because his total earnings did not reach the \$1,320 in qualifying wages required. But by stepping down three ranges on the schedule, he would be eligible with qualifying wages of exactly \$1,200. He would be entitled to \$32 a week in benefits.

Only four states, including Pennsylvania, permit two or more reductions in qualifying wages, although many states allow one scheduled step-down.

Movable Base Year

Under the current law, a financially ineligible claimant can use the four most recently completed calendar quarters of employment to establish eligibility.

For example, a new entrant into the labor market worked during June, July, August and September of 1979. On October 1, 1979, this individual was laid off and applied for benefits. The claimant's regular base year consisted of the four calendar quarters starting on July 1, 1978 and ending on June 30, 1979. Since employment during this period was limited to June 1979, the claimant could not qualify for benefits. However, the base year can be shifted (movable base year) to the period of October 1, 1978 through September 30, 1979, and the claimant could receive benefits in spite of the fact that he had a very limited work history.

As of January 1979, 35 states utilize a standard base-year period consisting of the first four of the last five completed calendar quarters.

Waiting Week

The "waiting week" is the period of time an eligible claimant must wait before he or she begins accruing benefits.

In Pennsylvania, there is no waiting period; eligible claimants begin accruing benefits as soon as a legitimate claim is filed. Eleven other states follow the same procedure.

However, 27 states do require a waiting week that delays the accrual of benefits; and 12 states impose a waiting week that is potentially payable after a claimant has collected benefits for a stated number of weeks.

Duration of Claim

At present, all Pennsylvania beneficiaries are entitled to 30 times their weekly benefit amount. Claimants, therefore, may receive benefits for 30 consecutive weeks, or that many total weeks of entitlement during several periods of unemployment falling within their benefit year. This provision is called "uniform duration."

An exception to the standard 30 weeks of benefits is provided in Pennsylvania if weekly benefit amounts are reduced because of new earnings or pension payments; then the duration can be extended until the maximum yearly entitlement is exhausted or up to 52 weeks, whichever comes sooner.

Only Pennsylvania has a uniform duration of 30 weeks; West Virginia has 28 weeks; and eight other states have 26 weeks. Variable durations, based upon past earnings and length of employment, are used by the other states, usually ranging up to a maximum of 26 weeks from various minimum weeks of entitlement. Only four "variable duration" states exceed Pennsylvania's maximum benefit duration, with the greatest range of weekly entitlement assigned by Wisconsin (from one to 34 weeks) and Iowa (10 to 39 weeks).

Weekly Benefit Amount (WBA), Minimum

The current minimum benefit amount that can be given to a beneficiary each week is \$13, still less than twice the \$7.50 minimum first established in 1938.

To be entitled to the minimum weekly benefit amount, a claimant must have total base-year earnings of \$440 with a high quarter of \$120 in wages. (Refer to the benefits schedule at D-3.)

Those with total base-year earnings of less than \$600 must also establish that wages were earned in 18 different weeks.

There is no standard minimum benefit amount in the other states, where minimums range from \$5 a week in Hawaii to \$36 a week in North Dakota.

Weekly Benefit Amount (WBA), Maximum

Pennsylvania's present maximum weekly benefit amount is \$162. Under the law, the rate changes annually to correspond to 66 2/3 percent of the statewide average weekly wage. The maximum payment each week in 1979 was \$152. Since the maximum weekly benefit amount was indexed to the average weekly wage in 1971, the "ceiling" on weekly benefits has climbed each year from \$81 a week.

Indexing the maximum weekly benefit to the individual state's average weekly wage is common to 33 states with the percentage ranging from 50 percent to 70 percent. Nine states, including Pennsylvania, use 66 2/3 percent; only two are higher, West Virginia at 70 percent and North Dakota at 67 percent.

Dependency Allowance

The current weekly allowance for dependents is not based on a relationship to past income. Pennsylvania provides an additional \$5 a week for one dependent and a total of \$8 a week for two or more dependents.

Only 12 other states provide dependency allowances, but amounts and qualifying criteria vary widely from state to state.

Pension Offset

Under recent Federal Unemployment Tax Act (FUTA) amendments, all states are required to enact legislation to provide a dollar-for-dollar reduction from unemployment benefits for any pensions or annuities based on previous employment.

Primarily there are two options that can accomplish this federal mandate -- to offset benefit amounts each week by the pension; or to reduce the total 30-week benefit entitlement by the amount of pension or annuity received over the same period.

A weekly offset would retain the claimant's total benefit entitlement for his benefit year, enabling a claimant to continue receiving benefits beyond the normal maximum duration of 30 weeks.

For instance, assume a claimant was found to be eligible for a total benefit entitlement of \$3,000 during the year-long life of his unemployment compensation claim. Normally, he would draw upon that amount at the rate of \$100 a week for 30 weeks. However, the claimant was also receiving a pension of \$50 a week, and his weekly benefit amount was offset by the pension, resulting in only a \$50 unemployment benefit check.

Since in this example the total benefit entitlement was being drawn upon at the reduced rate of \$50, the claimant may continue to receive benefits at the reduced weekly rate for a maximum of 52 weeks. In other cases, with lesser amounts of pension offset, the weekly benefits would continue until the claimant's total entitlement was exhausted -- but in no case for more than 52 weeks.

The second method of complying would limit benefits to 30 weeks and results in greater cost savings. The total 30-week benefit entitlement is reduced by the total pension amount over the same period. Then the weekly benefit amount is calculated by dividing the reduced total entitlement by 30 weeks.

For example, a claimant eligible under the current benefits schedule for a \$100 benefit check each week would also have a total entitlement of \$3,000. A pension of \$50 a week, multiplied by the 30 weeks potential duration of the claim, would be deducted, leaving a total entitlement of \$1,500. As a result, the claimant under this method would also be entitled to receive \$50 a week in unemployment benefits, but only for the maximum duration of 30 weeks.

Under the present federal law, a dollar-for-dollar pension offset must be instituted by the state with an effective date of April 1, 1980. All states are required to conform to such federal legislation.

Severance Payments

In Pennsylvania, severance payments from a former employer to a beneficiary of unemployment compensation are not deductible from benefits, if the claimant is permanently or indefinitely separated.

Severance payments are generally made on the basis of past services performed, such as one week's additional pay for each year worked.

Reduction of weekly benefits by such severance payments is currently practiced by 15 states. Seven states treat such severance payments as earnings that, if sufficient, would disqualify a claimant for unemployment benefits, at least until the exhaustion of those additional earnings.

Partial Benefit Credit

At present a claimant can earn up to 40 percent of his weekly benefit amount before unemployment compensation is reduced.

For example, a claimant can still receive the maximum weekly benefit amount of \$162 while earning \$65 (40 percent of \$162) in part-time weekly employment.

Partial benefit credits and their applications vary too widely among the states for them to be comparable.

Vacation Payments

Vacation payments made to a beneficiary who is permanently or indefinitely separated are not deductible from his unemployment benefits under current state law.

Vacation payments are deductible, however, from benefit amounts when a claimant has an established vacation period that falls while he is on lay off, or when the claimant has a definite date of recall and receives vacation pay while collecting unemployment benefits.

State practices vary widely.

Wage Requirement After Disqualification

A claimant who has been disqualified because he was discharged for misconduct, or voluntarily quit, or was self-employed may purge that disqualification with short-term new employment under the current law.

The requalifying financial standard now is new earnings that equal six times the maximum weekly benefit amount he would have received on the basis of his earlier employment and earnings record.

For example, an employe voluntarily left a job that had been paying him \$250 a week. If he had been laid off, his earnings record would have entitled him to the maximum weekly benefit amount of \$162.

If the same claimant then managed to secure a new job at \$200 a week only to lose it five weeks later through no fault of his own, he would then qualify because his \$1,000 in new earnings would exceed the \$972 (six times \$162) necessary in his case to purge the earlier disqualification.

The dollar amount of the new earnings needed to requalify, of course, would depend upon each claimant's benefit entitlement calculation.

Other states have no uniform standards for requalifying requirements.

Wages Required Between Benefit Years

Under the current law, claimants who have finished collecting payments in one benefit year may quickly qualify for another.

A claimant becomes eligible for a subsequent benefit year once he has earned an amount that is equal to six times the weekly benefit amount received during the first round of eligibility. Although 52 weeks must lapse between consecutive applications for benefits, a claimant may accumulate earnings during his first benefit year. By securing such intervening short-term employment, the claimant may also use the wages that were not calculated as base-year earnings in his first claim for benefits. That earlier unused portion of his earnings record -- usually consisting of the wages earned in the most recently completed calendar quarter and any wages earned in a subsequent incomplete calendar quarter -- may entitle the claimant to another 30 weeks of benefits at or near the weekly benefit amount he received in his first benefit year.

A beneficiary who exhausted his full entitlement after 30 weeks at the maximum weekly benefit amount of \$162, for instance, might again be eligible for the same benefits if he earned \$972 before refiling. By annexing the unused portion of his earlier earnings record -- one complete calendar quarter with earnings of \$4,000 and another partial quarter with earnings of \$2,000 -- the claimant's new base-year calculation would place him once again at the maximum weekly benefit rate.

Standards differ greatly among the states regarding requirements for reinstating benefits after the expiration of a benefit year.

Active Search for Work

Pennsylvania beneficiaries are not legally required to actively seek work in order to qualify or maintain eligibility for benefits.

Claimants, therefore, are not required to present evidence of a "good-faith" effort -- names and addresses of potential employers contacted -- to the local office in order to retain their eligibility.

D-4 (h)

Recovery and Recoupment of Overpayments

The recoupment of non-fault overpayments -- errors or miscalculations that are not the fault of the claimant -- is presently limited to one-third of the weekly benefit amount. In effect, the claimant may continue to receive two dollars in benefits for every dollar reclaimed, even though the remaining balance of the claimant's total entitlement is less than the amount of the overpayments.

As an example, consider the claimant who, because of computer error, was paid \$150 a week for 20 weeks instead of the correct weekly benefit amount of \$125. The claimant has been overpaid by \$500. Yet with only 10 weeks of benefits remaining, recoupment would be limited by law to \$41 from each remaining check. As a result, in the final 10 weeks of benefits, the total recovered would only be \$410 -- a \$90 loss -- while the claimant collected an additional \$840.

**Estimates of Potential Cost Savings
By Selected Benefit Provisions
(Dollars in Millions)**

	1980	1981	1982	1983	1984	1985
Assumed Insured Unemployment Rate	5.2%	5.0%	5.0%	5.0%	5.0%	5.0%
Stepdown - Reduce From:						
a. 4 to 3	\$ 6	\$ 6	\$ 6	\$ 7	\$ 7	\$ 8
b. 4 to 2	12	13	14	15	16	17
c. 4 to 1	19	19	21	23	24	27
d. 4 to 0	25	26	29	31	33	36
Movable Base Year - Eliminate	24	25	27	30	32	34
Waiting Week						
a. Establish	59	62	67	73	78	84
b. Pay after 4 benefit weeks	19	20	22	24	26	28
Duration of Benefits						
a. Variable: 18-30 weeks	28	29	31	34	36	39
b. Uniform: 26 weeks	57	61	65	69	74	79
Weekly Benefit Amount (WBA), Minimum						
a. \$32	13	13	12	12	11	11
b. \$50	50					
c. \$60	105					
d. \$66	132					
e. \$74	183					
Weekly Benefit Amount (WBA), Maximum						
a. \$162	0	22	54	91	144	196
b. \$170 (1982 and thereafter)	0	0	29	62	109	158
c. Equal to 64% Average Weekly Wage	20	21	22	24	24	24
d. Equal to 60% Average Weekly Wage	48	50	53	61	62	66

Estimates of Potential Cost Savings (Continued)
(Dollars in Millions)

	1980	1981	1982	1983	1984	1985
Dependency Allowance						
a. Eliminate	\$ 29	\$ 29	\$ 29	\$ 29	\$ 30	\$ 30
b. Increase to \$8, \$12 and \$16	-21	-20	-20	-21	-21	-21
c. Include in maximum Weekly Benefit Amount (WBA)	5	5	5	5	5	5
Pension Deductions						
a. Reduce weekly	22	22	22	22	22	22
b. Reduce total entitlement	35	35	35	35	35	35
Severance Pay Deduction	5	5	5	6	7	7
Partial Benefit Credit						
a. Reduce from 40% to 30%	10	10	10	11	11	11
Vacation Pay Deduction	5	5	5	6	7	7
Wage Requirement After Disqualification						
a. Increase to 18 x WBA	1	1	1	1	1	1
Wages Required Between Benefit Years						
a. Increase to 12 x WBA	6					
b. Increase to 18 x WBA	12	12	13	15	16	17
Require Active Search for Work	1	1	1	1	1	1
Full Recoupment of Nonfault Overpayments	3					

Mr. LIEBERTH. I am skipping quite a bit here, Mr. Chairman, so let me address what the Federal Government can do to help a State such as Pennsylvania.

Now, we are supportive of H.R. 4007, which would allow States to repay an amount equal to their FUTA loss of credit through their State trust fund. I am sure you know the advantages of running that repayment through the fund, the advantage it is to our business community, which we have to look out for. So I won't take up your time on descriptive merits of that method.

But I would like to make an additional suggestion to the language of H.R. 4007. If a State is able to make payment through the fund, the State fund, in an amount equal to the FUTA loss of credit, the rate of that loss of credit should be frozen as long as the State is able to continue making payments equal to or greater than that frozen rate.

For example, apparently in Pennsylvania if we were able to repay the six-tenths of a percent loss of credit which will be due in January of 1981 through the fund, the rate should—could remain at six-tenths of a percent as long as our State continues that program of repaying that amount or more through the fund.

The advantages that I see of such an approach are these. First, under this proposal it wouldn't be under a Federal mandate as such, but there would be a clear incentive for States to change their law in order to raise the necessary funds. It also has the obvious advantage of granting credit to employers by running the moneys through the fund. It would also give States the ability to enact a tax that will more accurately reflect the employer's experience rating instead of the flat FUTA tax, which can be considered a kind of penalty tax on all employers.

Now, this proposal would also force the State to keep their house in order or the loss of credit will jump to whatever its rate would have been had it not been frozen. A long-term solution to a problem such as Pennsylvania's will be rewarded while a band-aid approach to the troubled system will not.

So, Pennsylvania, like much of the Northeast and Midwest, is in the midst of a very serious economic crisis. We know that. Pennsylvania recognizes the fact that it must begin working to attract new business and encourage expansion of existing business or face a continuous permanent economic decline. But by allowing Debtor States to mortgage the repayment of their loans, yet penalizing them for any lapse in payment, Congress will be forcing States to act in a very reasonable way.

Governor Thornburgh and the leadership of the general assembly recognize that the failure on the part of Pennsylvania to act will guarantee the loss of employers, and most importantly, jobs from our State.

So, we ask you to recognize our resolve to deal with our problem.

Senator BOREN. Very good. I want to thank both of you for very fine statements, and I appreciate the content of both of them.

Senator Bradley, do you have any questions?

Senator BRADLEY. Thank you, Mr. Chairman.

I would like to say at the beginning that I am glad to see the two distinguished representatives from New Jersey who do such a good job in the State. I would like to get into the record a number of

facts that I think are pertinent to an understanding of this situation nationwide.

In 1975-76, we had a very serious recession. We lost a lot of jobs in New Jersey. How many of those jobs were permanently lost?

Mr. O'HERN. We went into, as you know, Senator, a very deep recession out of which New Jersey, we believe, has made a stronger comeback, even, than many of our neighboring regions. There have been a variety of factors for that change from a manufacturing base to a little more of a service industry oriented base.

I don't have the actual figure on the net loss of jobs. Arthur may have that.

Mr. O'NEAL. If you are talking about manufacturing jobs—

Senator BOREN. Would you state your name for the record, please?

Mr. O'NEAL. Arthur O'Neal.

Senator BOREN. Thank you.

Mr. O'NEAL. If you are talking about manufacturing jobs—

Senator BOREN. Would you pull the microphone closer, please?

Mr. O'NEAL. If you are referring to manufacturing jobs, which has been the biggest factor in interstate migration of industry, we have lost approximately 100,000 jobs in New Jersey since 1969. We have had more than offsetting gains in service types of industries, so that currently our overall employment level is at a record high, but within the factory sector, we have lost that number of jobs.

Senator BRADLEY. So it wasn't just the 1975 recession, New Jersey never really recovered from the 1969 recession?

Mr. O'NEAL. New Jersey recovered part way.

