

**SHORT-TERM AND LONG-TERM NEEDS OF THE  
UNEMPLOYMENT COMPENSATION PROGRAM**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
ONE HUNDRED SECOND CONGRESS  
SECOND SESSION

—————  
APRIL 29, 1992  
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# SHORT-TERM AND LONG-TERM NEEDS OF THE UNEMPLOYMENT COMPENSATION PROGRAM

WEDNESDAY, APRIL 29, 1992

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 10:05 a.m., in Room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Riegle, Packwood, Chafee, and Grassley.  
[The press release announcing the hearing follows:]

[Press Release No. H-18, April 16, 1992]

## FINANCE COMMITTEE TO EXPLORE FURTHER JOBLESS BENEFITS, CHANGES IN PROGRAM NEEDED, BENTSEN SAYS

WASHINGTON, DC.—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, Thursday announced a hearing on the short-term and long-term needs of the unemployment compensation program.

The hearing will be at 10 a.m. Wednesday, April 29, 1992 in Room SD-215 of the Dirksen Senate Office Building.

“Unless the unemployment rate drops significantly and sharply, quickly, we ought to extend the emergency unemployment benefits enacted in recent months. We also need to review ways to improve the ability of the unemployment compensation system to respond to the needs of unemployed workers over the long-term. Doing that will require permanent changes in the program,” Bentsen said.

“This hearing will enable us to take a close look at the short-term and long-term issues in unemployment compensation,” Bentsen said.

## OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. This hearing will come to order. Today's hearing is going to examine the further extension of unemployment benefits for the millions of Americans who are the victim of the longest period of economic stagnation since the Great Depression.

We will also consider whether more permanent changes are needed in the nation's unemployment system.

Twice in the last 6 months, Congress has enacted legislation to meet the needs of long-term unemployed workers. But that extension enacted in February will soon expire. Unless the unemployment rate drops significantly and sharply—and I do not see that happening—in my view, we ought to extend those benefits once again.

There are signs that the economy may be improving, but there are also contradictions in that. In March, we saw housing starts increase by 6.4 percent. And, then, in April, we saw them take a pre-

cipitous drop. We saw machine tools rising by 9.3 percent, and that is the strongest first quarter in 3 years.

Yesterday, the Commerce Department's preliminary report indicates the economy grew at an annual rate of 2 percent in the first quarter, and that is up from an anemic 0.4 percent in the last quarter of 1991.

But Federal Reserve Board Chairman Alan Greenspan testified last week that this kind of modest economic growth will not bring down the nation's unemployment rate at the pace all of us would like to see.

Earlier this year, new claims for unemployment benefits were running about 460,000 a week. Last week, according to the Department of Labor, the four-week running average for new claims was down to 427,000. So, that is a modest improvement.

But new claims are still far above the 350,000 weekly average that the nation experienced between 1986 and the onset of recession in July of 1990. All of us here know that the unemployment rate is a lagging indicator.

Last month's unemployment report showed 9.2 million Americans still unemployed. For now, at least, most economists are not projecting a significant drop in the current 7.3 percent unemployment rate over the next few months.

The administration apparently agrees with that view. Later on this morning, Secretary of Labor Lynn Martin will be with us. And, as indicated, the administration will support an extension of the emergency unemployment compensation program through the end of the year.

I also think we need to review ways to improve the ability of the unemployment compensation system to respond to the needs of unemployed workers over the long term. That requires some changes and some reform, and will bring about some controversy.

If we are going to take care of it, it means some permanent changes in the program. And, in that regard, I would draw the attention of the members of this committee to two studies that have recently been done at my request.

The Congressional Research Service has just completed a comprehensive review of unemployment compensation in seven major industrialized nations.

Among other major findings, it points out that during the decade of the 1970s and the 1980s the U.S. Unemployment Compensation program, as a share of gross domestic product, ranked either sixth or seventh among the G-7 nations, when adjusted for the unemployment rate. That means we have responded in a much smaller degree than have our major economic competitors.

In addition, the General Accounting Office, which is conducting a larger study of the Unemployment Compensation program at my request, has just completed a preliminary paper for the committee.

The GAO concludes that, because of the declining percentage of unemployed workers who have actually received regular and extended benefits in recent years, our unemployment compensation system is not having the same kind of counter-cyclical effect that it had on the economy earlier.

According to the GAO, the system would have paid out an additional \$20 billion in 1990–1991, if we had as high a percentage of unemployed workers receiving benefits as we had in the mid-1970s.

These are some of the issues that our witnesses will be addressing at the hearing this morning. Some of these things sound very impersonal. But to those millions of unemployed, it becomes a very major issue. And that is to which we are addressing our concern.

I look forward to hearing from these witnesses and their guidance, because we are going to be marking up this legislation, important legislation, in the weeks to come.

I would also like to make a point that continues to concern me. I do not want to see us add to the deficit, I want to see us pay for what we do in the way of unemployment compensation. And I am delighted the administration shares the concern and wants to pay for an extension of benefits.

I hope they will share with us a desire to bring about some permanent changes in the criterion that will result in more fairness and evenness across the many States.

The administration wants to see that it is paid for; I share that. I would also like them to share the responsibility by telling us how they want to pay for it. It is not up just to this committee to make the choices. It is a popular thing to extend the benefits. It is not popular when we tell folks how they have to pay for it.

And even in this election year, it is important, I think, for us in the Congress, and just as important for the administration, to help make those painful choices, enough of which has not been done over the last decade.

I yield to my colleague, the Senator from Oregon.

**OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S.  
SENATOR FROM OREGON**

Senator PACKWOOD. Mr. Chairman, thank you. I have a special interest in the plight of the unemployed, because in Oregon, unemployment reached 8 percent 2 weeks ago, and that is its highest level since 1986. The recession may be easing in other parts of the country, but in the Pacific Northwest we have yet to feel the start of the recovery.

In the midst of what should be a period of high employment and logging activity; we are seeing more unemployed timber workers. In vast sections of the northwest, not a single tree is being cut because of an accumulation of court injunctions and administrative appeals.

Congress passed emergency unemployment benefits to help the long-term unemployed twice so far: once last November, and then again in February of this year. I worked hard to ensure the passage of both of these bills.

There is still a deep concern nationally about the lingering and delayed effects of our current recession. We need to continue to help those who face unemployment by further extending the emergency unemployment benefits. But we have to be careful that the way in which we pay for the extension does not cause a further drag on the economy.

Many of the proposals to reform the unemployment compensation system are expensive. They put a bite on employers, many of whom

are struggling now to stay in business. And because the reforms are controversial, they could slow down or kill action on extending the emergency benefits.

I think it is important to recall that Congress recognized only last November that the program needs to be looked at to see what long-term reform may be needed.

And at that time, we created an 11-member Advisory Council. It is made up of representatives of workers, business, and State and Federal Governments.

I think we should not jump the gun and try to make permanent changes in a very complex program like unemployment compensation before the Advisory Council has a chance to evaluate it and make its report to us.

So, I would suggest that we act now, as soon as possible, to extend emergency unemployment benefits until next year, but leave the issue of changes or reform until we hear from the advisory council that we created and asked to report to us. Thank you, Mr. Chairman.

The CHAIRMAN. Surely. Senator Riegle.

**OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM MICHIGAN**

Senator RIEGLE. Mr. Chairman, first of all, let me thank you for your leadership in this issue, both the hearing today, but, also, in seeking these very valuable reports that you made reference to and which we now have. I want to make a reference to one of these reports in just a moment.

But, before I do, I want to say that I think we need to go beyond just the extension. We have got to have the reforms. We have gotten into the practice, I think, in reference to the remarks of the Senator from Oregon, where we are always going to do things next year, or the year after, or the year after.

And I think there is really a very powerful argument, and the studies that we have bear that out, for making some fundamental changes to our unemployment insurance compensation system now.

We have got about 16 million people across our country who are either unemployed, or working part-time and want to work full-time, or are in the discouraged worker category. It is evident that this is a major national problem.

And, as you point out, the growth rate announced yesterday of 2 percent is very anemic, especially as we come out of the long recession that we have been in.

It is clearly not enough to bring the unemployment rate down. I was struck by and am sorry about the comment by the Senator from Oregon, that the unemployment rate has now gone up to the 8 percent range in Oregon.

It is 9.3 percent in Michigan. We are a very large State, so we have a vast number of people, numbering in the hundreds of thousands, that are really in quite serious condition. And there are no job opportunities out there right now.

I got a letter the other day from someone in Texas who wrote in, after having watched one of these hearings. He has gone through—a serious person, you can tell from the letter—three different job retraining programs to get additional skills and still cannot land a



job. That is not uncommon in terms of what I am finding in my own home State.

Last year we passed the Emergency Unemployment Compensation Program, and earlier this year we extended the benefits under the program. But I think we have got to go further. I have a bill before the committee that will do that.