Senator BRADLEY. Then they were hit by the 1975 recession?

Mr. O'NEAL. We had a feeble recovery following the 1970 recession. Our unemployment rate remained very high, and our fund, unemployment insurance fund, did not get restored the way it normally would have done during an expansion period. So when the 1975 recession hit, we were very vulnerable and were quickly wiped out.

Senator BRADLEY. The unemployment rate was 11 percent? Is that right?

Mr. O'NEAL. At that time.

Senator BRADLEY. Let me ask you, frankly, about New Jersey's debt of \$651 million. How likely is repayment under the present circumstances?

Mr. O'HERN. Well, anything is possible, but I think that this would only create a terrible spiral effect when we are trying to compete with other regions. If you were starting a new business, or you are Fiat Motor Co. just replacing the Ford Plant at Mahwah and you are faced with this kind of a—

Senator BRADLEY. The Ford plant was a loss of 4,000 jobs?

Mr. O'HERN. About 4,000 jobs, New York and New Jersey. And you see this kind of Federal legislation on the books, you are going to be very hesitant about going into a State that has to face that escalation up to maybe 2.7 percent.

Senator BRADLEY. Let me ask you about the extended benefit program which runs for 13 weeks and is funded on a 50-50 basis by State and Federal Government. If that program was funded entire-

ly at the Federal level, how much would the New Jersey debt be reduced?

Mr. O'HERN. It would be approximately \$260, close to \$300 million reduction in our debt to have that picked up, Senator.

Senator BRADLEY. So you would reduce the debt by 33 to 40 percent.

Mr. O'HERN. Right.

Senator BRADLEY. You said that you firmly support the capped penalty tax?

Mr. O'HERN. Yes, Senator, we do.

Senator BRADLEY. What are your thoughts about lengthening the repayment schedule?

Mr. O'HERN. Well, as I say, it is part and parcel of the same thing. We feel that unless there is a flat payout over an extended period of time, it is going to be a severe discouragement to the creation of new jobs that are needed to keep an economy like ours going.

Senator BRADLEY. Is that the signal, Mr. Chairman?

Senator BOREN. Go ahead. Why don't you go ahead and finish?

Senator BRADLEY. Have you heard the suggestion that a Pennsylvania representative made before this hearing?

Mr. O'HERN. I didn't hear it. I saw their testimony this morning. Certainly it is a benefit. I think we would be starting maybe at the .3 percent, as I understand their concept, which would be an acceptable freeze for the State of New Jersey.

Senator BRADLEY. Let me ask the Pennsylvania representative, do you think that Pennsylvania would benefit from H.R. 4007 as it is now constituted?

Mr. LIEBERTH. No. No, we wouldn't. We would have to have strong consideration of the suggestion that we proposed to you today.

Senator BRADLEY. Did you want to add anything else, Mr. Lieberth?

Mr. LIEBERTH. Yes, sir.

The statement that I did want to make there, Senator, was that I would feel encouraged if the Senate, Congress as a body would look on the flexibility that this suggestion allows rather than caps or mandates. I think that the Congress would want to avoid to a certain extent the extremes of mandates, especially in a very unstable economic situation that we are in, and also as it relates to the 6-month reserve or loan consideration.

That point that was raised earlier in the testimony, that bothers me to some extent because our payment cycle from business does not really begin until April, and unless there would be a fluid extension of that 6-months consideration, it would put us into a bind, because our moneys under the unemployment compensation tax do not really roll in until that first quarter, which would be April. So that would pose a kind of a problem for us.

The other thing, is too, our sister State, Michigan, which just testified, they are caught in a tremendous concern right now with the layoffs in the automobile industry. Pennsylvania and Jersey, we are heavy suppliers into the automobile industry. So it would be more than just a ripple effect that would be hitting our State, Senator, if there is a continuation of the mass layoffs in—and

again, you would lose the flexibility with a 6-months proviso in there that we couldn't be considered for a loan unless we had enough of a reserve in there to handle that.

Senator BRADLEY. That is your view, too, of the 6-month—

Mr. O'HERN. Yes, Senator. We would probably not be able to take any advantage of H.R. 4007 based on our current economic projections.

Senator BOREN. What if it were 3 months, or 2 months' requirement as opposed to 6 months?

Mr. LIEBERTH. I kind of feel, Senator, with your experience as a Governor, and I wish we had had you as Governor in the latter part of the 1970's—I wouldn't have the headaches that I have right now—but anyway, I would think that in your role as a Governor and as a Senator now, you would kind of establish a series of firm guidelines within which States could operate and carry out what your concerns were, because there is a great variety in the 50 States. The Southwest is far different from the Northeast and so on.

But if you had a set of firm guidelines that would kind of come close to the goals that you are trying to achieve with these kinds of mandates, I think that we would be better off.

Senator BOREN. Yes. Well, what I am thinking about is—let me go back over your suggestion again. You are saying that rather than being able to use your trust fund to pay off the outstanding balance, that you should be able to freeze—let's say you are at a 0.3 percent penalty.

Mr. O'HERN. Right.

Senator BOREN. And if you could pay back the amount each year, would it be from your trust fund, or from general funds of the State?

Mr. O'HERN. First, the primacy of purpose here would be that the State has to begin to get its own house in order. We would have to pass legislation that would do those two things, Senator, to put our fund into solvency on an annual basis and second, to start that painful process of repayment.

Senator BOREN. All right.

Mr. O'HERN. You know, if States do this, then I think that we would be in a position for this freeze approach.

Senator BOREN. Well, earlier, you know, we were talking about the reason why there was a 6-months reserve, and I apologize for taking this time, Senator Heinz, and I will move to you in just a second, but I wanted to clarify your suggestion.

One of the problems we were worried with is if we allow the States to come in and use their State trust funds when there was a very low balance in it to pay back what they owed, that then they would pay it off and the next day they would file again for another loan on the basis that they were broke, and they would thereby avoid any penalty, but there would be no real step forward. You would be in this cycle every year. Right the day before the penalty was due to come into effect, you would rob the trust fund, pay it off, file for a loan the next day.

So, that is the reason for the 6 months. Now, whether that is all right—6 months may be too long, and so on.

Now, I understand what you are saying is, let's say you are at three-tenths penalty. You want to avoid that going up to 0.6 and 0.9, so you would pay back—if you could pay additional back to the Federal side, the amount that would be raised by the three-tenths penalty imposition, you would not have it go up to 0.6. It would stay at 0.3. Now, would you pay that back from your—would you allow that to be paid out of your trust fund, or would that have to be from other funds?

Mr. O'HERN. Yes, out of the trust fund.

Senator BOREN. All right. That is what I am worried about. You see, could you possibly, if you had no reserve requirements, get back on a lower level with the same problem I was talking about a while ago, that you would have people just robbing the trust fund the day before the penalty was to go into effect?

It looks to me like you would have to have some reserve, not as large a reserve as 6 months, because you are not paying back the whole outstanding balance, but perhaps a 1- or 2-month reserve, or something.

Mr. O'HERN. Well, it is all predicated on the State responsibility of developing that fund so that the payoff can be made. I said earlier, you know, I would be very strong on this, Senator, that the State's responsibility will be to get that fund into solvency and to begin the repayment.

Senator BOREN. I see. The State would have to give evidence that it had put its fund on a pay as you go basis, in essence.

Mr. O'HERN. On contributions as well as benefits.

Senator BOREN. All right.

Senator HEINZ. Mr. Chairman, I think that is the key point in this proposal, that in order to obtain the freeze against the escalation of the tax credit, that the State would have to make an appropriate, not only a showing, but come forward with a plan that had been enacted by the State legislature that would put its unemployment insurance fund on a sound fiscal footing.

The art or the skill that is required for us to write meaningful legislation were we to agree with Secretary Lieberth's proposition is how we might reasonably make that judgment—

Senator BOREN. That is it.

Senator HEINZ [continuing]. That the State had in fact cured its ills.

Senator BOREN. That is what I was trying to get at.

Senator HEINZ. I would appreciate, Secretary Lieberth or Counsel O'Hern, any suggestions as to what our guidelines or standards ought to be so that we could make an objective judgment, so that we could avoid the problem that Senator Boren and Senator Bradley have alluded to, which is how to avoid robbing Peter to pay Paul.

Do you have any suggestions?

Senator BRADLEY. Isn't there a further problem, though, in a State that has very little in the State fund anyway? If the penalty is assessed, and the State fund cannot be tapped, the only way the State could get the money is to further assess the business in the State.

Mr. O'HERN. It depends, I think, on the nature and extent of the assessment. I think one of the tests that we thought about was

what you had in your 1976 legislation, a review of, say, the 10 years last past, to see whether the State had conscientiously had a program which would seek to pay the actuarial calculations of projected unemployment debts. You would have to make some provision for these dramatic fluctuations in unemployment, so as not to penalize a State when it goes from 6 percent to 11 percent in a period of 12 months.

So, if you could show a consistent State average of funding its program, that they are actuarially computing the necessary sums to pick up the 0.3 percent payback, then you would have a formula which would justify the flattening of the payback.

Senator BRADLEY. Over an extended period of time.

Mr. O'HERN. Over an extended period of time. We are dealing with a situation here which is part of a far more serious and complex mosaic, and I think that the national effort should be in the area of jobs and work. Once we can have more people working, the less strain there is on all of our funds, and the more contributions can be built up, so I think what is essential to the discussion is the development of a national economic policy which takes into concern the different regionalisms that we have in the States, and put our best foot forward for economic development nationally. New Jersey, Pennsylvania, we are deep into this.

Senator BOREN. Senator Heinz?

Senator HEINZ. Thank you, Mr. Chairman.

I know, Secretary Lieberth, that you and Governor Thornburgh and indeed myself are concerned that if there isn't some kind of solution along the lines you have recommended to us, that what will happen in Pennsylvania is that the Federal unemployment tax credit will evaporate at the rate of 0.3 percent every year. It represents a simple tax increase on all the employers in the State. And at the same time, the State of Pennsylvania, in order to get its fund, the State fund, healthy, will also have to, in all likelihood, be increasing taxes, presumably along with some decrease in benefits, in order to get the State fund on a sound footing.

The result would be that there would be two sets of tax increases levied on employers in the State and that doesn't include the problems, the inequities.

Now, then, what kind of effect would you foresee on employment, on industry in the State were that scenario, which one could say is a worst case scenario, double taxation, but it is probably a realistic scenario unless we amend H.R. 4007 and pass it?

Mr. LIEBERTH. The series of upward taxations that you have indicated there, Senator, would lead to the default of many marginal industries that we have in Pennsylvania right now, small businesses. I met with Leo McDonough, whom you know, the western chairman of the Small Manufacturers Association, and the burden of this would fall far heavier on the small businessman of Pennsylvania, those employers 500 and under, and that is what I am concerned about, because that is the area of highest employment by the numbers in Pennsylvania, and I am sure, in New Jersey also, that particular category of business, and that would be something that would be very difficult for them in the light of foreign competition plus the competition that we have from other parts of the Nation, for them to contend with. I think it would have a very

negative effect not only in the Northeast and Midwest but across the Nation, in States that are in debtor situations like ours.

Senator HEINZ. On the other hand, if we give you the kind of provision that you are talking about, it seems to me that you have an incentive in the legislature and in the administration to get your house properly in order as quickly as possible, whereas, if employers, if labor is faced with the worst case scenario, they will tend to fight in the legislature tooth and nail because they will just see higher unemployment, business failures coming all the sooner.

So it seems to me that it is in not only Pennsylvania's interest, but in the interests of the U.S. Treasury to adopt the kind of solution that you suggest. There is an obvious problem. H.R. 4007 as written entails a revenue loss, and everybody is very sensitive to revenue losses. According to the information I have here, which is a CBO estimate on H.R. 4007, there would be as much as a \$400 million revenue and budget authority cost in fiscal 1981, and in fiscal 1982 as much as \$736 million.

How much more would the annual revenue loss be to the Federal Treasury with your proposal as opposed to H.R. 4007?

Mr. LIEBERTH. I don't have that answer, Senator.

This is a matter of Federal bookkeeping, though, right?

Senator BOREN. I think that is the point.

Mr. LIEBERTH. It is Federal bookkeeping. It is not dollars.

Senator BOREN. It shouldn't, Senator Heinz, cause any more loss, because there is a wash between any transfers from the State fund to the Federal, so if you are—it doesn't matter whether you are washing \$600 million, moving \$600 million from the State account to the Federal account, or whether you are moving \$100 million.

Senator HEINZ. Let's say offsetting.

Senator BOREN. It still is an offset, yes. Yes, it is an offset.

Senator HEINZ. I use those numbers not to state—I don't want to confuse anybody that there is not an offset because of the accounting, but there is some accounting, and I am trying to get an idea of the difference in the accounting.

Senator BOREN. On the balance sheet, the bottom line, it wouldn't make any difference between the proposal that he has made and the proposal in the bill. The revenue loss is the amount of the penalty tax that you would not be collecting, so it would not make any difference. The proposal that has been offered here as an alternative to H.R. 4007 or a change to H.R. 4007 would have the same net revenue loss as the budget is now figured under the unified budget as would the original bill.

Now, one of the ways we might fix that up—I will make a little plug again for my suggestion—if you mandated or you put in certain requirements to say that you would freeze the tax penalty if a State took certain actions to put its house in order, I think we could, since it is part of the unified budget, you would then indicate that you would have a reduction or savings as a result of those changes, whatever you are talking about, voluntary quits or whatever, and that would reflect itself to offset the loss of revenue caused by not imposing a tax penalty, if you see what I mean.

So, we could end up with a bill that did not have any loss even under the present bookkeeping system if we put some of these things in, and I realize your feelings about making them too specif-

ic in terms of mandates, but if we put some of these things in, we could offset that revenue loss of the tax penalty through these cost savings that would come under the unified budget as we now figure it, and we could go forward with a bill that wouldn't require any revenue reduction, or put us into any trouble with the Budget Committee, possibly.

Mr. O'HERN. From what I have heard from the chairman as well as your committee members, I am very much encouraged by those comments. I would have to see the stick.

Senator BRADLEY. I think that a lot has to do with what the list looks like. I don't want to speak for the Governor, but I am sure that New Jersey is willing to consider any number of alternatives to extend this debt repayment over a longer period of time and freeze the escalating penalty tax under the general category of savings.

Mr. O'HERN. As I say, we would like to see the stick.

Senator BOREN. You would like to see—

Mr. O'HERN. I would like to see the stick. You told us about the carrot.

Senator BOREN. Oh, I always like to emphasize the carrot rather than the stick, but very seriously, I think we might be able, and I want to commend both of you. You know, very often we have hearings, and speaking just for myself, sometimes I leave hearings wondering why we have wasted time in having statements read and people sitting here, and it is a kind of formal thing that goes on, but there is little intellectual interchange, and I want to say that I think both of you have come, as have some other witnesses who preceded you today, with something that has really been worth listening to, and some ideas that are really worth considering, and I want to commend you for it.

I think you have had a very useful interchange here this afternoon, and I think the ideas that you brought with you are good ones. I would have to say that the Senator from New Jersey has been working on me for some time, in terms of helping me understand better the economic problems in this area. He has done that very effectively with some onsite inspection and the rest of it in terms of the economic problems we face.

You know, I think it is very important that we try to get over some of these regional perspectives that we have and talk about what is in the interest of the national economy, and you do have problems in States like New Jersey and Pennsylvania that I am sincerely very sympathetic with, and I realize if you continue to escalate these taxes what you are going to do to small businesses in your States, and while I am not from Pennsylvania or New Jersey, as my two colleagues here are, I feel very strongly about not wanting to put the small businesses in your States under water. We want to keep them in being, and we don't want to tax them out of existence, and we want to do something that will be constructive.

At the same time, I do want to make sure we are making every effort we can to make those systems pay benefits only under conditions in which they should be paid.

So, I think your suggestions have been excellent, and I want to commend you for them, and for the attitude you have expressed,

and seriously, talking about any carrot and stick, my attitude of what the stick ought to be is not for the sake of making anything penal, but to try to find something that will be in the national interest for all of us as time goes along.

I certainly appreciate the comments that both my colleagues have made and that you have made.

Senator HEINZ. Mr. Chairman, just one last question.

The administration and the State legislature in Pennsylvania are now working on a reform of State unemployment compensation, which I understand involves both the benefits and taxes. Could you indicate what you think the net improvement might be in terms of lowered benefits and increased revenues based on what you now know the attitudes in the legislature to be, and how soon such a package might be forthcoming?