S. 1296 would put some reforms in place in addition to any extension of benefits. My bill would deal with the areas of the extended benefit program trigger, the administrative financing and eligibility criteria. It also addresses the question of how we calculate and consider what we call discouraged workers, or those that want to work full-time but cannot find full-time work and are working part-time.

Let me just finally say with reference to this study, Mr. Chairman, this is really illuminating, because we see what is happening.

Japan has this huge trade surplus with us, helps them, hurts us. They maintain high levels of employment there. The Europeans are very concerned about it. The Germans pay great attention to employment levels.

But it is interesting when you look at this study from the Congressional Research Service (CRS), which indicates that unemployment benefits actually paid out in Canada, Germany, Japan, and Italy are all higher than they are here in the United States.

How is it that our trading partners can respond to the needs of their workers, achieve higher productivity, and do well in the trade area? Why can't we afford to do as well by our unemployed workers.

The CRS report also states that: "Maximum benefit durations are longer for prime age, full-year workers in Canada, France, Germany, and the United Kingdom than in the United States. Durations are longer still for older, longer term workers in France, Germany, and Japan." It appears as if the United States ranks at the bottom of that list of seven in that area.

As you pointed out, in terms of a measurement of our gross domestic product, we are right down at the bottom regarding what we do to help workers who have been thrown out of work. We do minimal to help our unemployed worker sustain themselves and their families and get back into the work force in comparison to these other nations.

It is very useful to have these comparisons because it shows that other nations are managing to respond to the needs of their workers better than we are. There is really no excuse for the lack of response we are experiencing.

On a final note, I would like to relay a situation that really struck me the other day. There was a story on national television about two veterans of Desert Storm, who, a year ago, were defending this country, wearing the uniform of this country, and performing with valor over in the Persian Gulf. They came back, they had the parades, and quite a bit of recognition.

Today, those two veterans are unemployed, homeless, and living in cardboard boxes because they cannot find work in the country that they were defending in uniform just a year ago.

This is not an isolated case. It is a dramatic case, which demonstrates that we must help our unemployed workers. Frankly, be-

yond emergency unemployment benefits, we need an economic plan for our country.

When the President came in a short time ago to break everybody's arm on most-favored-nation trading status for Communist China so they could ship more in here and keep their people at work, I was left, like others, scratching my head.

When we are going to get a plan for the United States to get our people to work? It is a question that has not been answered. We need an economic plan for this country. We may have to get ourselves a new President in order to get such a plan. Thank you, Mr. Chairman.

The CHAIRMAN. Our first witness will be Mr. Warren Blue, who is the senior vice president and general counsel for Harrington Services Corporation, Columbus, Ohio, on behalf of the National Association of Manufacturers. Mr. Blue, we are pleased to have you. If you would proceed.

**STATEMENT OF WARREN BLUE, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, HARRINGTON SERVICES CORP., COLUMBUS, OH, ON BEHALF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS, ACCOMPANIED BY CHRIS BOWLIN, ASSOCIATE DIRECTOR, INDUSTRIAL RELATIONS OFFICE, NATIONAL ASSOCIATION OF MANUFACTURERS**

Mr. BLUE. Thank you, Senator Bentsen. As you have already said, I am Warren Blue. I am Senior Vice President and General Counsel of R.E. Harrington, Inc., which is a wholly-owned subsidiary of Harrington Services Corporation.

We are headquartered in Columbus. And our ongoing job is to represent employers in the administration of unemployment compensation claims. We have many thousands of clients throughout the United States for which we do that.

I am testifying today on behalf of the National Association of Manufacturers. I have Chris Bowlin behind me here, who is the Associate Director in NAM's Industrial Relations Department.

We want to thank you for the opportunity to present NAM's general views on the current state of the Unemployment Insurance Program, and opportunity to discuss the subject of permanent changes. We want to obviously commend you for holding this hearing.

It is our opinion that the Federal/State unemployment compensation system, which, according to the last statistics I saw, will pay out \$26 billion in fiscal year 1992, is functioning the way it was established; it is functioning properly, and within the guidelines established by Congress and also appropriate statutory provisions by States.

It is a program which agreed to and supported by the employer community so long as it meets its original purpose. This may be a reiteration for you, but I would like to explain to you what we think its purpose is.

The purpose is to pay benefits to those who meet the eligibility requirements and who have become unemployed through no fault of their own due to a temporary spate of unemployment.

The question, I suppose, that has to be asked is, what is temporary unemployment? I believe that over the years it has been

well-established that the program itself recognizes the 26-week provisions of every State law—at one time Wisconsin had 30, and I think they have come down—except where you have a situation of high unemployment and then the employer community has agreed to finance—and the employers are financing this program—an additional 13 weeks.

We think any expansion of the duration is symptomatic of a far greater and more deeply ingrained economic problem than the unemployment system was originally established for.

And the support for another additional program beyond this so-called temporary unemployment situation is symptomatic of a need for some other financial way of supporting a program which should be spread across all of society and not just the employer community.

Now, the EUC program which we are discussing here today is an example of a program put into place because of this ingrained economic problem.

And the decision which you make here is really a decision based upon economic and political factors and really is not part of this system—the unemployment system—itsself, and should be financed from some other sources, or, including employers probably, and including other parts of society.

You asked for comments on permanent changes in the program, and we obviously believe that they should be approached with extreme caution and we believe that Congress should abide by its own directive just determined last year.

Senator Packwood commented on this, and I would just like to reaffirm what he said. Section 303 of Public Law 102-164, the Emergency Unemployment Compensation Act of 1991, amended Section 908 of the Social Security Act to require the Secretary of Labor to establish a quadrennial advisory council on unemployment compensation, beginning in February of this year.

The 11-member council would be created every 4 years and consist of five members to be appointed by the President, and three each by the House and Senate.

According to your statute, the function of the council is to evaluate the Unemployment Compensation program, including the purpose, goals, counter-cyclical effectiveness, coverage, benefit, and some other provisions.

This congressionally-mandated council has yet to be appointed. We believe that they should be the ones who should take a look at any substantial changes in the unemployment compensation law.

I think we would be remiss to not comment on some specific provisions that have, at the least, been bandied around to be changed permanently.

One of those is liberalizing the extended benefit program, and we believe that, again, it goes outside of the scope of the program. It is costly and it establishes what we think is a triggering mechanism that is not tied in to the program's effectiveness, what the program is all about.

Increasing of the wage base, we think, offers an opportunity for a merit rate erosion and puts the burden on manufacturers and takes away some of the burden from the service industry, and everybody knows which one is growing the fastest in our economy.

And, also, the change in the voluntary quit disqualification is trampling on States' rights. And I will not get into any more comment on that, because I am about out of time. All of these changes, we think, should be the subject for the advisory council's determination.

To sum up what we are saying, NAM supports the following: the current Federal/State Unemployment Compensation program which provides temporary benefits to individuals who become temporarily unemployed through no fault of their own; consideration by the Advisory Council on Unemployment Compensation of all issues relating to unemployment, both temporary and structural, and how current programs address the labor market realities; and continuation of the extended benefit program based on the insured unemployment. Thank you for the opportunity to present these comments.

The CHAIRMAN. Well, Mr. Blue, that is very interesting. I agree that we should look forward to the findings of the commission.

But I also think that some of the things are so glaringly apparent and so egregious that we should not be waiting to address them.

Do you oppose using the Total Unemployment Rate, the TUR, in determining whether a State can pay benefits under the extended benefits system? Think about what happened last fall.

Not a single State, not one, qualified for extended benefits under the existing unemployment rate. And that is despite the fact that the national unemployment rate reached 7 percent, and, in some States—the State of West Virginia, the State of Michigan—was 8, 9, and 10 percent.

And, in the 1980s, we have seen a growing gap between the IUR and the TUR, I think raising serious questions about the continuing accuracy of the IUR in measuring a State's unemployment.

We have that study by the Congressional Research Service showing that between the 1960s and the early 1980s the IUR generally ranged from 41 percent to 56 percent of the TUR.

It was considerably higher than that during the period of recession in the mid-1970s. But, after 1983, this percentage declined significantly, ranging from 32 percent to 37 percent. Something has sure gone amiss.

We know there are various reasons for that, including the changes in the structure of the economy. That is part of it. You referred, in part, to that.

There is also a problem that, because some States have tighter laws and procedures than others, workers in different States are treated unequally under the IUR trigger. States vary greatly in their unemployment compensation rules.

Let me give you an example. Workers in the State of New Hampshire must earn more than four times as much in a base period before they can qualify for benefits as workers in nearby Connecticut. Something is wrong with that kind of inequality.

Dr. Vroman, who will be testifying later this morning, has calculated the annual TUR that is needed to activate the EB program in my own State of Texas to be 13.2 percent; 15 percent higher than the 8.9 percent unemployment reached in Texas in 1986 at the height of the energy crisis.

I really think the National Association of Manufacturers ought to be addressing those concerns and making a contribution to the effort of making the changes.

Under the present formulation, Mr. Blue, workers in Texas and a large number of other States would never qualify for extended benefits. How do you reply to that?