Mr. LIEBERTH. It has been a bipartisan effort in Pennsylvania, Republican and Democratic Senators working together on this. Our department has provided all of the research, the information, the following up on questions that the respected Senators have posed to us.

In addition to that, we have met with the research committees from both sides of the aisle, Republican and Democrat. Senator Zemprelli and Senator Hager are taking the lead in this. There was a delay which I think all of you can understand by pushing anything in the assembly until after the primary. It is our understanding now that very shortly a piece of legislation will be proposed that will deal with the benefit and contribution adjustments so that somewhere in the vicinity of \$570 million a year will be raised by those adjustments on the benefit as well as the contribution side.

As for the timetable, I have my fingers crossed, but I kind of feel that the proposal, the legislative proposals will be implemented very shortly.

Senator HEINZ. \$570 million is quite a change, and represents a major reform. It would be a shame were we not to create a climate in which that kind of reform could take place.

Thank you, Mr. Chairman.

Thank you, Mr. Lieberth.

Senator BRADLEY. Mr. Chairman, I concur with you that something might have come out of the testimony today that is certainly worth looking into. Speaking as the Senator from New Jersey, I think it is important to put a cap on the penalty tax and to extend time to make repayments. I also think we need to deal perhaps in a formula sense, with the continuing problem of one area of the country that is hit harder by national recession—so that we don't solve the problem this year, and then 2 years from now, if there is a deep recession, find ourselves back in the same problem. I think that this has been a very helpful session.

Thank you, Mr. Chairman.

Senator BOREN. Thank you again. We appreciate your testimony very much.

[The prepared statements of the preceding panel follow:]

TESTIMONY OF
DANIEL J. O'HERN
COUNSEL TO THE GOVERNOR
STATE OF NEW JERSEY

PRESENTED TO
THE UNITED STATES SENATE
SUBCOMMITTEE ON UNEMPLOYMENT
AND RELATED PROBLEMS

HEARINGS ON
THE REPAYMENT OF LOANS
MADE TO STATE
UNEMPLOYMENT COMPENSATION PROGRAMS

APRIL 28, 1980

THE REPAYMENT OF LOANS
MADE TO STATE
UNEMPLOYMENT COMPENSATION PROGRAMS

CHAIRMAN BOREN AND DISTINGUISHED MEMBERS
OF THE UNITED STATES SENATE SUBCOMMITTEE
ON UNEMPLOYMENT AND RELATED PROBLEMS:

MY NAME IS DANIEL J. O'HERN. I AM COUNSEL TO GOVERNOR BRENDAN BYRNE
OF NEW JERSEY.

I AM HERE TODAY TO COMMENT ON THE PROVISIONS FOR REPAYING STATE
UNEMPLOYMENT COMPENSATION LOANS. THIS IS A MATTER OF GREAT CONCERN
TO NEW JERSEY. DURING THE PAST TWO YEARS, NEW JERSEY HAS REDUCED
ITS OUTSTANDING LOAN BALANCE FROM \$735 MILLION TO \$652 MILLION
THROUGH LOAN REPAYMENTS OF \$40 MILLION IN 1978 AND \$43 MILLION
IN 1979.

WE ARE VERY MUCH CONCERNED ABOUT THE ESCALATING FEDERAL TAX

INCREASES WE FACE DURING THE YEARS AHEAD TO REPAY THE BALANCE OF THE UNEMPLOYMENT INSURANCE DEBT. UNDER CURRENT LOAN REPAYMENT PROVISIONS, NEW JERSEY EMPLOYERS FACE ANNUAL FEDERAL UNEMPLOYMENT INSURANCE TAX INCREASES WHICH WILL CLIMB FROM \$45 MILLION IN 1980 TO APPROXIMATELY \$300 MILLION BY 1984.

GOVERNOR BYRNE ASKS THAT MEMBERS OF THIS COMMITTEE RECOGNIZE THE SEVERE BURDEN THAT ESCALATING TAX RATES WILL PLACE ON EMPLOYERS IN STATES THAT HAVE EXPERIENCED ABNORMALLY HIGH UNEMPLOYMENT BECAUSE OF NATIONAL RECESSIONS BEYOND THE STATES' CONTROL. HE ASKS THAT YOU RECOGNIZE THE DESIRABILITY OF REPAYING OUTSTANDING DEBTS IN AN ORDERLY MANNER WHICH WILL NOT SEVERELY UNDERMINE CRUCIAL ECONOMIC DEVELOPMENT EFFORTS IN STATES WHICH HAVE BORNE THE BRUNT OF PAST RECESSIONS AND CONTINUE TO STRUGGLE WITH DEPRESSED LOCAL ECONOMIES.

AS UNEMPLOYMENT TRUST FUNDS DECLINED IN THE EARLY 1970'S, THE NEW JERSEY LEGISLATURE RESPONDED DECISIVELY WITH A SERIES OF

FAR-REACHING TAX MEASURES WHICH INCREASED THE STATUTORY MAXIMUM EMPLOYER TAX RATE BY 44%, INCREASED THE TAXABLE WAGE BASE BY 92% AND DOUBLED THE WORKER CONTRIBUTION RATE WHICH IS DEDICATED TO THIS IMPORTANT SOCIAL INSURANCE PROGRAM.

FROM 1970 THROUGH 1974, THE STATE LEGISLATURE PASSED FOUR SEPARATE BILLS INCREASING TAX RATES AND THE TAXABLE WAGE BASE. THE MAXIMUM TAX RATE WAS INCREASED FROM 4.3% TO 4.6% EFFECTIVE JULY 1, 1971. THIS RATE WAS FURTHER INCREASED TO 5.5% EFFECTIVE JULY 1, 1973 AND TO 6.2% AS OF JANUARY 1, 1975. THE TAXABLE WAGE BASE HAS BEEN INCREASED BY \$300 OR MORE IN EVERY YEAR SINCE 1975. (ATTACHMENT A OF THIS TESTIMONY EXPANDS ON THE LEGISLATIVE RECORD AND THE UNEMPLOYMENT RATE EXPERIENCE OF THE PAST 10 YEARS.)

DESPITE THE COMPREHENSIVE TAX MEASURES OUTLINED ABOVE, OUR TRUST FUND BECAME DEPLETED WHEN THE WORST RECESSION SINCE THE 1930'S HIT IN 1975. NO ONE COULD HAVE POSSIBLY ANTICIPATED THE SEVERITY OF THE RECESSION AND ITS DISPROPORTINATE IMPACT ON NEW JERSEY

AND OTHER INDUSTRIAL STATES... OUR CURRENT DEBT IS A LEGACY OF THAT ABNORMALLY SEVERE RECESSION AND CAN NOT BE DEALT WITH IN A "BUSINESS AS USUAL FASHION".

THEREFORE, I AM HERE TODAY TO DIRECT MY COMMENTS TO YOUR CURRENT EFFORTS TO ESTABLISH AN IMPROVED FRAMEWORK FOR REPAYING UNEMPLOYMENT LOANS AND GUIDING THE UNEMPLOYMENT INSURANCE SYSTEM THROUGH THE NEXT DECADE. IN ADDITION TO THE LOAN REPAYMENT ISSUE, THERE ARE OTHER FAR-REACHING UNEMPLOYMENT COMPENSATION FINANCING ISSUES WHICH I HOPE YOUR COMMITTEE WILL BE ADDRESSING IN THE NEAR FUTURE. I WOULD LIKE TO COMMENT BRIEFLY ON THREE OF THESE WHICH ARE OF PARTICULAR IMPORTANCE.

1. STATE SHARE OF EXTENDED BENEFITS DURING NATIONAL RECESSION

THE INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES AND THE NOVEMBER 1979 INTERIM REPORT OF THE NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION RECOMMEND RETROACTIVE GENERAL REVENUE FINANCING OF THE STATE SHARE OF EXTENDED BENEFITS WHICH WERE PAID DURING THE PERIOD OF THE NATIONAL "ON"

TRIGGER FROM JANUARY 1975 TO JANUARY 1978. THESE EXTENDED BENEFIT COSTS, WHICH TOTALLED \$3.3 BILLION, WERE DIRECTLY RELATED TO NATIONAL ECONOMIC RECESSION. INDIVIDUAL EMPLOYERS AND STATE GOVERNMENTS HAD NO CONTROL OVER THESE COSTS. IN RETROSPECT, THESE COSTS SHOULD BE SHARED NATIONALLY, BY ALL OF SOCIETY, THROUGH GENERAL REVENUES, RATHER THAN IMPOSED UPON EMPLOYERS ALREADY BURDENED WITH HIGH SOCIAL INSURANCE PAYROLL TAXES. TIMELY ADOPTION OF THIS MEASURE WILL ASSIST ALL STATES IN REINFORCING AND STABILIZING STATEWIDE UNEMPLOYMENT INSURANCE FINANCING SYSTEMS.

2. THE FEDERAL UNEMPLOYMENT INSURANCE DEBT

EMPLOYERS IN ALL OF THE STATES ARE CURRENTLY LIABLE FOR A HUGE FEDERAL UNEMPLOYMENT INSURANCE DEBT OF MORE THAN SEVEN BILLION DOLLARS. THIS DEBT RELATES TO THE FEDERAL SHARE OF EXTENDED BENEFITS (WEEKS 27 THROUGH 39) AND TO FEDERAL SUPPLEMENTAL BENEFITS (WEEKS 40 THROUGH 65) WHICH WERE PAID DURING THE PAST RECESSION.

SINCE 1977, THE FEDERAL UNEMPLOYMENT TAX RATE HAS BEEN INCREASED BY 0.2% TO FINANCE THIS UNEMPLOYMENT INSURANCE DEBT. UNLESS THE CONGRESS TAKES ACTION TO RETROACTIVELY FINANCE THESE RECESSIONARY BENEFIT CHARGES THROUGH GENERAL REVENUES, THE 0.2% FEDERAL SURCHARGE WILL CONTINUE TO BURDEN EMPLOYERS IN EVERY STATE OF THIS NATION FROM NOW THROUGH 1986. NEW JERSEY RECOMMENDS RETROACTIVE GENERAL REVENUE FINANCING OF THESE BENEFITS. THE INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES AND THE NOVEMBER 1979 INTERIM REPORT OF THE NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION ALSO RECOMMEND THIS FINANCING MEASURE.

3. COST EQUALIZATION/REINSURANCE

THERE IS AN OBVIOUS NEED FOR A COST EQUALIZATION/REINSURANCE PROGRAM TO SPREAD THE RISKS, AND THE COSTS, OF ECONOMIC RECESSION AND TO HELP BREAK THE VICIOUS CYCLE OF ECONOMIC DECLINE AND SPIRALING TAXES IN MANY OF OUR STATES.

ECONOMISTS ARE PREDICTING THAT THIS NEW RECESSION WILL ONCE AGAIN EXACT THE HEAVIEST UNEMPLOYMENT TOLLS AND THE SEVEREST ECONOMIC LOSSES UPON THE NORTHEASTERN-MIDWESTERN STATES.

IRONICALLY, THIS DISPROPORTIONATE ECONOMIC BURDEN WILL IMPACT STRUGGLING STATE ECONOMIES JUST AS STATE-INITIATED ECONOMIC DEVELOPMENT PROGRAMS ARE SHOWING THE FIRST ENCOURAGING SIGNS OF SUCCESS. NATIONAL ECONOMIC RECESSIONS, AND THE ABNORMALLY HIGH UNEMPLOYMENT BENEFITS WHICH THEY GENERATE, ARE CLEARLY BEYOND THE CONTROL OF INDIVIDUAL STATES. IT IS APPROPRIATE, THEREFORE, THAT PEAK UNEMPLOYMENT COSTS RELATED TO NATIONAL ECONOMIC RECESSIONS SHOULD BE FUNDED THROUGH A NATIONAL COST EQUALIZATION/REINSURANCE PROGRAM.

HOPEFULLY, THIS COMMITTEE WILL ADDRESS EACH OF THESE MAJOR ISSUES IN GREAT DETAIL IN THE NEAR FUTURE. THE UNFOLDING RECESSION ADDS A NEW DIMENSION OF URGENCY FOR NEW FEDERAL INITIATIVES TO ASSIST STATES IN THEIR CURRENT EFFORTS TO STRENGTHEN AND STABILIZE THE COMPLEX UNEMPLOYMENT INSURANCE FINANCING SYSTEM.

NEW JERSEY IS EAGERLY AWAITING THE FINDINGS AND FINAL RECOMMENDATIONS OF THE NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION ON THESE AND OTHER IMPORTANT LONG RANGE ISSUES. THE ISSUE OF LOAN REPAYMENT, HOWEVER, IS PRESSING AND SHOULD BE ADDRESSED NOW.

THE LOAN REPAYMENT

THE CURRENTLY EFFECTIVE 0.3%, 0.6%, 0.9% ETC. ESCALATING LOAN REPAYMENT SCHEDULE WAS ESTABLISHED PRIOR TO THE SEVERE, AND EXTENDED, RECESSIONARY EXPERIENCE OF THE 1970'S. DURING THE THREE YEAR PERIOD FROM 1975-1977, NEW JERSEY'S UNEMPLOYMENT RATE AVERAGED 10.0%. BY WAY OF COMPARISON, RATES DURING THE THREE PRIOR RECESSIONARY PEAK YEARS -- 1958, 1961 AND 1971 -- AVERAGED ONLY 7.3%.

NEW JERSEY OFFICIALS AND LEGISLATORS HAVE NOT IGNORED THE UNEMPLOYMENT FINANCING PROBLEM IN RECENT YEARS. WE HAVE AGGRESSIVELY ADDRESSED THIS ISSUE IN A VERY STRATEGIC AND VERY DELIBERATE MANNER AS WE HAVE SOUGHT TO CONTROL AND

REDUCE COSTS THROUGH A BROAD ECONOMIC REDEVELOPMENT EFFORT. AS NEW JERSEY WAS STRUGGLING TO GET BACK ON ITS FEET FOLLOWING THE SEVERE RECESSION, AND WITH UNEMPLOYMENT REMAINING HIGH, THE OPTIONS OF ADDITIONAL EMPLOYER TAX INCREASES AND/OR BENEFIT CUTBACKS WERE IMPRACTICAL POLICY ALTERNATIVES. IN ORDER TO RESOLVE THE CRISIS AND AVOID EVEN GREATER BORROWING IN THE FUTURE, NEW JERSEY MOUNTED AN EXTENSIVE EFFORT TO COMBAT DOUBLE-DIGIT UNEMPLOYMENT, BUSINESS FAILURES AND UNTOLD PERSONAL HARDSHIP. NOW THAT OUR ECONOMIC REDEVELOPMENT EFFORTS HAVE BEEN MEASURABLY SUCCESSFUL, NEW JERSEY IS POISED TO OVERHAUL ITS STATE UNEMPLOYMENT COMPENSATION LAW.

AT THE PRESENT TIME WE ARE REVIEWING REFORM RECOMMENDATIONS OF THE NEW JERSEY EMPLOYMENT SECURITY COUNCIL AND LEGISLATIVE PROPOSALS WHICH HAVE BEEN SUPPORTED BY THE NEW JERSEY BUSINESS AND INDUSTRY ASSOCIATION AND THE NEW JERSEY CHAMBER OF COMMERCE.

AS STATES EVALUATE LEGISLATIVE OPTIONS, THEY MUST BALANCE ECONOMIC DEVELOPMENT INTERESTS AND FUND REBUILDING NEEDS.

A REVISED LOAN REPAYMENT SCHEDULE SHOULD BE A PART OF THIS DELICATE REFORM FORMULA. IT WOULD BE COUNTERPRODUCTIVE, IF NOT PUNITIVE, TO IMPOSE THE GRADUATED FEDERAL TAX SCHEDULE UPON STATES WHICH ARE ATTEMPTING TO REJUVENATE SAGGING ECONOMIES AND ADJUST THEIR UNEMPLOYMENT COMPENSATION SYSTEMS TO HIGHER COST EXPECTATIONS. ESCALATING FEDERAL UNEMPLOYMENT TAX RATES, UP TO 2.2% BY 1984, WOULD UNDERMINE ECONOMIC DEVELOPMENT EFFORTS IN MANY OF THE INDEBTED STATES AND WOULD LEAD TO NEW ECONOMIC DIFFICULTIES AND HIGHER TRUST FUND BORROWING IN FUTURE YEARS.