Mr. BLUE. I think I would reply by saying that just taking the TUR is not the answer. I think I would reply by saying this is a very, very fundamental change and the advisory council should be the ones that should take a look at it.

I think I would reply by saying the provisions that the States enact should be left to the States to make the decision as to who is eligible and what eligibility requirements they have to have.

I recognize the big gap in Texas; that is pretty well-known. And that is why I think the advisory council may want to look at what rate is used in the IUR, but I think they continue to use the IUR. But that, again, is an advisory council decision, in my opinion.

The CHAIRMAN. Well, I can tell you, Mr. Blue, I am going to try to see that some of these changes are made in this legislation. I know there will be opposition to that, but some of them are so far-reaching and so egregious, some of the disparities, that I do not think we ought to wait. I think you fellows ought to get aboard and try to help us arrive at something that you think will work and is pragmatic and practical. I defer now to my colleague.

Senator PACKWOOD. No questions, Mr. Chairman.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Mr. Chairman, I appreciate the comment you just made, and I would like to express my support for that idea, as well. I am reminded of a comment that Ross Perot made the other day, that if he becomes President, that the Executive Branch and the Legislative Branch will work together, just like the way that Fred Astaire and Ginger Rodgers used to dance together.

I would say that we ought to have your help and not have the group dig in its heels. That would be a big mistake. We do have to find a way to solve our unemployment problem.

I do not want to overly personalize this, but I want to make a point. Have you ever had to go through the unemployment system yourself? Have you had to file for benefits?

Mr. BLUE. Not personally. I have had a child who has had to do it, and I at least related to that experience.

Senator RIEGLE. Yes. Well, many of us have children that have had to file for unemployment benefits, which says something about the direction of America. I find from talking to people that have had to go through it--people your age, my age, people with good, long work histories--they find that it is often a terribly difficult process. And the process can be very unfair.

Individuals living in one State versus individuals living in another State, given the same situation and circumstances, are subject to different unemployment compensation criteria. Those individuals are both unemployed and they may face equally bleak job opportunities, but what they are able to do with unemployment compensation support to provide for their families is different.

I do not understand, frankly, why we allow that to go on. I do not think that is good for the business future of this country. I

think we ought to find a way to see to it that unemployed workers in similar situations across the country should not have their circumstances vary widely because they happen to be in one State versus another, or that their children should be helped or hurt more because they happen to be in one State rather than another.

If you have a theory on this, tell me why you think it is that our major foreign competitors—Japan and Germany which are tough, tough competitors, as you know, from everything you are told by the businesses you represent and by businesses in my State—are able to do more to support their unemployed workers than we are, and why do they offer such support?

Mr. BLUE. I am sure I cannot answer that. I have not seen the report, and I really do not know enough about it to give you a comment, Senator. I am sorry.

Senator RIEGLE. Well, I am going to give you a copy of both reports today. I would like you to take them back, and, with your colleagues, take a look at them.

I think when we try to out-compete the rest of the world, which we need to do and are not doing as well as we should, we need to take a look at our work force; how well-trained it is, how well-motivated it is; how incentivized it is; and also, what happens when our economic system breaks down and we experience sustained high unemployment.

I think we have to have a way of responding to this problem other than to saying it is really somebody else's problem, or let us fix it at another time, or let us finance it another way.

These are not points to be looked at in terms of how a problem is fixed, but if there is a problem and you cannot fix it within the system that you are here testifying about today, then I think we have some obligation to go beyond the current system and suggest how it might be fixed. Would you go back and take a look at that?

Mr. BLUE. Certainly.

Senator RIEGLE. I think we do have to dance like Fred Astaire and Ginger Rodgers.

Mr. BLUE. I am sure that there is a difference in the financing because, to my knowledge, they do not merit-rate their systems in those other countries. But I cannot tell you any more than that.

Senator RIEGLE. Well, take a look at these reports. What these reports show is that in category after category, other countries and the businesses in those countries do more to respond to the problems of their unemployed workers than we do in America.

I think that is one of the reasons why the workers in those countries, perhaps, are showing higher productivity rates over time. I cannot prove that, but something is at work there.

In any event, I would appreciate your analysis of these reports and their findings. And I hope you will take the Chairman's suggestion.

Mr. BLUE. We would like the opportunity to do that.

Senator RIEGLE. Good.

Mr. BLUE. Because we would like to analyze exactly what the differences are.

Senator RIEGLE. We will give you both reports today, and I would like to receive your suggestions on solving the problems in our unemployment system. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Grassley.

Senator GRASSLEY. Mr. Chairman, I apologize for not being here throughout the entire hearing. But I was on the floor reporting on my trip to Southeast Asia with the Kerry POW/MIA committee.

But I am glad to be here, because unemployment is still a serious problem, something we have to deal with. And I would ask to put a statement in the record.

The CHAIRMAN. That will be done.

[The prepared statement of Senator Grassley appears in the appendix.]

Senator GRASSLEY. I would like to ask Mr. Blue whether or not you stated that NAM supports at least extending unemployment benefits through the rest of this year without getting into any structural reforms.

Mr. BLUE. I do not recall we specifically said that. I think we stated that the decision that you make is your decision based on economic and political factors for an additional extension of the program.

Senator GRASSLEY. Thank you.

The CHAIRMAN. Thank you. Thank you very much, Mr. Blue.

Mr. BLUE. Thank you.

The CHAIRMAN. And we would look forward to having any contribution you have as to what you think should be done.

Mr. BLUE. Certainly. We appreciate the opportunity.

The CHAIRMAN. We would like the input. Thank you.

[The prepared statement of Mr. Blue appears in the appendix.]

The CHAIRMAN. The next witnesses, Mr. William J. Cunningham, is legislative representative of the AFL-CIO; Washington, DC. Mr. Cunningham, we are pleased to have you back before the committee.

#### **STATEMENT OF WILLIAM J. CUNNINGHAM, LEGISLATIVE REPRESENTATIVE, AFL-CIO, WASHINGTON, DC**

Mr. CUNNINGHAM. Thank you, Mr. Chairman and members of the committee. My name is Bill Cunningham. I work for the AFL-CIO, and we appreciate the opportunity to testify in support of extending the Emergency Unemployment Compensation Benefit program.

As you noted, Mr. Chairman, the unemployment rate remains very high. More than nine million people are officially jobless. Calculations by our Economics Department indicate that there are one million people who are discouraged workers, and, therefore, are not counted in this total.

And there are 6.5 million people who are involuntary part-time workers who really want full-time jobs and full-time paychecks.

This shortfall and the growth of the labor force indicates that there may be an additional million people who are not even accounted for. Based on this analysis, the true unemployment rate is about 11.5 percent. This is devastating.

In spite of the better news that we had on the economy today with a 2 percent growth in the first quarter, I think it is fair to say that most economists believe if we only have a 2 percent growth that technically we will be getting out of recession.

But this economy will not be creating jobs. Therefore, all of those people who are unemployed or under-employed will remain the same. Therefore, this better news may stop the job-loss hemorrhage, but we will still be bleeding over time.

There is an urgent need to continue the Emergency Unemployment Compensation program. I am going to skip around in my testimony, Mr. Chairman, because I know that you have other witnesses.

It just seems to us that a cynical effort to just extend the program to the end of this year would be a mistake. We have a formula to continue the program permanently if we cannot get a reform of the extended benefits program in place.

You know, based on your experience here, and the other Senators know, that next year there is going to be a new Congress. There may be, we hope, a new administration.

This is going to mean that for the first two or 3 months of next year, there will be no legislative activity. We do not believe that unemployed people will be covered unless the emergency program is extended beyond next year.

A permanent extended benefits program, we believe, must be changed. You correctly pointed out that the TUR and the IUR are incompatible.

As Senator Moynihan pointed out, the IUR was developed in the 1930s because we did not have statistical measures to measure the total unemployment rate.

Most honorable people believe that the total unemployment rate is a fair calculation of what is going on in your States and your districts. I do not believe, and the AFL-CIO does not believe, that we should wait, with all due respect to Senator Packwood.

The last advisory committee we had was in 1980. Most of those changes that they proposed have not been enacted. I do not believe, even though we will participate in this advisory committee and contribute to it, that it will move anything through the Congress within the next two or 3 years.

As you well know, it is this recession that focuses the attention of this committee and the Congress. I believe that if the economic news gets better and the unemployment remains the same, that there will be no effort to change the underlying program.

As your CRS study indicates, the State UI program is ineffective in terms of covering people. Let me just turn to a little bit of detail on these issues.

We believe that the emergency program should be extended. We do believe, however, that the eligibility criteria that were put in the bill are different from State program criteria and has created a problem.

The problem is that people who are on the State program go into unemployment compensation offices and find out there is a new set of criteria, so they do not qualify for the emergency program. We think that this should be changed.

We understand there is a cost associated with it, but it is very hard to explain to our members, and, I would imagine, to each of your constituents when they have been on for 26 weeks, they know there is an emergency program out there; the next person in line



gets the extended benefits and they do not qualify because of these higher Federal criteria.

I would be remiss if I did not point out, Mr. Chairman, that CBO estimates that the unemployment rate will not get down to 5.3 percent, where it was before the recession, until 1998. So, we are basically going to have a long-term problem here.

In the extended benefits program, we believe that there should be permanent changes. The time is right to do it. The attention of this committee and the Congress is on it. We believe that the TUR is the appropriate measure.

You are undoubtedly aware that the House Minority Whip Dave Bonior is basically looking at packaging unemployment compensation with aid to the former Soviet Union. And this effort will probably be going on in the House, so you might get a mixed kind of bag over here.

Reform of the State system, I know, is terribly controversial. We have a list of changes that we believe should be new Federal standards for the State system.

And this is to address the problem that the GAO has noted, that the difference between our Unemployment Compensation program and other nations' compensation program really comes in initial eligibility. Only 38 percent of the unemployed workers basically get the program right now. We believe that this should be changed.

We are supporting different packages, but we agree with you that the system has to be paid for. We understand the budget process that the Congress and the country is facing. We know that the deficit is \$400 billion.

We believe that the fairest way to pay for these new benefits and increased eligibility would be to raise the wage base. A \$7,000 Federal wage base is not anything near reality.

We would think that the wage base should be reflective of the wages of workers covered by UI insurance. I think that it is approximately \$27,000.

And we would believe that that would probably be the way to go, although we would be willing to work with you and your staff to figure out an appropriate way. It is best to play for a program within the system.

We also oppose the taxation of UI benefits, as you are well aware. We would hope that you would repeal that tax. We understand the budget implications of that. But, at a minimum the taxation of UI benefits, the receipts from these taxes should be used for the UI system. In other words, they should not be used for general revenues.

And, finally, we support the removal of the Unemployment Trust Fund from the unified budget. UI payments should not be counted in the Federal deficit or in the budget. And, in this way, we can understand exactly how much the program costs and how much the pay out should be.

Mr. Chairman, in the full testimony we have specifics, but I think that it is important to note that the time is probably right, based on my knowledge.

I work taxes, I work trade, I work energy issues. I think probably the only piece of legislation that I can see getting through and being signed into law this Congress is an unemployment compensa-

tion package; either extension of the program, or permanent reform.

This is the opportunity to make permanent changes that are overdue and necessary and we would hope that this committee would generate a bill that would do that, and we would be supportive of it.

The CHAIRMAN. Thank you, Mr. Cunningham. As I have stated, I certainly hope we can bring about some of those permanent changes in this piece of legislation. And some of these problems are so egregious and so glaring. And, in turn, I think the General Accounting Office report is highly significant.

And I am delighted you are talking about a way to pay for it, because that is one of the things I see missing in the administration.

I just get weary of their saying, well, we will go along with those things that are easy to vote for, but we are not going to take the responsibility of dealing with saying how something is going to be paid for.

But, along those lines in your testimony where you make the point that the current extended benefit program is really not working and that the experience during the recession is proof of that kind of a statement, you also urge us to change the financing mechanism insofar as the Federal Government's share, from 75 percent to 100 percent.

Now, that is pretty tough for us to do. What is the rationale for that? Why can we not leave the financing alone but make other improvements to the program to make it work?

Mr. CUNNINGHAM. Mr. Chairman, we happen to represent State and local employees. I know you talk to your Governor occasionally. Federal mandates on new programs, which we support in other areas, is a big burden.

It would seem to us the equitable way to go, as if the Federal Government is basically making and widening eligibility, that they raise the revenues to do that.

I think based on our experience that it will be very hard to get 50 State legislatures to basically increment their money to pay a new 50 percent share.

I think the political reality is that if there are changes in the permanent extended benefits program, I mean, they could be mandated by the Federal Government, but I think the reality is that they should be paid for by the Federal Government. Our overall position—

The CHAIRMAN. Mr. Cunningham, it is tough to get anything passed by this Congress, and impossible, almost, to get the administration to show leadership and say where we pick up the money to do this.

And it is that kind of a philosophy that has us in the kind of a straight-jacket that we are in now. And it denies us the flexibility. It is that kind of philosophy that has tripled this National debt. It is that kind of a philosophy that gives us a \$400 billion deficit. And we have got to start turning that around.

Mr. CUNNINGHAM. I understand that, Mr. Chairman. I am afraid—and I do not speak for the administration—that what you fear is going to happen; that the administration is going to come

up here, tell you that they want a temporary extension, and ask you to pay for it.

The only thing I can say on our behalf is that when we suggest changes, we are also suggesting increased taxes to pay for those changes. We understand that. We understand the argument that in a recession you do not raise taxes.

I would only point out to you, Mr. Chairman, that raising the wage base with a modest Federal FUTA tax is not going to cripple any employer.

I mean, it is not an overwhelming increased tax liability, but it does provide additional benefits to people who are most vulnerable in our society and people who have worked for a number of years and cannot make ends meet.

I would also point out, Mr. Chairman, it is one thing that has bothered me over time. We are looking at a different labor force than we looked at in the 1930s, 1940s, and 1950s where there was, indeed, long-term attachment to the same employer over time.

We are now going to have new generations of workers who will be relying on this system, unfortunately, more and more. And it is not because they are quitting their jobs and going to something better, it is because employers are basically using personnel control, like old inventory control, and throwing people out.

So, this system will have more demands in the 1990s, in the year 2000, and beyond than it has in the prior years.

And I think that, with all due deference to Senator Packwood, this is what the advisory committee should be looking at: the restructuring of the American work force and how adequate the new revised unemployment system will be to meet that demand. We do not have that now.

We are making some modest, but expensive suggestions based on the existing program. But I think the key is going to be in terms of how this work force is developing over time and I think it is going to be totally different from what we have experienced to date.

My fear is that this system, even with all of the positive changes we have suggested and those that you support, is going to be proved totally inadequate to the revised work force of the 1990s and the 21st century. And I think that is where the advisory committee comes in to say how you restructure this program.

The CHAIRMAN. Well, I share that concern. I would say so. Senator Packwood.

Senator PACKWOOD. No questions, Mr. Chairman.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. Let me say, I appreciate very much your testimony and the expertise that you have shown in your discussion in the various points you have raised.

I think the last point that you made about the radical restructuring of the U.S. work force is already under way. I think it is illustrated, in part, by the story I told earlier about the letter I received from the person who has gone through three separate job retraining programs. This was somebody who had a long work history prior to that time and still cannot find work.

I think our unemployment compensation system is taking on different kinds of responsibilities day by day as the restructuring of our work force goes on.

Many, many employees are being sheared off company payrolls in order to try to improve earnings per share, at least on a short-term basis. So, we are seeing an enlarging number of unemployed people in all skill areas: engineers, people with computer science skills.

We are not just seeing persons with a lower skill level, as we would define it, out of work; we are seeing people all up and down the spectrum joining the ranks of the unemployed. In that regard, too, it should be noted that one of the reports that Senator Bentsen requested from the GAO points out that the proportion of the unemployed who receive unemployment insurance benefits declined by one-fifth between 1975 and 1991.

We have seen a major drop in coverage when, at the same time we are seeing more churning of the workforce and more people being thrown out of the work force and having a very hard time getting back in to the workforce.

That GAO study reports that if we were now paying Unemployment Insurance benefits at the same level and same coverage ratios that we did in years past: during the 1990-1991 recession, as compared back to 1974 and 1975, another \$20 billion would have been available in unemployment insurance benefits to go out to sustain our unemployed workers and their families. This would in turn also to help stabilize our economy.

In other words, the unemployment insurance system benefits the economic system as a whole to keep us out of a still deeper recession.

For example, we just found out that General Motors has announced it is closing two major manufacturing plants in Michigan; over 4,000 workers are employed in each plant.

So, that is 8,000 workers, plus some other plant closings; 10,000 total jobs lost in the State of Michigan due to the announcement by GM.

The Upjohn Institute has indicated that for every one of those manufacturing jobs that disappears at GM in Michigan, there are an additional 5.5 jobs that will also be lost just in Michigan. Those 10,000 jobs lost will snuff out another 55,000 jobs in Michigan.

So, these plant closings are going to amount, in total, to a job loss of 65,000 jobs in my State. And the problem is two-fold.

Number one, how do we reabsorb people and get them back into the work force to allow them to provide for themselves and to add to the productivity of our country? And, second, how do we handle the unemployment compensation problem in the meantime?

What do you do with skilled workers who have no place to turn? And how do you deal with an unemployment rate of 9.3 percent? This is just the official rate, the actual rate is higher than 9.3 percent.

I have stories that I could tell you for the rest of the day that would just break your heart. I am talking about people who want to work, are qualified to work, and can make a contribution but, there is no work to be had.

And, at a minimum, it seems to me, that we ought to help those people keep their lives together, and not just with enough money to limp by through the election.