IF THE ESCALATING FUTA LOAN REPAYMENT SCHEDULE IS IMPOSED UPON THE STATES, NEW JERSEY EMPLOYER TAX RATES WILL ESCALATE TO EXTREMELY HIGH LEVELS. THE CHART ON THE FOLLOWING PAGE ILLUSTRATES SCHEDULED TAX RATE INCREASES THROUGH 1984.

	BEST RATED EMPLOYER IN N.J.			WORST RATED EMPLOYER IN N.J.		
	STATE TAX	FUTA TAX	TOTAL TAX	STATE TAX	FUTA TAX	TOTAL TAX
1979	1.2%	0.7%	1.9%	6.2%	0.7%	6.9%
1980	1.2	1.0	2.2	6.2	1.0	7.2
1981	1.2	1.3	2.5	6.2	1.3	7.5
1982	1.2	1.6	2.8	6.2	1.6	7.8
1983	1.2	1.9	3.1	6.2	1.9	8.1
1984	1.2	2.2	3.4*	6.2	2.2	8.4**

THE BEST RATED EMPLOYER IN THE STATE WOULD BE PAYING 3.4% IN 1984;
 THE WORST RATED EMPLOYER WOULD BE PAYING 8.4%. H.R. 4007, THE
 BRODHEAD LOAN REPAYMENT PLAN, ATTEMPTS TO REINTRODUCE AN IMPORTANT
 OPTION TO THE LOAN REPAYMENT SYSTEM. THIS PROPOSED LEGISLATION
 WOULD PERMIT STATES TO REPAY LOANS OUT OF STATE RESERVES, THUS
 ENABLING STATES TO EXPERIENCE RATE THESE REVENUES.

*THE TOTAL TAX RATE FOR THE BEST RATED EMPLOYER WOULD INCREASE 79%.

**THE TOTAL TAX RATE FOR THE WORST RATED EMPLOYER WOULD INCREASE 22%.

HOWEVER, THE ACTUAL IMPACT OF H.R. 4007 WOULD BE VERY LIMITED BECAUSE STATES WOULD BE ABLE TO UTILIZE THIS ALTERNATIVE LOAN REPAYMENT METHOD ONLY AS THEY ARE ABLE TO CONVINCINGLY DEMONSTRATE THAT THEY CAN AVOID BORROWING ADDITIONAL MONIES, EVEN RELATIVELY SMALL AMOUNTS, WITHIN SIX MONTHS OF THE LOAN REPAYMENT. BECAUSE OF ECONOMIC UNCERTAINTY, MOST STATES COULD NOT CURRENTLY UTILIZE THIS OPTION AS WE ARE ENTERING YET ANOTHER RECESSION. THIS BILL WOULD BE OF VERY LIMITED, IF ANY, BENEFIT TO MANY STATES. MORE IMPORTANTLY, HOWEVER, THIS PROPOSED LEGISLATION IS INADEQUATE, BECAUSE IT RETAINS THE ESCALATING LOAN REPAYMENT SCHEDULE. IF ESCALATING TAX RATES ARE IMPOSED AS SCHEDULED, WE WILL BE PROGRAMMING, RATHER THAN RESOLVING ECONOMIC PROBLEMS.

AN ALTERNATIVE LOAN REPAYMENT SYSTEM SHOULD BE ADOPTED. I STRONGLY URGE THIS COMMITTEE TO DEVELOP AND PROMOTE LEGISLATION WHICH WOULD REVISE THE LOAN REPAYMENT SYSTEM, CONSISTENT WITH

THE FOLLOWING PRINCIPLES:

- (1) THE ALTERNATIVE LOAN REPAYMENT PLAN SHOULD PERMIT REPAYMENT OF STATE DEBTS FROM STATE TRUST FUND RESERVES; AND
- (2) THE REVISED REPAYMENT PLAN SHOULD PERMIT REPAYMENT OF STATE DEBTS THROUGH LOWER ANNUAL PREMIUMS THAN THOSE MANDATED UNDER CURRENT LAWS.

A REVISED LOAN REPAYMENT SYSTEM STRUCTURED UPON LEVEL ANNUAL REPAYMENT RATES, WOULD ENCOURAGE, RATHER THAN DISCOURAGE, STATE UNEMPLOYMENT COMPENSATION REFORM. UNDER THE CURRENT ESCALATING RATE SYSTEM, NEW JERSEY AND OTHER STATES MUST TEMPER UNEMPLOYMENT COMPENSATION REFORM EFFORTS AND HEDGE AGAINST THE THREAT OF SEVERE ESCALATING TAX RATE INCREASES IN FUTURE YEARS.

FINALLY, A REVISED LOAN REPAYMENT SYSTEM, STRUCTURED UPON LEVEL ANNUAL REPAYMENT RATES, WOULD PERMIT THE ORDERLY REPAYMENT OF DEBTS AND THE REBUILDING OF TRUST FUND RESERVES WITH MINIMAL DISRUPTION TO STATE ECONOMIES AND TO STATE ECONOMIC DEVELOPMENT PROGRAMS.

IN CONCLUSION, I WISH TO THANK YOU FOR THIS OPPORTUNITY TO EXPRESS MY VIEWS AND TO EXPLAIN NEW JERSEY'S POSITION ON THESE CRITICAL ISSUES. I COMMEND YOUR INITIATIVE IN HOLDING THESE HEARINGS TO ADDRESS THE PRESSING LOAN REPAYMENT ISSUE. I REITERATE THAT THE CURRENT LOAN REPAYMENT SCHEDULE IS TOO SEVERE; IT COULD PROPEL STATE ECONOMIES INTO DEEPER ECONOMIC TROUBLES THAN EXPERIENCED DURING THE PAST RECESSION. AN ALTERNATIVE LOAN REPAYMENT SYSTEM SHOULD BE IMPLEMENTED AT THE EARLIEST POSSIBLE TIME.

IF YOU HAVE ANY QUESTIONS, I WILL BE HAPPY TO ANSWER THEM NOW. IF YOU HAVE QUESTIONS ABOUT THIS TESTIMONY IN THE FUTURE, PLEASE DO NOT HESITATE TO WRITE OR CALL.

DANIEL J. O'HERN
COUNSEL TO THE GOVERNOR
OFFICE OF COUNSEL TO THE GOVERNOR
STATE HOUSE
TRENTON, NEW JERSEY 08625
(609) 292-7400

ATTACHMENT A

TAX LEGISLATION AND UNEMPLOYMENT RATES1970 - 1979

- 1970, CHAPTER 324; INCREASED MAXIMUM TAX RATE FROM 4.3%
TO 4.6%;
- 1972, CHAPTER 172; INCREASED MAXIMUM TAX RATE FROM 4.6%
TO 5.5%;
- 1973, CHAPTER 220; 0.1% ACROSS-THE-BOARD SURTAX EFFECTIVE
FOR FY 1973;
- 1974, CHAPTER 86; INCREASED MAXIMUM TAX RATE FROM 5.5%
TO 6.2%;
- DOUBLED THE WORKER TAX FROM 0.25%
TO 0.50%;
- INCREASED WAGE BASE IN 1975 AND ANNUALLY
THEREAFTER.

1975 TAXABLE WAGE BASE - \$4,800;

1976 TAXABLE WAGE BASE - \$5,400;

1977 TAXABLE WAGE BASE - \$5,800;

1978 TAXABLE WAGE BASE - \$6,200;

1979 TAXABLE WAGE BASE - \$6,600.

ATTACHMENT A
(CONTINUED)

YEAR	N.J. TOTAL UNEMPLOYMENT RATES	U.S. TOTAL UNEMPLOYMENT RATES	N.J. DIFFERENCE
1970	4.6%	4.9%	-0.3
1971	5.7	5.9	-0.2
1972	5.8	5.6	+0.2
1973	5.6	4.9	+0.7
1974	6.3	5.6	+0.7
1975	10.2	8.5	+1.7
1976	10.4	7.7	+2.9
1977	9.4	7.0	+2.4
1978	7.2	6.0	+1.2
1979	6.9	5.8	+1.1

SOURCE: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS

TESTIMONY
BEFORE THE
SUBCOMMITTEE ON UNEMPLOYMENT COMPENSATION
AND RELATED PROBLEMS
OF THE
SENATE FINANCE COMMITTEE

BY

Charles J. Lieberth
Secretary of Labor and Industry
Commonwealth of Pennsylvania

April 28, 1980

Good afternoon Mr. Chairman and members of the Senate Finance Subcommittee, and thank you for this opportunity to appear before you here today to comment on H.R. 4007.

Since my time is very limited here this afternoon, I would like to quickly explain how Pennsylvania came to owe the federal government approximately \$1.4 billion; what we in Pennsylvania are doing to solve the problem; and lastly, what the federal government can do to help Pennsylvania and other states repay the debt. We recognize that other states have repaid their debts and that in fairness to them we must take substantial steps to repay our debt before we can expect help from the federal government.

In 1971, Pennsylvania had more than a \$800 million surplus in its trust fund, compared to the current \$1.4 billion deficit. Two major factors caused the over \$2 billion swing from surplus to deficit. First, the major recession in the mid 70's resulted in extremely high unemployment and very costly extended benefits. And second, Pennsylvania's benefit structure was changed so that it became more costly while the tax structure was not changed to increase revenues to meet the additional costs.

Your first reaction to what I've just said is probably very similar to mine: How could any state allow this kind of thing to happen? I wish I could eloquently explain that question away, but I cannot. It seems to be a problem that is endemic to the older, heavily industrialized states of the Northeast and the Midwest.

While we have not done enough in the past to deal responsibly with Pennsylvania's Unemployment Compensation program, let me take just a moment to give you some idea of what Pennsylvania is doing to turn this problem around. When Governor Thornburgh took office in January, 1979, he stated that Pennsylvania would make a serious

effort to revitalize Pennsylvania's economy and provide jobs for its working men and women. These goals cannot be achieved if the unemployment compensation debt is not repaid and if a solvent state fund is not established.

I would like to submit, for the record and your review, a copy of Pennsylvania's report on its unemployment compensation program. This report, developed by my Department at the request of the Governor, outlines Pennsylvania's unemployment compensation program, describes its present problems, and discusses the consequences for Pennsylvania if it fails to solve these problems.

The Governor and members of his Administration have been crossing the state with the report in hand, telling the people of Pennsylvania that it is time we stopped ignoring this problem and started working together to find a solution. Thousands of copies have been mailed to businessmen and labor officials. Speeches and briefings with legislators, union leaders, lobbyists and the media have occurred as part of a major effort to achieve broad support for repayment and solvency.

Most important is what is happening today in the Senate of Pennsylvania's General Assembly. Leaders of both parties are working together to develop a bill that will make the unemployment fund solvent, and begin the more difficult process of paying back the debt to the federal government. While I don't want to be overly optimistic, I am very encouraged by this bipartisan effort. The Governor is supporting their drive for a solution and has directed my Department to provide these Senators with whatever information they may need in their search for a reasonable solution. The Legislature's initiative is being well received across the state.

Now that I've described our problem and what we are doing to repay our debt and to run a solvent, responsible unemployment compensation program, let me address what the federal government

can do to help. H.R. 4007 would allow states to repay an amount equal to their FUTA loss of credit through their state trust fund. I'm sure you know the advantages of running the repayment through the fund so I won't take up your time with the merits of such a method of repayment. I would, however, like to suggest an addition to the language in H.R. 4007.

If a state is able to make payment through the fund, in an amount equal to the FUTA loss of credit, the rate of the loss of credit should be frozen as long as a state is able to continue making payments equal to or greater than the frozen rate. In other words, if Pennsylvania is able to repay the .6 percent loss of credit that will be due in January, 1981 for 1980, through the fund, the rate will remain at .6 percent as long as Pennsylvania continues to pay that amount or more through the fund.

The advantages of such an approach are numerous. First, under this proposal, there will be a clear incentive for states, such as Pennsylvania, to change their law in order to raise the necessary funds. It also has the obvious advantage of granting credit to employers by running the monies through the fund. It would also give states the ability to enact a tax that will more accurately reflect employers experience instead of the flat FUTA tax, which is a penalty tax on all employers. This proposal would also force a state to keep their house in order or the loss of credit will jump to whatever its rate would have been had it not been frozen. A long-term solution for a problem such as Pennsylvania's will be rewarded, while a band-aid approach to a troubled system will not.

Pennsylvania, like much of the Northeast and Midwest, is in the midst of serious economic crisis. Pennsylvania recognized the fact that it must begin working to attract new businesses and encourage expansion of existing businesses or face a serious and perhaps permanent economic decline. By allowing debtor states to mortgage the repayment of their loans, but penalizing them for any

lapses in payment, Congress will be forcing states to act in a reasonable way. Governor Thornburgh and leadership in the State General Assembly, recognize that the failure on the part of Pennsylvania to act will guarantee the loss of employers and most importantly jobs from our state.

As I finish my testimony, let me leave you with this thought. Pennsylvania is willing to work hard to live up to its obligations to the federal government. We ask you to recognize our resolve and to give us a helping hand along the way.

Thank you.

Senator BOREN. At this time, our concluding witnesses will be a panel discussion by Mr. Edward H. Kay, Jr., a national manager of payroll taxes for Sears, Roebuck, & Co., also testifying on behalf of the Council of State Chambers of Commerce; Mr. Leonard Day, director of labor relations, Illinois State Chamber of Commerce, on behalf of the Chamber of Commerce of the United States, the Illinois Chamber of Commerce, the Illinois Employers Unemployment Insurance Policy Committee, and—that is quite a list to be representing—and accompanied by Eric Oxfeld.

Mr. DAY. He had to leave, and Mike Romig, director of benefits for the U.S. Chamber of Commerce, is accompanying me.

Senator BOREN. Very well. And Mr. Conrad Kreyling, payroll tax manager of J. C. Penney Co., on behalf of the New Jersey Business and Industry Association.

We are very pleased to have all of you here, and if we could, if each of you, if you desire, would make an opening statement, holding it to within 5 minutes, then we will again begin our general discussion, and we will receive your full statements, as I indicated earlier, for the record, but to conserve time, if we could just have brief opening statements.

STATEMENT OF EDWARD H. KAY, JR., NATIONAL MANAGER OF PAYROLL TAXES FOR SEARS, ROEBUCK, & CO., ON BEHALF OF THE COUNCIL OF STATE CHAMBERS OF COMMERCE

Mr. KAY. Thank you, Senator Boren.

My name is Edward H. Kay, Jr., national payroll tax manager of Sears. I am appearing before you today in my capacity as chairman of the Employee Benefits and Relations Committee of the Council of State Chambers of Commerce, an organization comprised of 34 State and regional chamber organizations.

I speak to you today with the specific endorsement of those organizations whose names appear at the end of our testimony.

The Council of State Chambers endorses H.R. 4007 as it is written. We do not believe any amendments are warranted. The reasons for our endorsement of H.R. 4007 is that a review of the actions taken by many of the States that did have to borrow indicates that most of these States have in fact taken the steps to resolve their financial problems. H.R. 4007 would provide the States that still owe money the opportunity to repay their loans through those efforts if they cannot be paid in total.

We feel this is an appropriate provision.

Second, the States that would be able to utilize H.R. 4007 have in fact increased their tax burdens on their employers. If this is not passed, there would be further tax burdens on these employers which we feel should be avoided if possible, particularly in today's economic climate.

H.R. 4007 would indicate, we feel, to State legislators and in particular to the legislators in those States that have not been in a position to utilize H.R. 4007 that Congress expects them to finance their program through their experience rating system.

We also feel that the costs borne through the State system should to the greatest extent possible be recouped through the State experience rating system, which takes into consideration the employer's experience. H.R. 4007 would provide the potential to raise the necessary taxes to repay the loans through experience rating.

In addition, these State formulas can be designed to take into consideration various economic factors that exist within the State. To be specific, H.R. 4007 would permit the greatest amount of latitude for tailor making a repayment plan to meet the needs of the States.

In States that will not be able to repay their loan in total, the State legislators may be reluctant to make changes in their tax laws which would increase taxes on some or all employers, as they know these employers would still be saddled with an additional 0.3, 0.6 or higher Federal tax.

H.R. 4007 would reduce this reluctance and could actually encourage needed changes as long as they develop sufficient revenues to meet the requirements.

I would also like to point out that a review of the listed State organizations, the State chambers, who have specifically endorsed this testimony would demonstrate that support for H.R. 4007 is widespread among State business organizations, without regard to whether or not that State presently has an outstanding loan.

In conclusion, we urge favorable action on H.R. 4007 as we believe it would provide an appropriate alternative to the current law.