I do not want to see that, because there are too many flaws and inequities in the program itself. Workers and their families, I think, are, in effect, cheated because we do not help at the time when they really need support from their country. We have not dealt with the problems in unemployment insurance reform areas that we have been talking about here this morning.

We have got to press to try to get some reforms done. I think it is an obligation that we have to each other in this country. It is one of the reasons we have government, to try to be able, in an upright and organized way, to respond to these problems.

And when an unemployed worker, somebody with a work history, is in this situation, this is a time when his/her government ought to respond. Because it is not only the decent thing to do, it is the smart thing to do.

We want people to be able to help them hold their lives together until they can get slotted back into the work force. It is crazy to let somebody run out of money, lose their home, lose their car, which oftentimes causes families to break up. That is why other nations do not leave their people without assistance. Other nations are doing a better job at this than we are. This is one area where America has got to get back into the ball game.

Mr. CUNNINGHAM. Senator, it is important to remember, because some people who have never been on unemployment compensation think it is a total replacement for wages and benefits, and it is only about one-third of your prior wages.

And, of course, there are no benefits. There is no health insurance, there is no life insurance. So, unemployment compensation is not total compensation for your job loss. It is only about one-third of what it was.

Senator RIEGLE. And it is taxable income.

Mr. CUNNINGHAM. Right. And it is taxable income. So, the question that has to be understood here is that a person is not made whole by unemployment compensation.

If you cannot get the benefits initially, you are in very deep trouble. When you do get the benefits, you are still in trouble. Because anybody who suffers a two-thirds loss in their take-home pay is in deep, deep trouble.

Senator RIEGLE. Right. Absolutely.

Mr. CUNNINGHAM. So, we are looking for something that is counter-cyclical and helps people over a bump. But it sure does not make them whole. And if two-thirds of the people are not even getting this benefit, the regional implications—you mentioned auto; I think the defense industry is the next one coming.

Senator RIEGLE. Right.

Mr. CUNNINGHAM. There is nothing going to be put in place to carry these people over for at least the 26 weeks of the basic program, and something beyond that.

And my fear is that we are going to lose a generation of workers who will never come back onto the system again. And this committee also deals with Medicaid and welfare.

I know it is becoming a political football this year, but we are going to find more and more people thrown onto these systems against their own will, without an ability to get off.

And it represents, for me, a significant hole in the American dream; that the job-creation potential of this economy has been suspect for the last 3 years.

I am fearful that it is going to be suspect for the next 10 years. And a lot of the stuff that we are doing in the trade and tax area, I think, is going to accelerate that problem.

And if we at least do not have a system in place of unemployment compensation that reaches out to these people to try and get them over that hurdle—I mean, job loss, as you know from talking to a lot of people in Michigan, and Senator Packwood in Oregon—

Senator RIEGLE. It is devastating.

Mr. CUNNINGHAM. It is devastating. It takes 2 or 3 weeks for someone to get over, if they do get over, that initial problem of, I do not have a job, I have no place to go, what am I going to retrain for, I have done this for ten years, I have done this for 8 years.

We represent loggers and carpenters in Oregon. Your heart goes out to these people. They have no alternative. If they do not have Unemployment Compensation, they are basically not making it. When they run out, there is nothing in place.

This is not a panacea program, but it is one of the efforts of the government to basically get people over the hurdle. And I think the changes have to come, my feeling is, in this legislation. This is the opportunity the Congress has. This bill will be signed.

And my feeling is, if you can creatively work to get some permanent changes in place, it will be the basis of the program for the next 10 years. Because I do not pre-judge, but I do not think we are going to return to this again. As the overall economic good news gets put in place, I do not think we will return to this issue.

Senator RIEGLE. Thank you.

The CHAIRMAN. Thank you very much, Mr. Cunningham.

Mr. CUNNINGHAM. Thank you.

The CHAIRMAN. Thank you for your testimony.

[The prepared statement of Mr. Cunningham appears in the appendix.]

The CHAIRMAN. Our next witness is Mr. William Grossenbacher, who is president of the Interstate Conference of Employment Security Agencies and the administrator of the Texas Employment Commission. We are delighted to have you back.

**STATEMENT OF WILLIAM J. GROSSENBACHER, PRESIDENT,  
INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY  
AGENCIES, AND ADMINISTRATOR, TEXAS EMPLOYMENT  
COMMISSION, AUSTIN, TX**

Mr. GROSSENBACHER. Thank you, Mr. Chairman and members of the committee. I certainly appreciate the opportunity to come back today.

In the interest of time, since some of the topics have previously been discussed, I have a rather detailed written testimony which I would ask to have entered into the record.

The CHAIRMAN. That will be done.

[The prepared statement of Mr. Grossenbacher appears in the appendix.]

Mr. GROSSENBACHER. I would like to comment briefly on extension of the Emergency Unemployment Compensation program. There are two issues that we wish to call to your attention.

First, we ask that you permit State qualifying and eligibility requirements to apply to EUC. Applying the Federal work search requirements simply makes no sense. I have testified along these lines earlier. We would certainly hope that this issue would be reviewed as the extension is considered.

Second, we urge you to change the complicated rules related to phase-out of EUC which are very difficult to understand and will be almost impossible for us to explain to unemployed individuals.

It is a very detailed issue in terms of qualifying, and the consecutive weeks issue in the current law. And, as I say, it is very technical.

We have in-depth written testimony about this problem, and we would be more than happy to work with staff to suggest some alternative methods for handling the phase-out that would be more understandable, and certainly more equitable.

The CHAIRMAN. I would like for you to get into the detail of that with staff on the Finance Committee.

Mr. GROSSENBACHER. We would very much like to do that. It is a very complicated issue. To be quite frank, we are very worried about being able to explain that to unemployed individuals if we cannot understand it.

The CHAIRMAN. All right. If it is difficult for you to understand it, do not try it this morning.

Mr. GROSSENBACHER. Thank you. On the permanent changes to the Federal/State extended Unemployment Compensation program, we are currently—and I say we, meaning the Interstate Conference—talking with our members about the trigger mechanisms, the IUR and TUR.

We have not reached a consensus yet. There are some real differences among the States in what they feel the trigger mechanisms ought to be.

As you mentioned earlier, in 1986, which was one of the worst years in Texas we would have had to reach a 13 or 14 percent total unemployment rate to trigger into extended benefits. So, speaking from the Texas perspective, there is no question that those trigger mechanisms need to be looked at very carefully.

ICESA has reached consensus on a number of issues in the extended benefit program. One is repeal of the Federal qualifying and eligibility requirements, the very same requirements that are applied to the Emergency Unemployment Compensation program.

We support an increase in the Federal share of EB. I believe some of the current proposals are, rather than the 50/50 shared cost, that it would go to 75 percent Federal, 25 percent State.

The CHAIRMAN. That does not surprise me that you support that. [Laughter.]

Mr. GROSSENBACHER. I understand. But we do think that is appropriate. On the discussions involving the Federal standards for State unemployment benefits, we would simply say that before Federal standards are applied that appropriate discussions take place with the States.

Over the past 8 or 9 months we have urged repeal of Federal standards in the EUC program and the EB program. My experience with the Federal standards is that they have been much more restrictive and much more difficult than many of the State standards.

H.R. 4727, sponsored by Congressman Downey and Rostenkowski, includes a provision for re-employment assistance to unemployment insurance recipients. The States support that conceptually. It may be one way to address sub-State unemployment.

There were discussions last year about how to structure an extended benefit program at the sub-State level, but no satisfactory answer was found.

A program such as this one in H.R. 4727 might well be an answer that would allow the States the flexibility to respond to unemployment issues on a sub-State level.

Withholding of income taxes from unemployment benefits is proposed in H.R. 4727. We would find that, first, to be a tremendous administrative burden for the States.

We would suggest instead that we give up-front information to unemployment insurance claimants on taxation of unemployment benefits. Perhaps the issue of taxing UI benefits should be reconsidered.

As a final issue, we certainly recommend removal of the Unemployment Trust Fund from the Federal budget. Decisions about unemployment trust funded programs should be made on their merit and not in terms of their effect on the deficit. Thank you.

The CHAIRMAN. That re-employment benefit, as I understand it, that you are supporting, is about a \$3 billion item.

Mr. GROSSENBACHER. I believe that is the cost. Yes.

The CHAIRMAN. One of the things you do is you urge us to permit the use of State rather than Federal eligibility and work search rules that have been a problem for you. And I sympathize with that point you make. I was just down in McAllen, TX, and to have 30,000 workers out there searching for 400 jobs—

Mr. GROSSENBACHER. That is correct.

The CHAIRMAN [continuing]. Is a pretty futile experience. I am sure that there are countless other cities around the country that have the same kind of a situation.

But if we should decide to follow your recommendations on that, how could we be assured that the States are going to enforce reasonable work search rules, particularly in light of the fact that the Emergency Unemployment Compensation program is 100 percent Federally funded? There are no State dollars at risk. How do we assure the American people that the tax dollars are being spent only to help those who are trying to help themselves?

Mr. GROSSENBACHER. Mr. Chairman, I think a review of individual State work search requirements would show you that they are reasonable requirements. They are requirements that allow States to adjust for the local economies in those States.

If you compare those work search requirements to those that are on the Federally-mandated work search requirements in EB, I think you will find the unfairness is much more on the Federal side than it is on the State side.



The CHAIRMAN. Can you say that across the board, or are you speaking about your own State?

Mr. GROSSENBACHER. I think, in general, we could speak across the board.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. Tell me your reason again for wanting to take the trust fund off budget.

Mr. GROSSENBACHER. Senator, both the Employment Service program and the Unemployment Insurance programs should be judged by the merits of the program. There is a system to pay for the benefits, there is a system to pay for administrative costs.

Over the last 3 or 4 years we have been here addressing various committees to try to get supplementals in the budget to keep our staff on-line in the local offices.

The issue has not been, is that staff necessary, is the program doing good, is it a necessary program. It has always been, what is the effect on the budget?

It has been long felt that funds held in the Unemployment Trust Fund have been used to offset the deficit. And, in terms of truth in budgeting, we support moving those trust funds off budget.

Senator PACKWOOD. Well, what about getting rid of the trust funds, and then you would not have to take them off budget.

Mr. GROSSENBACHER. All of the funds going directly into general revenue? Well, I think, that would require a complete re-thinking of the structure of our unemployment insurance system.

And that system has served us well since the 1930s, so I would not support that. I would support remaining with the trust fund concept.

Senator PACKWOOD. Let me ask you this. It has been my experience that every group that has an interest in a program that is funded by a trust fund wants that trust fund off budget.

Mr. GROSSENBACHER. I understand.

Senator PACKWOOD. That applies to the highway trust fund, the boating trust fund, and/or every other trust funds.

Mr. GROSSENBACHER. I understand.

Senator PACKWOOD. And the argument is very similar to what you say about, as long as these are dedicated funds, they ought to be weighed against the purpose and not for other purposes, and not for reducing the deficit.

Mr. GROSSENBACHER. Right.

Senator PACKWOOD. But, given that, once you set up a trust fund and once you take it off budget, it is very impossible to change it.

Do you not eventually reach a situation where you are not weighing your priorities properly? You are saying, these are trust funds that are not to be touched for any other purpose, even though the needs of a decade later are not the needs when the trust fund was set up.

Mr. GROSSENBACHER. Well, I would think that if it came to the point that the Unemployment Insurance program was deemed no longer a necessary program, then perhaps the trust fund should be changed and it should be a general revenue program.

But, I think, again, you should make decisions on the merits of the program and not on the amount of dollars that that program

can hold in a trust fund and be used for offsetting deficits for other purposes.

Senator PACKWOOD. But, in any event, the monies collected under the unemployment tax, in your judgment, should not be used for other purposes.

Mr. GROSSENBACHER. That is correct.

Senator PACKWOOD. All right. Thank you.

The CHAIRMAN. Thank you very much, Mr. Grossenbacher.

Mr. GROSSENBACHER. Thank you, Mr. Chairman.

The CHAIRMAN. Next, we have a panel, with Mr. Isaac Shapiro, who is senior research analyst for the Center on Budget and Policy Priorities; and Dr. Wayne Vroman, who is senior research associate of The Urban Institute. Gentlemen, if you would come forward. Mr. Shapiro, if you would proceed, please.

**STATEMENT OF ISAAC SHAPIRO, SENIOR RESEARCH ANALYST,  
CENTER ON BUDGET AND POLICY PRIORITIES, WASHINGTON, DC**

Mr. SHAPIRO. Thank you, Mr. Chairman. My testimony is largely based on a comprehensive report on the unemployment insurance system that my organization released last month.

Throughout the 1980s and into the 1990s, the problems with the Unemployment Insurance system have been glaring. The system has failed the unemployed in good economic times, as well as in bad.

From 1984 to 1989, only one in three of the unemployed received benefits. In five of these years, the share of the unemployed receiving benefits fell to the lowest level ever recorded.

As the economy turned down, this alarming trend continued. In the first 17 months of the recession, the Unemployment Insurance system provided less protection to the unemployed than in any other recession since the end of World War II.

During the 17th month of the recession, the Emergency Unemployment Compensation program was enacted. This program has helped millions of long-term unemployed people.

Now, with good reason, a further extension of the emergency program seems likely. There is widespread consensus that the recovery will not put a quick end to labor market problems.

It is also worth noting that in the first 3 months of this year, more than one million jobless workers exhausted their initial State benefits. This is the largest 3-month total since the recession began. The emergency program is vital to these workers.

Further extension of the temporary program, while imperative, would not address several significant problems with the Unemployment Insurance system.

One problem with the system, as noted by Mr. Grossenbacher, is that many workers who have exhausted their State benefits are being denied emergency benefits because of unduly restrictive individual eligibility criteria.

A second problem is that the permanent program of assistance to the long-term unemployed remains anemic. During recovery periods, States that fail to share in economic prosperity have generally been unable to qualify for extended benefits, even if their unemployment rates are very high.

During periods when the national economy turns down and joblessness increases, only a handful of States have been able to qualify. Congress should strengthen the extended benefits program. It should also ensure that the program's trigger more closely reflects how difficult it is to find a job in the State.

A third problem area is the deterioration in the provision of basic benefits. The share of the unemployed receiving State benefits is now about one-fifth lower than in the 1967-1979 period.

The Federal Government can help address this problem while still leaving States with the primary role in determining eligibility.

One modest Federal reform would affect the time period examined in determining eligibility. In most States, a worker's eligibility for benefits is determined in a manner that excludes 3 to 6 months of an applicant's most recent work experience. This severely restricts benefits for workers whose employment is concentrated in recent months.

Six States do include all—or nearly all—recent months of work history in determining eligibility. Federal standards could move all States in this direction.

Another Federal reform would be to place modest limitations on State discretion in disqualifying Unemployment Insurance applicants. Workers who voluntarily leave their jobs are typically disqualified from receiving benefits, as they often should be.

But the States often apply this disqualification, even if the employee had to leave work for reasons largely beyond his or her control, and even if the employee had many years of prior work experience during which Unemployment Insurance taxes were paid based on the employee's wages.

The Federal Government should preclude States from disqualifying workers in such situations. An especially strong case can be made for extending benefits to workers who leave their jobs because of family responsibilities.

Another reason the share of the unemployed receiving benefits has fallen is that a large and growing number of unemployed people who may be eligible for benefits failed to apply for them. Outreach could increase the likelihood that eligible individuals would apply for assistance.

The most direct and timely approach would be to require employers to inform newly unemployed individuals of their potential eligibility.

A consensus on how to finance reforms will, of course, be difficult to achieve. But I agree with the Chairman that these reforms should be paid for.

I also believe that reasonable financing alternatives exist. The best approach would be to finance the reforms within the Unemployment Insurance system itself by raising the Federal taxable wage base.

Alternatively, reforms could be financed outside the Unemployment Insurance system. The House reform proposal has a good financing alternative that would extend existing revenue sources now scheduled to expire in 1995.

The provisions target the wealthiest 4 percent of taxpayers; an appropriate approach since recent tax and income trends have heavily benefitted the rich.

I would like to request, with the Chairman's permission, that the short center analysis of this financing proposal be included in the record.

The CHAIRMAN. That will be accepted.

[The information appears in the appendix.]

Mr. SHAPIRO. Thank you. Some are now arguing that now is not the time to consider permanent and comprehensive reforms to the Unemployment Insurance system.

This argument, I believe, is primarily an exercise in political deflection. The unemployed have been poorly served by the UI system, not only during this recession, but throughout the 1980s' recovery as well, as the Chairman observed. No further proof of the need for permanent reforms is required.

I note also that some of the permanent reforms would provide needed aid to the unemployed even during the period of another emergency extension. Other reforms should be enacted quickly because they would require lead time to be implemented.

Still others should be put in place before the next recession so the unemployed will not have to wait 17 months again before the President chooses to sign a bill providing them with necessary additional assistance.

If permanent reforms are not enacted, the unemployed would again face an unemployment insurance system providing record-low levels of protections once the emergency program expires. Thank you.

[The prepared statement of Mr. Shapiro appears in the appendix.]

The CHAIRMAN. Dr. Vroman.

**STATEMENT OF WAYNE VROMAN, PH.D., SENIOR RESEARCH ASSOCIATE, THE URBAN INSTITUTE, WASHINGTON, DC**

Dr. VROMAN. Thank you, Mr. Chairman. Since I have a tendency sometimes to be long-winded, let me skip to some of the conclusions and then go back to material that is covered more thoroughly in the written record.

The CHAIRMAN. Well, if you are long-winded we have a light that goes on here.

Dr. VROMAN. A bell. Yes. I want to make sure I beat the bell. That is basically my concern.