Senator BOREN. Thank you very much.

STATEMENT OF LEONARD DAY, DIRECTOR OF LABOR RELATIONS, ILLINOIS STATE CHAMBER OF COMMERCE, ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES, THE ILLINOIS STATE CHAMBER OF COMMERCE, AND THE ILLINOIS EMPLOYERS' UNEMPLOYMENT INSURANCE POLICY COMMITTEE, ACCOMPANIED BY MICHAEL J. ROMIG, DIRECTOR, EMPLOYEE BENEFITS, U.S. CHAMBER OF COMMERCE

Mr. DAY. Thank you, Senator.

Leonard Day, from the Illinois State Chamber and all the others that were mentioned, most specifically the Chamber of Commerce of the United States.

Senator BOREN. Yes.

Mr. DAY. We do support H.R. 4007. I would like to go back to Illinois itself. Listening to the testimony of Pennsylvania and New Jersey, it was almost a replay of what has happened in Illinois.

Different figures. Maybe a different year one way or the other, and like those States, we ended up with a sizable debt. But we did step into the fray, so to speak, and we did the politically difficult, job of increasing the tax rate, and we added a surtax of three-tenths before the penalty would have come into play. In fact, it went into effect in 1978.

As a result, we at least put the skids on the growth of our debt, so to speak. We have not been able to repay any of the \$946 million, but we have not borrowed any more since early 1978. In 1979, we passed another increase in the UI tax, again politically difficult to do, but it was done. We lost some members to the Illinois State Chamber as a result of our support of this increase. We now have a taxable wage base beyond the \$6,000 which is required, so we are one of 16 States that have moved up to that level.

One reason we were able to get this through was by talking about the H.R. 4007, which if enacted by Congress would permit repayment with experience-rated trust fund moneys, and would go a long way toward keeping what little experience rating we still have left in the State. So, we do urge that H.R. 4007 be enacted, unamended, and give us that opportunity to preserve experience rating.

There was testimony earlier of cleaning up your act, so to speak, depending on your point of view, but we think we have done that and we plan to go further. Again in Illinois, we have a bill in the legislature now. This is an agreed bill between representatives of organized labor and the employer community and the public members appointed by the Governor, It addresses the high-cost aspects of our law such as the voluntary quits, the employer right to challenge, and a few other things, coupled with the agreed bill from last year, which did impose this sizable tax increase.

All together, we think we in Illinois are stepping forward, as we hope all States will, to begin to repay, to tighten up on benefits that maybe in the past got a little out of line when we did have an excess in the trust fund and it looked like maybe we could support increased benefits and liberalized eligibility. Now we must go the other way. So we do support H.R. 4007. We do from the U.S. Chamber also have three additional suggestions that I would emphasize. We are not suggesting they be amendments to H.R. 4007, but they have been alluded to earlier today. I won't elaborate on them now. They are at the end of our testimony, and they do reflect a change in the U.S. Chamber's approach or policy toward unemployment insurance in the United States.

Senator BOREN. In what sense?

Mr. DAY. Let me just refer to them briefly, Senator. One is that with regard to future borrowing, there should be an interest charge, and that it would be at the going Internal Revenue Service rate, approximately 12 percent at the present. In addition loans ought to be conditioned on agreement that borrowing States do indeed clean up their act with regard to eligibility, benefit amounts, and duration.

Second, that—and this was supported by earlier testimony from—

Senator BOREN. Does that mean supporting some kind of mandates?

Mr. ROMIG. Yes, sir.

Senator BOREN. Yes.

Mr. DAY. Yes. And second, that the State trust funds be removed from the Federal budget, along the lines that were recommended by Representative McCann and Mr. Taylor from Michigan. And third, that the extended benefits be imposed by State triggers rather than by a national trigger. Those three things to be addressed later, after H.R. 4007 is quickly passed by the Senate.

Senator BOREN. Right. As you know, the State trigger is now—that is now pending in conference, but the chamber now endorses that?

Mr. DAY. Indeed.

Senator BOREN. Very good.

Mr. ROMIG. Senator, what I think it sort of connotes here is that when we began to change our policy directions, I think, long before the U.S. Department of Labor began analyzing the debt situation, and long before the State agencies did so, I think we did so because the business community was paying for the unemployment program.

Senator BOREN. Yes.

Mr. ROMIG. Its costs began to skyrocket in the seventies, as we went from 26 to 65 weeks of benefits. We first established the extended benefit program, and then we eased the eligibility for that program five to six times. When the 1974-75 recession hit us, we established an FSB program. Three months after it was enacted, we had doubled its length. Most of these actions were taken without the safeguards of full public inquiry and study.

It was a rapid response to what was perceived to be a very significant level of joblessness. The unemployment insurance program, of course, was the only brace for it. The UC program wasn't prepared for the radical changes, and we are now forced into a retrenchment period, because the costs have gone up and may rise sharply again. Business is very frustrated by its inability to get some of the cost saving changes that we want into State laws. And one of the things we are looking to, and it is somewhat difficult for us to look to, is the prospect that we may have to accept some kind of Federal mandates upon the options of the State.

Of course, we would like to spell them out, and be very, very clear—

Senator BOREN. I understand.

Mr. ROMIG [continuing]. That those mandates have specified limits as well. There are also things we can do in terms of incentives. H.R. 4007, in our opinion, is an incentive.

Senator BOREN. All right.

Mr. ROMIG. The testimony of the Labor Department today said two States would qualify for it in 1981. We think more will do it simply because the possibility of accepting a small experience rated increase in the UC tax as opposed to a large penalty.

Senator BOREN. Right, yes. Maybe a bit of a lever action in the States to cause more States to come to positions where they could take advantage.

Mr. DAY. Senator, one last point with regard to Illinois. H.R. 4007 would permit our repaying \$75 million in November of 1980 from our trust fund, and at the present time we are in a position to do that.

Senator BOREN. I see. Very good.

Mr. Kreyling?

**STATEMENT OF CONRAD KREYLING, PAYROLL TAX MANAGER,
J. C. PENNEY CO., ON BEHALF OF THE NEW JERSEY BUSI-
NESS AND INDUSTRY ASSOCIATION**

Mr. KREYLING. It looks like I am the last. I think everybody has said just about all of it. Since we have been here a long time, and I know everybody is getting a little tired, I will just summarize what is on the front of our statement, and I think that will sum up exactly how people in New Jersey feel.

Let me say that I have been involved with unemployment for a number of years. I am very interested in this bill, because I think it is important. I testified in the House, and here again in the Senate. I think it is important that everyone recognize that H.R. 4007 does not under any circumstances forgive any part of the debt. It is just another way of repaying it.

In New Jersey, we feel that we as a business community can do very little in the way of fixing our own house if we don't have H.R. 4007. If we have the capability of doing something we can. If we don't have H.R. 4007, there is nothing we can do but let the penalty fall, and I am not one that believes in penalty. I prefer to clean up my own house, and I was involved in New York State, and if you look at the bottom, you will see that New York State is zero. Although we have borrowed, we repaid every dime.

I think Jersey can get itself back in a position of starting to repay. It can't do what New York did. It won't repay in one piece, but if we have the bill, I think we will do it.

Just let me say that H.R. 4007 allows an equitable method of repayment of the loans permitted through an experience-rated system. Fiat rate taxes don't reflect exactly what is happening. Experience-rated taxes do. H.R. 4007 provides an incentive for the State to pay its outstanding loan, and it certainly does. If you can pay, you do; if you can't, you suffer a penalty. Two ways is better than one any time.

New Jersey has a demonstrated history of the ability to deal with its unemployment financing, but not as rapidly as some other States. We have suffered terribly, and we are going to suffer again. As has been pointed out, Ford is closing a large plant in Mahwa. New York and New Jersey both are going to lose approximately 4,000 jobs. It will be a shudder, but we will start to come back. We always do.

In reaction to high national unemployment rates, Congress passed a series of appropriations and changes in State laws, including EB, and the EB cost us almost \$500 million out of our trust fund which we weren't prepared to handle. It does not delay or absolve us from any part of our debt.

In conclusion, just let me say that we urge that you favorably consider this and move this on to the Senate so that we can do something in New Jersey to start to repay our loan.

Thank you.

Senator BOREN. Thank you.

I appreciate the testimony of each one of you. I think my questions have been pretty well answered as we have gone along. Are there any other comments that any one of the three of you would like to make? Yes, Mr. Kay?

Mr. KAY. Mr. Chairman, I would like to make one comment. There have been an awful lot of questions from you and from your fellow Senators regarding a cap of, say, a 0.6 cap or what have you.

Senator BOREN. Yes.

Mr. KAY. We are opposed to that. We think it is time that these debts should be paid, that it is time that the Federal law be allowed to trigger itself in and make the States either pay it through the Federal penalty or through H.R. 4007 within their own system.

We have had deferral in the past. We have had 5 years of deferrals, and some of the States have not reacted, have not done what they should have done. Other States have.

One other point I think would be appropriate to mention, the States with outstanding loans currently are having a very significant benefit for their employers, that is, an interest-free loan. In Pennsylvania, we are talking in the neighborhood of \$150 million based on current Treasury borrowing, and each of the other States have quite an advantage, and the States that have bitten the bullet, repaid it, the States that have taken the necessary efforts not to go into debt, such as California, we as employers have paid in California, we have paid in Louisiana, we have paid in Michigan, we have paid in a number of these other States that have taken some very major financial steps—Florida is another one—and we think it is time that the remaining States go ahead and live up to what they should be doing, and that is repaying the debts.

Mr. DAY. We would certainly echo those comments.

Senator BOREN. I certainly understand the comments, and of course I am personally very sympathetic with the comments you have made, and I think that the States which have not yet been able to take care of the outstanding balances certainly should not expect that they could have a freeze put on without any other conditions being met and without some other actions being required.

I don't want to see us lose our leverage for getting some of these tough decisions made at the State level that need to be made, and as you say, some of these States have already made them, and it is not fair to those States to say, well, we are going to just defer and let you off the hook, and I certainly feel that way, speaking as just one member of the committee, and with one vote, but I am not going to favor doing anything that is going to be just let those States off the hook.

We may be able to work on some other things, as have been discussed, but they would have to be truly substantive before we could see any relaxation of any kind made. Yes?

Mr. KAY. One other point along that same line, I believe that by allowing the Federal tax to continue to increase with the H.R. 4007 repayment within the State, it is going to encourage the States to take the action that they should.

Senator BOREN. Yes.

Mr. KAY. The best example is Pennsylvania, where they were talking in terms of a package, a \$550 million package, part of it on the benefits side, the vast majority on the tax side, but this is the type of pressure that we think is warranted and is appropriate, to have the State legislators look at their State laws and decide what they should be doing, what benefits they should be paying out—

Senator BOREN. Yes.

Mr. KAY. And take the necessary steps to raise the revenue to pay for the benefit they have enacted.

Senator BOREN. Yes. I certainly understand that.

Well, again, I want to thank each one of you for being here and for your patience in waiting while we have heard earlier testimony and, as I have said earlier, I think it has been a very productive and fruitful session, and I want to assure you again that there are, I think, growing numbers of us who are concerned in seeing some fundamental changes made in this system that are long overdue, and we appreciate your constructive contribution to it, and I think your argument in favor of going to an experience rated system for repaying these debts, too, is a very, very good one and a very sound one.

Thank you again for appearing.

[The prepared statements of the preceding panel follow.]

SUMMARY SHEET

Edward H. Kay for the Council of State Chambers of Commerce
April 28, 1980

The Council of State Chambers of Commerce endorses HR 4007 for the following reasons:

1. Most states have taken steps to resolve their financial problems. HR 4007 would provide these states with the opportunity to repay their loans through those efforts if they cannot repay in total. It is appropriate to provide this extra option to these states.
2. The states that would be able to utilize HR 4007 have had increases in their tax burdens on their employers. If HR 4007 is not passed, there will be further tax burdens on these employers which we feel should be avoided, if possible.
3. HR 4007 would indicate to state legislators and in particular to the legislators in those states that will not be in a position to utilize HR 4007 that Congress expects them to finance their program through their experience rating system. In fact, it should encourage states to improve and strengthen their tax system which is needed in certain states, particularly those that would not qualify.
4. HR 4007 would allow the repayment of loans through experience rated tax rates rather than through a flat rated Federal tax.
5. HR 4007 would allow economic factors to be considered in raising the necessary revenue through an experience rated tax.
6. HR 4007 would reduce the reluctance of state legislators to make necessary tax changes and could actually encourage needed changes as long as they develop sufficient revenues to meet the requirements of the Bill.

In conclusion, we urge favorable action on HR 4007 as we believe it will provide an appropriate alternative to the current law.

###

Statement
on
Repayment of Loans Made to State
Unemployment Compensation
before the
Finance Subcommittee on
Unemployment and Related Problems
for the
Council of State Chambers of Commerce
by
Edward H. Kay, Jr.
April 28, 1980

My name is Edward H. Kay, Jr., National Payroll Tax Manager for Sears Roebuck and Company. I am appearing before you today in my capacity as Chairman of the Employee Benefits and Relations Committee of the Council of State Chambers of Commerce, an organization comprised of thirty-four state and regional chamber organizations. I speak to you today with the specific endorsement of those state organization members listed on the last page of this testimony.

During the recession of the mid-1970s, a number of states found it necessary to borrow substantial sums from the Federal Loan Account in the Unemployment Trust Funds. These loans were to be paid back within approximately two years or the Federal Unemployment Insurance tax on employers in the state would be increased at least .3% per year until sufficient revenues were raised by this tax to repay the loan. However, legislation was enacted which allowed the states an extra five years to repay if they met certain requirements. This deferral period has expired as of January 1, 1980.

During the period from 1972 to the present, 25 states borrowed from the Federal Government in order to pay U.I. benefits. As of

- 2 -

January 1, 1980 twelve of these states have repaid their loans thereby leaving thirteen states with outstanding loans. These thirteen states must repay their total outstanding loan during 1980 or have their employers subject to an increase in their Federal Unemployment Insurance Tax.

This subcommittee is examining the situation in respect to these loans to determine if any action is necessary or warranted. In particular you will be examining HR 4007. This bill would permit states to avoid the automatic increase in the Federal Unemployment Insurance Tax provided they pay to the Federal account an amount equal to the amount that would otherwise have been collected through the increase in the Federal tax. The bill would also require that the following two conditions be met:

1. The state would be required to also repay the full amount of any additional Federal loans made during the preceding twelve months and -
2. Have sufficient funds in the state trust to pay all state unemployment benefits without any Federal loans during the six month period beginning November 1.

The Council of State Chambers endorses HR 4007 for the following reasons:

1. The report of the Committee on Ways and Means which accompanied HR 4007 indicated that as of April 30, 1979 there were eighteen states with outstanding loans. As of March 31, 1980, five of these states had repaid; therefore

- 3 -

they will not be affected by HR 4007.⁽¹⁾ Of the remaining thirteen states approximately half of them may be in a position to either repay their loan in total or to take advantage of HR 4007 if it becomes law.

The fact that only six or seven states will not be able to qualify under HR 4007 indicates that most of the states have, in fact, taken steps to resolve their financial problems. HR 4007 would provide these states with the opportunity to repay their loans through those efforts if they cannot repay in total. We feel it is appropriate to provide this extra option to these states.

2. The states that would be able to utilize HR 4007 have, in fact, had increases in their tax burdens on their employers. If it is not passed, there will be further tax burdens on these employers which we feel should be avoided, if possible
3. HR 4007 would indicate to state legislators and, in particular, to the legislators in those states that will not be in a position to utilize HR 4007 that Congress expects them to finance their program through their experience rating system. In fact, it should encourage states to improve and strengthen their tax systems which is needed in certain states, particularly those that would not qualify.

(1) Michigan repaid their loan but had to borrow again in 1980. However, they will not have to begin repayment for two years. If they still have this loan outstanding at that time, they would then be able to utilize HR 4007 if it is passed.

4 -

4. If HR 4007 does not pass, all employers in states with outstanding loans would be subject to a flat increase in their tax rate. Such taxes do not take into consideration whether the employer has a stable work force. In other words, the Federal tax increase is not experience rated. We feel that the costs borne through the state system should, to the greatest extent possible, be recouped through the state experience rating systems which take into consideration the employers' experience. HR 4007 would provide the potential to raise the necessary taxes to repay the loans through experience rating.
- 5 As mentioned above, the bill would permit the states to use their experience rating formulas to repay the debt. These formulas can be designed to take into consideration various economic factors that exist within the state. To be specific HR 4007 would permit the greatest amount of latitude for tailor-making a repayment plan to meet the needs of that state.
6. in states that will not be able to repay their loan in total, the state legislators may be reluctant to make changes in their tax laws which would increase taxes on some or all employers, as they know their employers would still be saddled with an additional .37 .6% or higher Federal tax. HR 4007 would reduce this reluctance and could actually encourage needed changes as long as they develop sufficient revenues to meet the requirements

5 -

of the bill.