The CHAIRMAN. All right.

Dr. VROMAN. Most of my remarks today will focus on what I think are reforms needed in the Unemployment Insurance program to make it more effective in conveying benefits to unemployed workers, and being adequately financed to do that.

There are three areas that are touched on in the testimony that I think are meritorious and should be given strong consideration.

First, the Federal taxable wage base, which currently is \$7,000 per worker, is becoming increasingly inadequate.

And, because it is so important in determining State tax bases, the easy, most efficient way to raise tax bases in many of the State UI programs is to change the Federal tax base.

That is, assuming that we continue to have the current requirement that each State at least match the Federal tax base. I will get back to that in a few minutes.

Second—and this may set off some bells—I think the program should have a solvency standard.

I think States that are trying to act responsibly should know when they have achieved a trust fund balance that is high enough so that they can go through an upcoming recession with a small likelihood of needing large-scale borrowing from the U.S. Treasury, or a minimal likelihood of having to cut benefits to workers at the worst time in the business cycle, or having to raise taxes on employers in a recession.

I have a suggestion for a solvency standard which I think is achievable. And, furthermore, I think there are some financial incentives that could be provided that would help the States to achieve that standard.

Third, I think the TURs should be the basis for triggering the Extended Benefit program because there are several States where the IUR has become, with the passage of time, less and less related to the true unemployment situation in the economy.

On that last point, if I could extend the case of Texas. In 1986, when you had a TUR of 8.9 percent, your, IUR only reached a 2.6 percent level. So, you are a long way of triggering on the EB program. And, I am sure your constituents told you how difficult the times were in the State in that year.

The Federal/State Unemployment Insurance system is sometimes described as a series of laboratories where different experiments go on, because individual States legislate benefit levels, legislate tax provisions, and have a way of experimenting with what is best and appropriate for their circumstance.

If you look at the experience of unemployment trust funds they are widely varied. I have been spending a lot of time on that recently. One of my areas of work is to go into States with funding problems and try to develop a model which will help them better understand how they got into difficulties and how they might get out of it.

This year I have been working in Connecticut. And, as you know, Connecticut is having a very serious funding problem.

If you look around the country over the last 2½ years, the biggest losses in Unemployment Trust Fund reserves have been concentrated along the East Coast. The reserve losses have been especially serious in New England and in New York, New Jersey, and Pennsylvania; the extreme northeast.

Within those northern States, it is interesting, thinking of the State programs as laboratories, to look at the experience of Rhode Island and New Jersey relative to the other States.

I select Rhode Island and New Jersey because they indexed their tax bases in the past. Consequently, throughout the 1980s, their State tax base rode up, increased with average wage inflation in the economies, such that they currently both exceed \$15,000.

The northeast experienced very strong prosperity through most of the 1980s, but recently has been the most hard-hit region. And, if you look at the way those two States have gone through this recession, neither has had to borrow, both still have reserves in their system, and they contrast with Connecticut and Massachusetts, which have both been to the Treasury for loans and will borrow again this year.

So, I think there are implications for State revenue adequacy that can be addressed partially by having an indexed taxable wage base.

Senator Packwood, I would point out to you that in the last 2 years, Oregon has, in fact, increased its Unemployment Insurance Trust Fund balance substantially.

Oregon is one of the 17 States that has an indexed tax base. Part of the reason that Oregon is in good shape to face payments to your unemployed with your 8 percent unemployment rate is that more than 10 years ago, your State had the foresight to index wages to 80 percent of the average annual earnings in the State. Consequently, at the end of last year, Oregon had more than \$1 billion in its trust fund.

I guess I am long-winded. Let me be very quick on the extended benefits.

The CHAIRMAN. Just wrap it up and give me a quick summary.

Dr. VROMAN. Surely. Extended benefit programs based on IURs simply treats long-term unemployed workers in different States differently. In table III of the testimony, if you look at New Jersey and Texas, last year they both had TURs of 6.6 percent.

The IUR in Texas was 2 percent; the IUR in New Jersey was 4 percent. A lot more long-term unemployed in a State like New Jersey have a chance to collect benefits because the program kicks on more quickly. And I will stop right there.

[The prepared statement of Dr. Vroman appears in the appendix.]

The CHAIRMAN. Well, Dr. Vroman, if you raise the wage base which is now at \$7,000, I assume you could also lower that tax. You feel like you get a better distribution, do you, of the tax from the low wage earner to somewhat higher wage earner? That would affect different industries differently, obviously.

Dr. VROMAN. Certainly.

The CHAIRMAN. Particularly those industries that have minimum wages would not be hit quite as hard as those that had, perhaps, more highly trained workers.

Dr. VROMAN. Certainly. Retail trade, which has low average pay of its workers, would be relatively advantaged from a proposal to raise the base.

But my sense about the way the base works is that if the tax base is indexed, it allows the State to then have more capacity to raise revenue when the experienced measures that draws on its trust fund reduce the trust fund balance.

In a State which has a maximum tax rate of 5.4 percent and a tax base of \$7,000, all of us in the room can do the arithmetic in terms of how much you can collect per worker, per year. It is a paltry amount.

And, with a higher tax base, you have some potential for raising more revenue. Raising the base essentially anticipates a situation where reserves will be drawn down, in contrast to having to have the tax rate do all of the effort after the trust fund has been depleted.

The CHAIRMAN. Mr. Shapiro, you understand that almost all of these changes that are being recommended cost a lot of money.

And extension of the current temporary benefit program, that, itself, is likely to cost \$4–\$5 billion.

And that depends on how far in the future these benefits are extended, of course. So, we are going to have a tough time raising the funds to offset these kinds of costs.

And it is going to have some limitation on what we can put into effect. Assuming we have to make those changes, which of the changes, in either the temporary or the permanent program, do you think has the highest priority? I know you do not like to pick on anybody, but we may well have to.

Mr. SHAPIRO. First, I would like to talk about the choice more generally and set the context. You said earlier that \$20 billion less was spent on the UI system in 1990 and 1991 than was spent in the mid-1970s. If you enacted every reform proposal that I suggested in my testimony, the amount would total far less than \$20 billion over 2 years. It might be \$7–\$8 billion over 2 years.

In terms of the priorities, though, I probably would rank them, as: First, the temporary extension; second, the permanent reforms to the extended benefits trigger; and the third reform I would recommend would be the idea of changing the so-called lag quarter approach where States ignore the most recent work experience in determining eligibility.

The cost for those three pieces of that package together would still be below \$8 billion over 5 years. If further scaling back is required, I might provide fewer weeks of emergency benefits in order to maintain funding for permanent reforms.

Note that most of these reforms are included in the House bill, and they total, I believe, \$7–\$8 billion over 5 years. I am not taking a position on the House REAP proposal, which costs about another \$2.7 billion.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. No questions. Good testimony.

The CHAIRMAN. Thank you. Gentlemen, thank you very much.

[Pause.]

The CHAIRMAN. Madam Secretary, you said 11:30, and it is 11:30. We are delighted to have you.

Secretary MARTIN. I am used to the House. Your punctuality is remarkable, Senator.

The CHAIRMAN. Madam Secretary, we are very pleased to have you. We know that you have been travelling and that you made a special effort to be here this morning. We are looking forward to your statement.

**STATEMENT OF HON. LYNN M. MARTIN, SECRETARY OF LABOR, ACCOMPANIED BY ROBERTS T. JONES, ASSISTANT SECRETARY OF LABOR FOR UNEMPLOYMENT TRAINING, WASHINGTON, DC**

Secretary MARTIN. Thank you very much. It is a pleasure to see both of you this morning and to be back in the District of Columbia. And I really appreciate this opportunity to talk to you directly to discuss an extension of the Emergency Unemployment Compensation program.

When I was here in January, I mentioned then that I had once represented a Congressional District with the city that had the

highest unemployment in the country. That was during the 1982-1983 recession. I will never forget that time.

That particular downturn affected friends and neighbors, members of my own family. So, I truly do understand the devastating effect that the loss of a job can have on the men and women who want work, but cannot find it.

President Bush shares your concern and mine regarding the country's unemployed men and women and their families, and their future. The administration is committed to providing, as the economy does recover, the needed assistance to those Americans who have lost their jobs.

Therefore, the President has directed me to work with the Congress, with you, Mr. Chairman, to do the following. First, to develop and quickly enact an extension to the Emergency Unemployment Compensation program.

Second, this EUC extension should be through the end of 1992, when all of us hope the economic recovery will not just have been continuing, but will grow.

Currently, the economy does seem to be improving. Senators, we all want a sustained recovery. We have already seen some positive signs: a higher than expected annual growth rate in the economy for the first 3 months of this year; the two-year high in construction of new homes and apartments.

And the labor market is beginning to look stronger with each passing week. It is not yet time to celebrate. We now, though, have had 3 straight weeks of declining initial claims for unemployment compensation.