In conclusion, we urge favorable action on HR 4007 as we believe it will provide an appropriate alternative to the current law. I would also point out that a quick review of the below listed state organizations who have specifically endorsed this testimony will demonstrate that support for HR 4007 is widespread among state business organizations without regard to whether or not that state presently has an outstanding loan. In my opinion this is a clear demonstration as to the desirability of HR 4007.

#

The following state organization members of the Council of State Chambers of Commerce have authorized this appearance in their behalf:

Alabama Chamber of Commerce	Missouri Chamber of Commerce
Colorado Association of Commerce & Industry	Montana Chamber of Commerce
Connecticut Business and Industry Assn.	New Jersey State Chamber of Commerce
Delaware State Chamber of Commerce	Empire State Chamber of Commerce
Florida Chamber of Commerce	Ohio Chamber of Commerce
Georgia Chamber of Commerce	Oklahoma State Chamber of Commerce
Illinois State Chamber of Commerce	Pennsylvania Chamber of Commerce
Indiana State Chamber of Commerce	South Carolina Chamber of Commerce
Kansas Association of Commerce & Industry	Greater South Dakota Chamber of Commerce
Kentucky Chamber of Commerce	State Chamber Division Tennessee Taxpayers Association
Louisiana Association of Business & Industry	East Texas Chamber of Commerce
Maine State Chamber of Commerce	Virginia State Chamber of Commerce
Maryland Chamber of Commerce	West Virginia Chamber of Commerce
Michigan State Chamber of Commerce	Wisconsin Association of Manufacturers & Commerce
Minnesota Association of Commerce & Industry	
Mississippi Economic Council	

STATEMENT
on
REPAYMENT OF FEDERAL LOANS
to
STATE UNEMPLOYMENT COMPENSATION TRUST FUNDS (H.R. 4007)
before the
SUBCOMMITTEE ON UNEMPLOYMENT & RELATED PROBLEMS
of the
SENATE COMMITTEE ON FINANCE
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Leonard Day
April 28, 1980

My name is Leonard Day. I am Director of Labor Relations for the Illinois State Chamber of Commerce and a member of the Committee on Employee Benefits of the Chamber of Commerce of the United States. I appear on behalf of the nearly 97,000 members of the U.S. Chamber to present our views on repayment of federal loans to the state unemployment compensation funds. Accompanying me is Eric J. Oxfield, Associate Director of Employee Benefits for the U.S. Chamber.

We are grateful for the opportunity to appear before this Subcommittee to express our strong support for H.R. 4007. This bill, which the House of Representatives approved last November by a vote of 402 to 1, would, under certain conditions, allow a state that has borrowed from the federal unemployment compensation loan account to make partial repayment from balances in its own trust fund in lieu of a mandatory, penalty FUTA tax increase on every employer in that state.

This statement will also touch on additional measures that we advocate to correct imbalances that exist in financing the UC system.

SUMMARY

As the major spokesman for the business community, the U.S. Chamber has had a long standing interest in, concern about, and support for the UC system. Unemployment insurance is designed to serve the needs of temporarily and involuntarily jobless workers by providing cash benefits during unemployment, with the cost of those benefits being treated as a cost of production. The UC system is financed by state taxes on employers,

- 2 -

distributed so as to provide incentives for employment stabilization and to facilitate the active interest of employers in the program. These objectives are accomplished through experience rating of employers. Experience rating operates to decrease taxes for employers with good records of stable employment, and to increase taxes for employers with poor records.

Because of our support for the UC system, we are concerned by the insolvency of some of the state UC trust funds. Some states that borrowed from the Federal Unemployment Tax Act (FUTA) loan account during the 1975-77 recession still have not repaid their loans, and several states have continued to borrow. In light of this situation and economic forecasts of higher unemployment levels over the next few months, it is imperative that measures be taken to assure responsible financing of the UC system.

Congress can take the first step by speedily enacting H.R. 4007, as written.

THE NEED FOR H.R. 4007

The UC program has been an overwhelming success and has functioned well in both good and bad times. In recent years, however, the system has been troubled by the inability of certain states to meet their benefit obligations. Ad-hoc increases in amount and duration of benefits without corresponding increases in funding have put the system out of balance in some states, and the problem has been compounded by increased unemployment.

During the last recession, 22 U.S. jurisdictions borrowed from the FUTA loan account, and at year-end 1979 11 states, the District of Columbia, Puerto Rico, and the Virgin Islands had FUTA debts totalling \$3.8 billion. Further borrowings this year have pushed the total to over \$4.1 billion as

of March 31, 1980, and additional loan requests are pending. (See attachment.)

FUTA loans are interest-free. There is, however, a penalty provision should a state fail to repay within 2 years. In that event, the federal tax on all employers in the defaulting state increases by a flat .3%. The penalty increases in .3% increments for each year the default continues. Two states, Pennsylvania and Delaware, currently are in a default status.

H.R. 4007 would help the states repay their indebtedness and avoid the penalty. A state would be allowed to reduce its debt by making repayments which are not less than the sum of (1) the penalty otherwise payable plus (2) any advances secured during the year ending November 9. There must also be a sufficient balance remaining in the state's trust fund to pay benefit costs during the six-month period beginning November 1.

The present penalty provision for repayment of FUTA loans weakens experience rating because it levies a flat tax increase on all employers whether their employment records are good or bad. And proposals to forgive FUTA loans, which amounts to repayment from federal general revenues, would weaken experience rating even further.

The repayment provision embodied in H.R. 4007 strengthens experience rating and would be a timely and beneficial change from existing law, giving the states additional flexibility. As written, it would not delay repayment or forgive the loans. It allows a state to repay the loan with experience-rated funds and avoid the non-experience rated flat tax increase of the existing penalty.

Most states that borrowed have made good progress in repaying their loans, but a few continue to hope for forgiveness or deferral. We think repayment by states that currently have outstanding loans should begin immediately and should be completed as soon as the economic situation of the state will allow. H.R. 4007 would be a good first step toward assuring responsible financing of all state UC programs.

ADDITIONAL STEPS TOWARD FISCAL RESPONSIBILITY

After giving speedy approval to H.R. 4007, Congress should take further action to encourage fiscal responsibility by the states. Our Board of Directors, in its meeting on February 21, 1980, outlined several new directions in Chamber UC policy with that end in mind, and we offer these ideas here for consideration by this Subcommittee. These suggestions are intended to reduce existing disincentives to the states' taking fiscal responsibility for their UC trust funds, and reducing the flow of cash payments to inappropriate recipients:

1. U.S. Chamber Recommendation. *A state that borrows from the FUTA loan account must agree to pay interest on FUTA advances, and also must agree to constraints on liberalization of benefit amounts, duration and eligibility until such advances are repaid. Interest should be charged on future FUTA loans, payable into the FUTA loan fund. These penalties should be in addition to the current penalty for default on repayment of FUTA loans.*

The FUTA loan account serves a necessary purpose. It was designed so that a state experiencing an unexpected level of unemployment could continue meeting benefit obligations when economic need is greatest. It also permits a state to avoid a tax increase that would aggravate unfavorable employment conditions.

To maintain the viability of the UC program, it is essential that state unemployment taxes be set at a level that would produce sufficient revenues to fund benefit payments under normal circumstances. Needless to say, the balance between revenues and expenditures is upset when a state raises its benefits but does not increase taxes accordingly. The balance can be restored only by adjusting tax rates or benefit levels, or both.

Because FUTA advances are interest-free, however, a state may choose to borrow rather than increase taxes. That choice is desirable for a temporary shortfall caused by unexpectedly high unemployment. It is not acceptable, though, when a state trust fund experiences chronic insolvency due to inadequate funding.

A state whose trust fund is chronically insolvent can use the FUTA loan fund to defer, reduce, or even avoid a politically unpopular tax increase. And a state that cannot meet current benefit obligations, for whatever reason, can continue to increase benefit amounts, loosen eligibility criteria, or extend duration, further weakening its financial condition.

Easy access to the FUTA loan fund, therefore, discourages fiscal responsibility. The tax penalty when a state defaults on repayment is too small to be a satisfactory deterrent and can be avoided entirely by paying the loan off when due, then borrowing again. Moreover, even if a state does default, the tax increase can be "blamed" on Washington because it is a federal tax.

It was never intended that a state with chronic shortfalls in its trust fund should resort to FUTA advances as a means of avoiding fiscal responsibility. FUTA loans must be made less attractive to such states by charging interest.

In addition, it does not make sense to permit a state to go further into debt by raising benefits when its funds are insufficient to pay current benefit obligations. No commercial lender would allow that, and neither should the federal government when it acts as a lender.

2. U.S. Chamber Recommendation: *The state trust funds should be removed from the federal budget, with the requirement that these funds be included as trust funds in the state budgets.*

At present, revenues from the state unemployment taxes are paid into the federal trust fund, with an account for each state. The balance in the federal trust fund is included in the federal budget.

Although state laws govern the collection and expenditure of UC moneys, the states do not include these funds in their own budgets. Removal of these funds from the federal budget and requiring that they be included in the state budgets would give the state governments additional inducement to exercise fiscal responsibility in UC matters.

3. U.S. Chamber Recommendation: *The Federal-State Extended Benefits Act should be amended to eliminate the national trigger, require a one-week waiting period and impose strict job acceptance requirements.*

The Federal-State Extended Benefits (EB) program was established by Congress in 1970. EB provides an additional 3 months of benefits following exhaustion of regular benefits, whenever the national or state level of insured unemployment meets certain triggers. EB is financed equally from state and federal unemployment tax revenues, paid by employers. Under the present federal law, EB recipients receive the same benefits and are subject to the same eligibility criteria as persons receiving regular benefits.

The federal requirement that the states pay EB has contributed to the insolvency of some state trust funds, thereby threatening their ability to pay regular UC benefits.

The Chamber recognizes that in times of economic recession there is a need for extending the duration of unemployment benefit protection. It is inappropriate, however, to provide benefits for chronic or prolonged unemployment through the UC system. A system of extended benefits, therefore, must be designed to trigger "on" only in times of unusually high unemployment, and to pay benefits only to persons with a genuine attachment to the labor force.

- 7 -

Experience to date has revealed that in many instances the national trigger was activated by joblessness in just a few states -- adding 3 months to benefit duration in states that have experienced neither a particularly high level of unemployment nor any relative growth in unemployment levels. In such states, there is no reason to assume that unemployed workers require additional benefit duration in order to find new work. Elimination of the national trigger is long overdue.

In addition, it is only fair that all EB recipients bear the cost of 1 week's unemployment before collecting benefits. Requiring a waiting week before eligibility starts, therefore, would provide an important incentive to continue a search for reemployment. (We note that even the United Auto Workers union requires a waiting week before it pays strike benefits.) The waiting week requirement should be satisfied by any existing waiting week for regular state benefits, as most states now provide.

For the benefit of both the worker and the job market, newly unemployed workers are not required to take any available job, but are permitted to seek a job that reasonably matches their previous experience, training, and earnings level. After unsuccessfully seeking such work for six months (during which time they are receiving regular state unemployment benefits), claimants should be subject to a more stringent suitable work requirement as a condition of continued benefit eligibility. More specifically, the job acceptance criteria of the (now expired) Federal Supplemental Benefits (FSB) program should be applied to EB: any work which is within the individual's capabilities, and which meets minimum wage, health, and safety standards.

CONCLUSION

The federal-state partnership has worked well to provide a public system of unemployment insurance. The good record of the UC system, however, cannot be maintained unless improvements are made to assure adequate financing. Congress can help achieve that objective by

(1) speedily enacting H.R. 4007, to allow the states to repay a portion of outstanding FUTA loan balances from their trust funds, (2) eliminating those aspects of the present system that discourage fiscal responsibility by the states, and (3) encouraging fiscal discipline in the federal portion of the program.

ADVANCES TO STATES FROM THE FEDERAL UNEMPLOYMENT ACCOUNT
(In Million \$ per CY)

Attachment	States	1972	1973	1974	1975	1976	1977	1978	1979	Loans	Loans	Repayments	Total Outstanding
										Requested, 1/1/80-6/30/80	Approved thru 3/31/80		
	Connecticut	\$31.8	\$21.7	\$8.5	\$203.0	\$137.0	\$75.0	\$37.0				143.1	370.9
	Washington		40.7	3.4	50.0	55.3						149.4	0
	Vermont			5.3	23.0	9.2	10.2					7.0	40.7
	New Jersey				352.2	145.0	141.7	96.0				83.0	651.9
	Rhode Island				45.8	20.0	9.0	31.0	5.0	16.0	16.0	8.0	118.8
	Massachusetts				140.0	125.0						33.3	231.7
	Michigan				326.0	245.0	53.0			330.0	235.0	624.0	235.0
	Puerto Rico				35.0	22.0	18.2	13.5					88.7
	Minnesota				47.0	76.0	49.0					172.0	0
	Maine				2.4	12.5	8.0	33.5					36.4
	Pennsylvania				173.8	379.2	373.3	261.0	35.0	222.0	142.0	42.3	1,322.0
	Delaware				6.5	14.0	16.1	10.4				2.0	45.0
	Dist of Columbia				7.0	26.6	25.4	8.4	6.1			8.0	65.5
	Alabama				10.0	20.0	26.7					56.7	0
	Illinois				68.8	446.5	243.3	187.9					946.5
	Arkansas					20.0	10.0					30.0	0
	Hawaii					22.5						22.5	0
	Nevada					7.6						7.6	0
	Virgin Islands				2.5	5.6	2.8					0.5	10.4
	Oregon					18.5						18.5	0
	Maryland					36.1	26.5					62.6	0
	Ohio						1.9					1.9	0
	Florida					10.0	32.0					42.0	0
	Montana					1.4	7.9	1.2				3.4	7.1
	New York						155.8	180.0				335.8	0
	Totals	\$31.8	\$62.4	\$17.2	\$1,493.0	\$1,855.0	\$1,285.8	\$839.9	\$46.1	568.0	393.0	\$1,853.6	\$4,170.6

*In accordance with the procedure which permits SESAs to request Title XII advances for a 3-month period.



ILLINOIS STATE CHAMBER OF COMMERCE

20 NORTH WACKER DRIVE • CHICAGO 60606 • (312) 372-7373

ADDITIONAL COMMENTS ON H.R. 4007

BEFORE

THE SENATE FINANCE SUBCOMMITTEE ON UNEMPLOYMENT AND RELATED MATTERS

FOR THE

ILLINOIS STATE CHAMBER AND THE ILLINOIS EMPLOYERS'

UNEMPLOYMENT INSURANCE JOINT POLICY COMMITTEE

April 28, 1980

I AM ALSO AUTHORIZED TO SPEAK IN SUPPORT OF H.R. 4007 ON BEHALF OF THE SEVEN MAJOR EMPLOYER ASSOCIATIONS IN ILLINOIS WHO COMPRISE OUR ILLINOIS UNEMPLOYMENT INSURANCE JOINT POLICY COMMITTEE:

Associated Employers of Illinois
Building Construction Employers' Association
of Chicago Contractors
Chicago Association of Commerce & Industry
Illinois Manufacturers Association
Illinois Mechanical Specialty Contractors
Association
Illinois Retail Merchants' Association
Illinois State Chamber of Commerce

ILLINOIS CURRENTLY OWES \$946.5 MILLION TO THE FEDERAL UNEMPLOYMENT ACCOUNT. EXTENSIVE CHANGES IN ILLINOIS U.I. TAX SYSTEM WERE MADE IN 1977, INCLUDING A 0.3% "BURTAX" ON ALL EMPLOYERS TO HELP REPAY THE FEDERAL LOAN, AND AN OVER-

PRESERVING ILLINOIS' ECONOMIC ENVIRONMENT

-2-

HAUL OF THE STATE EXPERIENCE FACTOR CALCULATION TO PERMIT A MUCH QUICKER RESPONSE TO ANY FUTURE RECESSION COMPARABLE TO THAT OF 1975-76. THIS WAS IN ADDITION TO A 43% INCREASE IN THE TAXABLE WAGES AND RAISING THE MINIMUM TAX RATE FROM 0.1% to 1.0%. THE RESULT OF ALL THIS WAS THAT NO FURTHER LOANS HAVE BEEN NECESSARY SINCE EARLY 1978, AND WE'RE SLOWLY MAKING HEADWAY ON DOING MORE THAN JUST BREAKING EVEN.

FURTHER TAX CHANGES WERE MADE IN 1979, EFFECTIVE JANUARY 1, 1980, TO INCREASE BOTH THE TAXABLE WAGES (ILLINOIS' TAXABLE WAGE BASE OF \$6,500 MAKES IT ONE OF 16 STATES WHICH HAVE VOLUNTARILY EXCEEDED THE FEDERAL REQUIREMENT OF \$6,000) AND THE MAXIMUM TAX RATE (FROM 4.3% TO 5.3%, INCLUDING OUR VOLUNTARY 0.3% SURTAX WHICH HAS BEEN IN EFFECT SINCE JANUARY 1, 1978).

IT IS WELL WORTH NOTING THAT THE 1979 CHANGES RESULTED FROM NEGOTIATIONS BETWEEN REPRESENTATIVES OF ORGANIZED LABOR, THE PUBLIC AND THE EMPLOYER COMMUNITY.

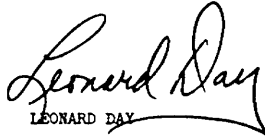
THIS SAME GROUP HAS JUST COMPLETED NEGOTIATIONS ON FURTHER CHANGES IN THE ILLINOIS LAW TO BE EFFECTIVE YET THIS YEAR. INCLUDED IS A REDEFINITION OF "VOLUNTARY QUIT" WHICH, BY CONSIDERING ANY VOLUNTARY QUIT NOT ATTRIBUTABLE TO THE EMPLOYER AS A QUIT WITHOUT GOOD CAUSE, WILL SAVE AN ESTIMATED \$50 MILLION ANNUALLY.

-3-

AS OF THIS DATE, SHOULD H.R. 4007 BE ENACTED, SUFFICIENT FUNDS ARE AVAILABLE TO PERMIT REPAYMENT OF \$75 MILLION (THE EQUIVALENT OF 0.3% OF THE FUTA OFFSET).

WE WOULD MUCH PREFER TO MAKE THESE PAYMENTS FROM OUR TRUST FUND RATHER THAN HAVE AN ADDITION TO EACH EMPLOYER'S FUTA TAX, BECAUSE THIS WOULD HELP PRESERVE OUR EXPERIENCE RATING SYSTEM.

IN SUMMARY, ON BEHALF OF ALL THOSE WHO HAVE GRANTED ME THE AUTHORITY TO REPRESENT THEM BEFORE YOUR SUBCOMMITTEE TODAY, WE RESPECTFULLY URGE PROMPT ENACTMENT OF H.R. 4007.

A handwritten signature in cursive script that reads "Leonard Day". The signature is written in dark ink and is positioned above the printed name.

LEONARD DAY

MANAGER, LABOR RELATIONS

ILLINOIS STATE CHAMBER OF COMMERCE



Sullivan Way, West Trenton, N. J. 08628

609-771-0600

Principal Points of Statement

by

New Jersey Business & Industry Association

on H.R.4007

Before Senate Finance Subcommittee

on 4-28-80

- I. H.R.4007 allows an equitable method of repayment of Title XII loans by permitting use of experience-rated trust fund monies.
- II. H.R.4007 provides an incentive for states with outstanding loans to improve the financing mechanisms of their state unemployment trust funds.
- III. New Jersey has historically demonstrated an ability to deal with its unemployment financing difficulties.
- IV. In reaction to high national unemployment rates, the Congress passed a series of programs which added to the states' need for federal borrowing.
- V. H.R.4007 does not delay or absolve any portion of New Jersey's debt.

North Jersey Office: 50 Park Place, Newark, New Jersey 07102 201-623-8359
Governmental Affairs Office: 114 West State Street, Trenton, New Jersey 08608 609-771-0600



Sullivan Way, West Trenton, N. J. 08628

609-771-0600

April 21, 1980

Introduction

Good afternoon, Mr. Chairman and members of the Senate Finance Subcommittee on Unemployment. My name is Conrad Kreyling and I am here representing New Jersey Business and Industry Association which urges your support of H.R. 4007 (Brodhead, D-Mich.).

H.R. 4007 would permit an equitable method of repaying New Jersey's \$652 million federal loan borrowed under Title XII of the Social Security Act. This bill does not delay or forgive any of the obligation. We believe this legislation encourages the states to improve their unemployment compensation funding provision by prohibiting further Title XII borrowing for six months. H.R. 4007's enactment is essential if states like New Jersey are to be able to solve their unemployment compensation problems.

While there are currently thirteen states with outstanding federal loans of this nature and directly affected by H.R. 4007, this is not special interest legislation. The nation's economic problems, which impact heavily on the Federal-State unemployment compensation system, make this bill a potential benefit to all states who might make use of its provisions in these uncertain economic times.

I. H.R. 4007 allows an equitable method of repayment of loans from the Federal Loan Account in the Unemployment Trust Fund, by permitting use of experience-rated trust fund monies.

The principle of experience rating in unemployment insurance laws is one which was established at the inception of the program in 1935. The concept is one which is overwhelmingly supported by private industry and is designed to encourage employer interest in establishing and maintaining a stable work force. H.R. 4007 would amend the Internal Revenue Code of 1954 to provide that the provisions which increase the Federal unemployment tax in states which have outstanding loans will not apply if the state makes certain repayments. A state could design its own method of obtaining the additional revenues needed for repayment without the across-the-board imposition of a loss of FUTA credit.

II. H.R. 4007 would provide incentive for states with outstanding loans to improve the financing mechanisms of their state unemployment insurance funds.

Once a state loses a portion of the FUTA credit, there is less incentive to take "the bull by the horns" and attack the problem of an unemployment trust fund deficit. H.R. 4007 requires "there be sufficient amounts in the State unemployment fund to pay all compensation during the six-month period beginning November 1 of such taxable year without receiving any advance under Title XII of the Social Security Act." This can only be done if the state trust fund has an adequate income and reserve.

New Jersey's employers recognize that a substantial revision of the state's experience rating tables may be necessary to help strengthen the financing aspects of our unemployment compensation program. The reality is an aging industrial state like New Jersey with high energy costs, wage rates and cost of living must struggle to compete with modern plants and equipment, often located abroad. The unemployment

compensation experience rating tables must reflect unemployment levels of the eighties.

New Jersey's employer community wants to address the unemployment compensation problem and believes H.R. 4007 is a necessary element in our doing so.

III. New Jersey has historically demonstrated its ability to deal with unemployment compensation difficulties.

The New Jersey Unemployment Compensation Law has an escalating taxable wage base which is currently at \$6,900 and will likely go above \$7,200 in 1981. The State took action during a prior period of economic downturn between 1971-1972 when employer experience rates were redistributed and employer tax rates were increased six months in advance of a scheduled rate increase (Ch. 172, Laws of 1972.)

Legislation has been introduced in both Legislative Houses which would substantially reshape our law and reverse some of the more "costly" aspects of our program without harming our citizens who are involuntarily unemployed through no fault of their own. We fully expect action will be taken on this proposal by fall of 1980.

Additionally, representatives of the Division of Employment Security have met on a regular basis to develop a financing program which would generate funds to repay our federal obligation. The only viable repayment proposals are contingent upon the enactment of H.R. 4007.

IV. In reaction to high unemployment rates, the Congress passed a series of programs which added to the states UI costs and the need for federal borrowing.

The extended benefits (EB) program was established in 1970 by the Federal-State Extended Unemployment Compensation Act (P.L.91-373). This additional thirteen-week program has caused states like New Jersey to have to borrow far greater amounts of money under Title XII to pay their 50% share.

Other federally mandated benefits compounded the need to borrow additional money

-4-

although the benefits themselves were financed by the federal government. Studies have shown that (FSB) Federal Supplemental Benefits and (SUA) Special Unemployment Assistance Program played a significant role in contributing to the work disincentive when New Jersey's maximum benefit duration was 65 weeks. People who could "make due" on UI benefits were exhausting their entitlements before actively seeking work or retraining. (Stephen T. Marsten, "The Impact of Unemployment Insurance on Job Research" Brookings Papers on Economic Activity, 1975, Vol. 1, pp.13-60.)

The following is the EB payout in New Jersey between 1972 and 1979*:

CY 1972	\$31.4 million
CY 1973	31.9
CY 1974	45.8
CY 1975	99.0
CY 1976	84.1
CY 1977	76.3
CY 1978	65.3
CY 1979	64.9

*(N.J.'s share was 50% of this amount)

V. H.R. 4007 does not delay or absolve any portion of New Jersey's debt.

There appears to be little opposition to H.R. 4007 which passed the House on November 7, 1979; it merely permits an equitable method of repayment of outstanding obligations. We are aware of opposition to amending this bill which would delay repayment, level out the amounts which must be repaid each year or in any way "forgive" any portion of this obligation.

While we believe there are good arguments for the Federal Government to "forgive" at least a portion of this debt* that is not our cause here today. We recognize, however, the problems of financing the state's unemployment compensation programs are great and not limited to a few states. The unemployment compensation system originated with the Social Security Act of 1935. Its history is one of Federal-State interaction

*See New Jersey Commission of Labor & Industry, John Horn's testimony before the National Study Commission attached.

and cooperation. H.R. 4007 is responsible legislation in keeping with such interaction and cooperation.

VI. Conclusion

In order to make use of the provisions of H.R. 4007 and obtain additional revenues for our trust fund, New Jersey must have legislation enacted by July or August of this year. We urge you to consider the deleterious impact of loss of FUTA credit would have in our state where unemployment compensation taxes are already among the highest in the nation.

We respectfully urge this subcommittee to report out H.R. 4007.

Senator BOREN. There are no further witnesses scheduled for today, so the hearings will stand in recess.

[Whereupon, at 4.50 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

JOSEPH E. BRUNNAN
GOVERNOR



STATE OF MAINE
DEPARTMENT OF MANPOWER AFFAIRS
POST OFFICE BOX 309
20 UNION STREET
AUGUSTA, MAINE 04330

DAVID W. BUSTIN
COMMISSIONER

April 23, 1980

The Honorable David L. Boren, Chairman
Senate Finance Subcommittee on Unemployment
and Related Problems
440 Rayburn Senate Office Building
Washington, D. C. 20215

Dear Senator Boren:

While I am unable to attend the hearing scheduled April 28 on H. R. 4007, "A BILL To amend the Internal Revenue Code of 1954 to provide that the provisions which increase the Federal unemployment tax in States which have outstanding loans will not apply if the State makes certain repayments," I do want to voice my support for the bill and to urge its passage.

H. R. 4007 provides a reasonable method for states to repay loans received from the Federal Unemployment Account. At the same time, it provides that the states must seek to meet their responsibilities to maintain the solvency of their unemployment compensation programs.

Our basic arguments in support of the bill are those in the report from the Committee on Ways and Means on H. R. 4007 (Report No. 96-239).

1. H. R. 4007 requires "States to repay Federal U. I. loans in a manner least disruptive of the State's economic climate."

It is unlikely that Maine will be able to make full repayment of its outstanding loan yet it could exercise the option of making a partial repayment as provided under H. R. 4007, thereby avoiding the increase in the Federal U. I. tax on employers.

As the nation enters into a recession of uncertain depth, the importance of the concern for a state's economic climate grows even greater. H. R. 4007 would allow Maine to meet its responsibility in a manner best suited to its needs. It will most certainly be detrimental to the State's economic development program, if future IRS forms contain notification of additional Federal U. I. taxes that would pertain to Maine's employers...or its prospective employers.

The Honorable David L. Boren
Chairman, Senate Finance Sub-
committee on Unemployment and
Related Matters

-2-

April 23, 1980

2. Under H. R. 4007, "Funds used to repay Federal U. I. loans would be collected through experienced related taxes, not flat-rated taxes."

Loan repayments from Maine's trust fund would do the most to accommodate those employers who have attempted to maintain employment levels.

I would also note that it is conceivable that, under present law, the increased Federal U. I. taxes could result in payment amounts due for a year that could exceed the amount of outstanding loans for that period. For example, Maine's current loan balance is \$36.4 million. Potential payments under Federal U. I. tax increases could result in the following:

<u>Year</u>	<u>FUTA Payments During Year</u>	<u>Outstanding Loans End of Year</u>	<u>Excess of FUTA Payment Over Outstanding Loans</u>
1980.....	\$ 0	\$36,400,000	\$ 0
1981.....	5,700,000	30,700,000	0
1982.....	12,100,000	18,600,000	0
1983.....	19,000,000	0	400,000

Maine is quite aware of its responsibility to assume that its unemployment insurance trust fund is self-supporting. The past four years have seen legislative enactment of a variety of restrictions on eligibility and benefits paid under the unemployment compensation program. We have worked with an advisory group during the past year to analyze what path the State should follow to provide for a financially sound system under most economic conditions.

H. R. 4007 does not delay repayment of Federal U. I. loans, but it does provide for the most appropriate repayment process in relation to the overall business climate, support to the most responsible employers, and the time needed to make improvements in the unemployment compensation financing.

Thank you for your consideration.

Sincerely,

David W. Bustin
Commissioner

GV/ldl

cc: Governor Joseph E. Brennan
Senator Edmund S. Muskie
Senator William S. Cohen
Representative David F. Emery
Representative Olympia J. Snowe
Senate Finance Committee on Unemployment
and Related Problems
Senator John Chafee
Senator Bill Bradley



COMMENTS BY THE NATIONAL ASSOCIATION OF MANUFACTURERS
ON OUTSTANDING FEDERAL
UNEMPLOYMENT COMPENSATION LOANS

&

H.R. 4007

SUBCOMMITTEE ON UNEMPLOYMENT AND RELATED PROBLEMS
COMMITTEE ON FINANCE

May 9, 1980

The National Association of Manufacturers appreciates the opportunity to submit brief comments on the House-passed legislation, H.R. 4007. The NAM represents over 12,000 employers, 80 per cent of which are small businesses. The National Industrial Council which is affiliated with the NAM, represents an additional 158,000 businesses. As such, the Association is concerned about the status of outstanding state unemployment insurance (UI) loans to the Federal Unemployment Account (FUA). NAM welcomes the Subcommittee's hearing on this troubling issue and offers its full support to H.R. 4007 as passed by the House of Representatives. It is our belief that in the long-term, this legislation will improve many of the financing inadequacies at the state level which have resulted in this significant debt issue.

While we are fully cognizant of the need for a Federal loan fund to assist states during periods of high unemployment, NAM believes the ready accessibility of such funds has had some undesired results. The availability of Federal loans has allowed state legislatures to avoid making the hard choices about trust fund financing. By and large, the states have been steadily liberalizing benefits and eligibility criteria without enacting the necessary employer UI tax increases to cover these growing obligations. Rather than making the politically unpopular decision to increase UI taxes, state legislatures have been liberalizing unemployment compensation programs and financing them through Federal loans. This trend has resulted in drastically low trust fund reserves -- particularly in light of the impending recession. If it continues, the process of state loan repayment or Federal recoupment may be unduly prolonged.

The business community, in general, feels confident that these debts will be repaid in as timely a fashion as possible. Contrary to what some believe, business rather universally accepts responsibility for this

- 2 -

repayment process in regard to regular and extended benefit obligations; we welcome the end to congressional deferrals of loan repayments and want to get the process of returning to solvency underway. H.R. 4007 would encourage state fiscal responsibility. Wholly consistent with NAM policy, this legislation would reduce Federal intervention spurred by concerns over Federal recoupment, and would reemphasize the proper roles of the partners in the Federal-State system.

Despite the concerns that some in the Senate may have over this legislation as it relates to the unified budget, enactment would not result in Federal revenue losses or a protraction or deferral of repayment. H.R. 4007 would simply permit those states with adequate reserves to make partial annual repayments equal to those resulting from the decrease in Federal unemployment insurance tax credits. What we are really talking about is a transfer of state funds to the Federal Unemployment Account (FUA), which would have no effect on budget totals. While it is arguable that without H.R. 4007, Federal UI tax increases would amount to greater immediate Federal revenues, it is also arguable that this proposed legislation would generate substantially more state revenues relatively soon. Section (2)(A)(ii) of the bill would require states to repay any subsequent advances from FUA within a 1-year period, in addition to the equivalent of the credit loss, thus preventing the layering of debts which many states now have. This provision acts as yet another incentive for states to review and improve trust fund financing arrangements. NAM believes that an over-reliance on FUA loans is a threat to the Federal-State relationship. It is the responsibility of each state to ensure adequate funding of its benefits. H.R. 4007 would provide the states with more flexibility in meeting this responsibility.

There are other benefits from this legislation. Repayment of loans through "experience-rated" tax dollars is infinitely more equitable than

- 3 -

a flat tax increase on all employers in a given state. Employers with a stable employment record should not be required to pay for unemployment costs attributable to others. Stable employment should be rewarded with reduced taxes, not through arbitrary cost increases. Experience-rating does promote and encourage stable employment; H.R. 4007 would reaffirm this important concept. Even states which cannot make immediate use of this legislative option are strong supporters of the bill.

Debtor states are anxious to return to solvency, but the regressive nature of the Federal UI tax increase, coupled with the potentiality of continued state borrowing from FUA, is a very vicious cycle and not an easy one to break. With legislation like H.R. 4007, employers have reason to hope their state legislatures will restore solvency to their troubled unemployment compensation funds. H.R. 4007 is simply a better vehicle or option for repayment than the FUTA tax increase method. Enactment of this legislation will in no way slow down the payments schedule. However, it will encourage the states to address whatever excesses and inadequacies that exist and seek their correction. Increased Federal UI taxes may prevent or delay this important state financing reevaluation.

We stress the importance of enacting this legislation. Another recession of unknown dimensions may be on the horizon, and it is reasonable to assume that it could have significant impact on the solvency of many state trust funds. If H.R. 4007 is enacted, some states could make use of the option this year. Gradually, other states could find this approach beneficial. Borrowing could be significantly reduced as state legislatures take the necessary steps to increase funding.

H.R. 4007 could make a significant contribution toward improving state trust fund reserves and decreasing state dependence on Federal loans. NAM strongly endorses this legislation for expeditious Senate deliberation and passage.

TESTIMONY OF STATE REPRESENTATIVE

BOBBY D. CRIM

SPEAKER OF THE HOUSE

LEGISLATURE OF MICHIGAN

BEFORE THE

SENATE FINANCE SUBCOMMITTEE

ON UNEMPLOYMENT AND

RELATED PROBLEMS

HEARINGS

ON

H.R. 4007

APRIL 28, 1980

Mr. Chairman and Members of the Committee:

I come before you today in support of H.R. 4007 and request that this statement be considered by your committee and included in the report of hearings held on April 28, 1980. The Legislature of Michigan is committed to a fiscally sound Unemployment Insurance program supported by realistic tax rates on employers. The role of the FUTA tax in providing a cushion during economic downturns is an essential element in maintaining fiscal stability of the State funds.

H.R. 4007 is an innovative approach to some of the problems involved in repayment of loans to the Federal Unemployment Insurance fund by States which have had to borrow. It would permit a State to avoid the penalty add-on to the flat rate Federal tax if the full amount of the loan cannot be repaid within two years of the calendar year in which it is borrowed by permitting the State to make a payment of the projected amount that would be collected by the imposition of the additional tax. It also provides two very significant safeguards against possible abuse by State UI funds. First, the State would have to establish that the partial repayment would not reduce the State fund below the level necessary to make UI payments for at least six months. Second, the State would also have to repay any loans made to the State fund by the Federal fund in the current year.

Recognizing that H.R. 4007 does not attempt to resolve the overall inequities in the UI program which have led some States to have to borrow heavily and set much higher experiential rates than other States, it is an important and desirable change in the present provisions for payback of loans to the State funds. It is a fiscally responsible means for stretching the repayment period for States that have suffered severe or lengthy economic downturns and need additional time to recover; it is an expedient means for reducing the potentially exacerbating effect of increased employer taxes on an already overstrained economy and at the

H.R. 4007
May 9, 1980

Page 2

same time it does not permit a State to avoid indefinitely upward adjustments of UI tax rates if they become necessary.

Michigan is one of the States that has had to borrow heavily from the federal fund. During the 1975-1977 period Michigan borrowed \$624,000,000. Our State repaid the Federal fund in December of 1979 but the severe unemployment rate our work force is presently experiencing has forced us to borrow \$330,000,000 this year to date and we anticipate additional borrowing will be necessary later in the year. The automatic increase in FUTA taxes on Michigan employers will not occur until 1982 and hopefully the economy in Michigan will have improved by then and we will be in a position to repay the Federal UI fund.

But what if the economy hasn't sufficiently improved? Increased taxes on employers can only exacerbate the employment picture in Michigan's recovery by putting even greater strains on the Unemployment Insurance program. It is logical to build provisions in the program that would, if anything, help employers and employees return to normal employment levels more rather than less quickly.

One further factor needs to be considered. Michigan provides an example of a State with exaggerated swings in its economic cycle. For our State to have to increase rates to cover the downturns might well overburden employers and result in large surpluses in our UI fund during the healthy portion of our economic cycle. The Federal fund provides the opportunity to help States like Michigan even out the UI tax rates. If sufficient time is not provided for States such as ours to repay our loans from the Federal fund the usefulness of the Federal fund will be significantly diminished. Since no State can ultimately escape the setting of experiential rates that will make its fund fiscally sound the extension of loan repayment provided for in H.R. 4007 will not in any way encourage fiscal irresponsibility.

H.R. 4007
May 9, 1980

Page 3

In fact, if we could urge one change in H.R. 4007 it would be to reduce or eliminate the requirement for a six month reserve. The question of the viability of the State fund is not the size of the reserve but the differential between income and outlay. The measure should be whether the State fund after repaying the Federal fund an amount equal to the add-on tax would have to borrow from the Federal fund within six months or a year.

Recognizing that H.R. 4007 does not address cost equalization or reinsurance, I would again like to reiterate my strong support for Federal responsibility for Unemployment Insurance payments when unemployment reaches catastrophic levels. Michigan's unemployment is presently twice the national average. The economic and energy policies, especially those related to the automobile industry are the responsibility of the Federal government not the State. Surely an individual State and its employers which is more significantly and negatively impacted on by national policy should not be left to bear the major burden of the resulting unemployment. It is important for the Congress to consider cost equalization or reinsurance concepts that will spread the costs resulting at least from extraordinary unemployment levels. I therefore look forward to an opportunity to work with your committee on even more far reaching Unemployment Insurance legislation. In the meantime I urge your committee to adopt H.R. 4007.

The National Conference of State Legislators supports the enactment of H.R. 4007. At a meeting of NCSL's State-Federal Assembly in April, NCSL's policy requesting the federal government to allow an extended repayment period for state unemployment compensation loans was reaffirmed. NCSL will be submitting a statement of support for the record of this hearing.



**National
Conference
of State
Legislatures**

Office of
State
Federal
Relations

644
North Capital
Street, N.W.
2nd Floor
Washington, D.C.
20001
202/634-5400

President:
George B. Roberts, Jr.
Speaker, New Hampshire
House of Representatives
Executive Director:
Earl S. Mackay

STATEMENT
OF
SENATOR GRANT JONES
TEXAS SENATE

ON BEHALF OF
THE NATIONAL CONFERENCE OF STATE LEGISLATURES

ON
HR4007
THE REPAYMENT OF
UNEMPLOYMENT INSURANCE LOANS TO THE STATES

BEFORE
SUBCOMMITTEE ON UNEMPLOYMENT AND RELATED PROBLEMS OF THE
SENATE FINANCE COMMITTEE

I THANK YOU FOR THIS OPPORTUNITY TO SUBMIT A STATEMENT FOR THE RECORD OF YOUR HEARINGS APRIL 28, 1980 ON HR4007, A BILL TO IMPROVE THE CONDITIONS REGARDING THE REPAYMENT OF UNEMPLOYMENT INSURANCE LOANS TO THE STATES.

MY NAME IS GRANT JONES. I AM A STATE SENATOR FROM TEXAS AND CHAIRMAN OF THE SENATE FINANCE COMMITTEE IN TEXAS. I ALSO SERVE AS CHAIRMAN OF THE GOVERNMENT OPERATIONS COMMITTEE OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES. IT IS IN THAT CAPACITY THAT I ADDRESS YOU TODAY, TO BRING YOU THE CONCERN OF THE CONFERENCE.

THE NATIONAL CONFERENCE OF STATE LEGISLATURES SUPPORTS THE PROVISIONS OF HR4007. THE LEGISLATION WOULD PROVIDE THE STATES WITH OUTSTANDING FEDERAL UNEMPLOYMENT INSURANCE LOANS THE OPTION TO REPAY EITHER THE FULL AMOUNT OUTSTANDING, AS UNDER CURRENT LAW, OR TO REPAY THE FEDERAL GOVERNMENT THE MONEY THEY OWE THROUGH A PROCEDURE WHICH WOULD ALLOW STATES TO IMPROVE THE SOLVENCY OF THEIR OWN UNEMPLOYMENT TRUST FUNDS, PLACING THE BURDEN OF REPAYMENT ON THOSE EMPLOYERS WHO WERE MOST RESPONSIBLE FOR THE STATE'S UNEMPLOYMENT.

THE LEGISLATION WOULD PERMIT STATES WITH THESE OUTSTANDING LOANS TO AVOID AN AUTOMATIC REDUCTION IN THE FEDERAL TAX CREDIT FOR EMPLOYERS (WHICH INCREASES THE ACTUAL AMOUNT EMPLOYERS MUST PAY THE FEDERAL GOVERNMENT) BY REPAYING THE FULL AMOUNT OF THE LOAN, OR BY REPAYING OUT OF THE STATE'S UNEMPLOYMENT INSURANCE FUNDS THE AMOUNT WHICH WOULD BE COLLECTED IF THE REDUCTION IN THE CREDIT WERE TO TAKE PLACE, PLUS THE AMOUNT OF ANY FEDERAL LOANS RECEIVED DURING THE YEAR. IN ORDER TO ELECT THE REPAYMENT PROVISIONS IN HR4007 THE STATE MUST HAVE SUFFICIENT FUNDS IN

PAGE 2

THE STATE TRUST FUND TO PAY ALL COMPENSATION DURING A SIX MONTH PERIOD WITHOUT RECEIVING ANY FEDERAL LOANS.

NCSL HAS LONG SUPPORTED THE NEED FOR STATES TO HAVE EXTENDED PERIODS TO REPAY THESE LOANS. STATES HAVEN'T A MAJOR ROLE IN ECONOMIC POLICY MATTERS WHICH ARE THE JURISDICTION OF THE FEDERAL GOVERNMENT. THE CONGRESS AND THE ADMINISTRATION ESTABLISH AND CARRY OUT FISCAL AND MONETARY POLICIES WHICH HAVE A DIRECT EFFECT ON THE LEVELS OF INFLATION AND UNEMPLOYMENT IN PARTICULAR SECTORS OF THE ECONOMY OR GEOGRAPHIC AREAS OF THE COUNTRY. STATE LEGISLATURES HAVE LIMITED ABILITIES TO RESPOND TO THESE PROBLEMS, AND EVEN THESE RESPONSES ARE THREATENED BY THE FAILURE OF THIS LEGISLATION TO BECOME LAW. WITHOUT ENACTMENT OF HR4007, A STATE WITH AN OUTSTANDING UNEMPLOYMENT INSURANCE LOAN WOULD BE FORCED TO ACCEPT AN EFFECTIVE INCREASE IN TAXATION FOR ALL STATE EMPLOYERS. STATE CREATED INCENTIVES SUCH AS EXPERIENCE RATINGS WOULD BE CRIPPLED UNDER THIS MANDATE. OF MAJOR CONCERN IN THE EYES OF THE STATES IS THE RECESSION WHICH IS FINALLY UPON US. THE PROSPECT OF LOSING A FLEXIBLE REPAYMENT PROGRAM FOR UNEMPLOYMENT LOANS FOLLOWING A SIGNIFICANT INCREASE IN NATIONAL UNEMPLOYMENT TO A NEW LEVEL OF 7% IS TROUBLING. THE DEFERRAL PROVISIONS ADOPTED FOLLOWING THE LAST RECESSION EXPIRED DECEMBER 31, 1979. THE LENGTH OF THIS CURRENT RECESSION WILL MAKE A DIFFERENCE IN HOW RAPIDLY THESE LOANS CAN BE REPAYED. THE SEVERITY OF THE RECESSION WILL DETERMINE HOW LARGE THESE LOANS MAY NEED TO BE. BECAUSE OF THIS, WE FEEL IT IS THE RESPONSIBILITY OF THE FEDERAL GOVERNMENT TO ACCEPT THE GOOD FAITH OF THE STATES IN MAKING REPAYMENT OF THESE LOANS AND TO PROVIDE A REASONABLE MECHANISM SUCH AS HR4007, WHICH RETAINS EFFECTIVE STATE OPTIONS.

PAGE 3

AN ADDITIONAL SPHERE OF FEDERAL INFLUENCE IS THE PASSAGE OF LEGISLATION WITH ADVERSE EFFECTS ON CERTAIN SECTORS OF THE ECONOMY, BE THE FEDERAL CONCERN ENERGY CONSERVATION, ENVIRONMENTAL PROTECTION OR CONSUMER SAFETY. SUCH MANDATES CAN DEPRESS THE ECONOMY OF CERTAIN STATES WHILE HAVING LITTLE AFFECT ON OTHERS. WITHOUT A FLEXIBLE BUT RESPONSIBLE UNEMPLOYMENT INSURANCE LOAN AND REPAYMENT PLAN, THE INSULT OF ARBITRARILY HIGHER TAXES CAN BE ADDED TO THE INJURY OF A DEPRESSED ECONOMY.

THE NATIONAL CONFERENCE OF STATE LEGISLATURES SUPPORTS HR4007 FOR IT PERMITS THE STATES TO MAKE REPAYMENTS WITHOUT THE POTENTIAL ACCELERATING OF INCREASING EMPLOYER TAXES ON AN ALREADY OVERSTRAINED ECONOMY AND ALLOWS STATES TO GENERATE FUNDS FOR THE REPAYMENTS THROUGH A SYSTEM WHICH WOULD DISTRIBUTE THE RESPONSIBILITY FOR REPAYMENT MORE EQUITABLY AMONG THE STATE'S EMPLOYERS BY USING THEIR EXPERIENCE RATING PROCEDURES.

HR4007 WOULD ALLOW STATES THAT COULD NOT AFFORD TO MAKE FULL REPAYMENT OF THE LOANS THE OPTION TO MAKE PARTIAL REPAYMENTS TO AVOID AN AUTOMATIC F.U.T.A. TAX INCREASE ON ALL EMPLOYERS IN THEIR STATE. IN MANY CASES, STATES HAVE TAKEN STEPS TO IMPROVE THE SOLVENCY OF THEIR UNEMPLOYMENT TRUST FUND BY ALREADY INCREASING STATE TAX RATES OR TAX BASES. SOME EXAMPLES OF THESE STATES ARE ILLINOIS AND MASSACHUSETTS. HR4007 WOULD ALLOW STATES TO MAKE THESE REPAYMENTS UNDER PROCEDURES ESTABLISHED BY THEIR OWN STATES RATHER THAN BY ASSESSING A FLAT TAX AGAINST ALL EMPLOYERS. THIS FLAT RATE WOULD NOT DISTINGUISH BETWEEN EMPLOYERS WITH VERY DIFFERENT RECORDS OF STABLE OR UNSTABLE EMPLOYMENT PATTERNS. THE DISINCENTIVE IS OBVIOUS. WITH HR4007,

PAGE 4

STATES ARE GIVEN AN OPPORTUNITY TO BUILD INTO THEIR OWN SYSTEMS MEANS TO REPAY OUTSTANDING LOANS WHICH CREATE THE LEAST AMOUNT OF ECONOMIC DISRUPTION.

I THANK YOU AGAIN FOR THIS OPPORTUNITY AND I URGE YOU TO REPORT THIS BILL AS QUICKLY AS POSSIBLE TO REMOVE UNCERTAINTY ABOUT THE REPAYMENT PROCESS. THE PRESENT RECESSION IS ALREADY UPON US WITH RISING UNEMPLOYMENT, AND MANY MORE STATES MAY SOON NEED TO APPLY FOR THESE LOANS. THE GREATEST NEED IS FOR A HEALTHIER ECONOMY, BUT HR4007 ALLOWS A VALUABLE SAFEGUARD FOR STATES WHILE PROMOTING RESPONSIBLE FISCAL MANAGEMENT.

○