So, while it can appear that the economy and the recovery is under way, job growth traditionally lags, even when the economy is in full recovery. Therefore, a further temporary extension is necessary to help those who need it.

The President's actions—to expand exports; to accelerate appropriated spending on public works and Federal contracts; to, yes, eliminate the excessive regulation that sometimes curtails job growth; to ensure that credit is available, really especially to small- and medium-sized businesses—we think all have helped to move the economy.

The President has proposed an economic agenda that would stimulate and create the jobs that Americans want. I must tell you, in our small way, we really do, Mr. Chairman, think that that change for first-time home buyers would be an especially direct move.

Because you, and I, and across all party lines would agree that the best remedy for unemployment is not just an extension. The best remedy for unemployment is growth and job creation.

The EUC extension, third, must be paid for in a manner consistent with economic growth. It must be financed through offsets that maintain the discipline of the budget agreement that the House and Senate reached with the President.

And, certainly—and I think most Senators agree with this—they do not want to see an increase in tax burden at the very time the economy may be showing the signs we all want it to show. Raising taxes could threaten that growth. In fact, it could hurt existing jobs.



Fourth, it is essential that we do this extension quickly so that there will be no break in benefits for unemployed workers. In other words, we should put the people first.

I am ready to sit down with you today, this afternoon, and have our respective staffs hammer out the extension of EUC. We can do it quickly.

Now, permanent structural changes to the unemployment compensation system are complicated and often costly. The men and women who need help should not have their assistance delayed while we debate the permanent changes, many of which are controversial, complex, and opposed by the States.

There are also some suggestions floating out there that the administration might well oppose. For example, one suggestion about increasing the Federal taxable wage base is an unacceptable increase in taxes that would hurt the economy, would hurt the people we would try to help. It is strongly opposed by not just the administration, but many of you.

Proposals to impose Federal mandates on State unemployment compensation laws regarding disqualification of claimants might well, in some way, constitute an unwarranted Federal intrusion into affairs that are quite clearly the responsibility of State Government.

Governors across party lines have stated opposition to new Federal mandates on these State programs. Some have suggested removing the Unemployment Trust Fund from the unified Federal budget.

I do not have to tell members of this committee what incredible implications on budgetary policy and the deficit that that idea would cause, and the issues that it would raise.

So, we come down to the fact that the President certainly does not want this extension delayed. But permanent structural changes could not occur in the expeditious timeframe which we need to protect the people. Such a delay would be a cruel blow to those that desperately need our help.

The administration considered proposing a specific extension package. We decided, however, that such a proposal could generate a counterproductive bidding war, or just cause a greater delay. That could hurt the unemployed.

Mr. Chairman, you and I know we have had success working together. Senator Packwood, you know that. The rest of the committee has been more than helpful when we try to reach bipartisan compromises in this particular issue.

The most recent extension is an example of what we can do quickly if we focus on the people. We believe that an extension of EUC is a measure on which we can quickly agree.

It is a compassionate and appropriate way to help those who continue to need assistance. The administration and Congress have worked together during the past year to provide these benefits to the unemployed and have done so in a manner consistent with long-term economic growth.

It is time, again, and I repeat this again, to join together to achieve the objective. I may be in the minority on this, and it may sound unusual coming from a member of the administration, but I believe that Congress can work quickly.

Working together, the Congress and the administration can show not just those who might directly benefit, but from every citizen who already has a job and still wants to help his or her fellow citizens, that political posturing does not always have to rule the roost anywhere, especially in Washington.

So, Mr. Chairman, I look forward to working with you and every other member of the committee starting today, to enact in the most expeditious manner possible, a bipartisan extension. I will be pleased to answer questions if you have them.

[The prepared statement of Secretary Martin appears in the appendix.]

The CHAIRMAN. Madam Secretary.

Secretary MARTIN. Yes, Mr. Chairman.

The CHAIRMAN. I feel very strongly this should be paid for. And you talk about not increasing taxes, and then you talk about possible offsets. I want to see some leadership out of the administration on how we are going to pay for this, and I want some specificity on what the offsets are, if you do not want to call those tax increases. I am quite ready to try to work with the administration.

Secretary MARTIN. Terrific. Let us put the staffs together and do it.

The CHAIRMAN. Terrific. But I want some leadership on the part of the administration in talking about what some of these offsets are with specificity.

Secretary MARTIN. Sure.

The CHAIRMAN. There are fellows in this committee running for re-election, too, and I know the President is. But I think we have to step up to that one and exercise that responsibility.

Secretary MARTIN. I could not agree more. We have done it twice in a row now. Let us sit down, let us work it out. We will go through the offsets. I think we could have a bill in 2 days.

The CHAIRMAN. Well, let us get it out front as to what those specific things are. Let us talk about them up front as to what you think you have to do in the way of offsets. And I want those from you.

Secretary MARTIN. Well, as you know, last time, Mr. Chairman, we sat down, and I do not know how much more up front. Every offset was then listed and we reached agreement. Both sides said, here they are. Now you take it back to your respective bodies. Not only did it work, we got it done quickly.

You were just an absolute leader in that, Mr. Chairman, and we think we can do it again. And that is why I make it very clear. The President said to me, do it, let us go, let us move, you know, not try to embarrass anyone, let us just move it.

The CHAIRMAN. Madam Secretary, flattery will get you a long way, and I appreciate that.

Secretary MARTIN. I hope so, Mr. Chairman. [Laughter.]

For the unemployed we will do most anything to get that. But that is not flattery, that happens to be truth, Mr. Chairman.

The CHAIRMAN. Well, thank you. Let us get to another one.

Secretary MARTIN. All right.

The CHAIRMAN. You are talking about extending the unemployment benefits through the end of the year, anticipating an economic recovery which I fervently hope you are correct on. And I

think we are seeing some signs of that. But you have also stated the unemployment indicators lag, and they do.

How can we settle for something that gets us to the end of the 102nd Congress, and yet the new Congress will not be prepared to act for awhile? You have been here; you understand that.

It takes a while for a new Congress to get organized, committees to be set up, and the hearings to start. You are going to have a lag time in there, and that worries me.

Secretary MARTIN. And certainly it would concern all. Now, you state quite correctly that all of us want to anticipate an economy that the signs continue to grow.

I have never bought into the theory that there is any member on any side of the aisle that would want a terrible economy for political gain. I have never believed that from the people of both parties with whom I have the honor to serve.

You could say, why not go to August? We want to take it through, as you and I know, a difficult time. And I think both sides privately have agreed to that.

Obviously, if there are other signs, that still would give you time to re-look at any situation that would need re-looking. I mean, Congresses have come in after elections, if that is what you are suggesting.

What we are looking at is what members of both parties were publicly talking about, and the President wanted everyone to know that he was in agreement with that. Responsible leaders of both parties have talked about taking it to the first of the year; we find that acceptable.

Now, someone else may say, hey, I have another idea. I do not try to negate what someone else would say. But that seemed to be the consensus out there in virtually every public and private statement that was made from both sides of the aisle.

The CHAIRMAN. Well, I am looking, again, to what we are operating under right now, the criterion for the extended benefits.

I am advised that the Department of Labor actuaries estimate in the spring of 1993 only one State will qualify to pay benefits under the regular extended benefits program, even though we are going to see continued high unemployment for awhile, particularly in certain regions of the country.

That sounds dangerously like a repeat of the situation that we had last year when Congress was forced to act because the EB trigger simply was not working, even in the States with 8, 9, 10 percent unemployment.

In view of that, would you agree that there should be some modification of the present extended benefits trigger, and, if so, what would you recommend?

Secretary MARTIN. I repeat this for others, since you already have expertise in the field. We believe that you would see, under the current program, some benefits that people desperately need, starting approximately May 18th—and I may be wrong by a day or two there—are gone. That does not give us or you a lot of time.

There may be some excellent suggestions. Frankly, Mr. Chairman, I have some ways myself to review and redo the system. But you and I know that those are not going to pass over the next pe-

riod of time. I do not see any problem with continuing to discuss it.

What I am suggesting here today is for those people who are out of work who have a right to expect for help from us, let us move expeditiously on this quick, clean bill and get there.

These other discussions, as useful and as important as they are, you know and I know, they are not going to occur within basically a three-week timeframe. And, so, we want to help the people.

The President has said, meet now, tomorrow, tonight; do it. And I know your feelings about helping the unemployed, so I think we share that. We will get this clean thing done; the others may continue.

But there is not time, perhaps you are a better judge of that in the House and Senate, but perhaps not even the correct atmosphere. That may take more time to work on. I cannot comment what is happening here, since I no longer am in the House. But I do know that we can pass this and help the people that we are both bound to serve.

The CHAIRMAN. Well, I am hopeful, Madam Secretary, that we can work together, the administration and the Congress, and that we can take care of some of these more egregious problems and get it done in this piece of legislation. And I am willing to try to make that effort and get it expedited and through. Senator Packwood.

Senator PACKWOOD. What I think the Secretary is saying is that she is prepared to sit down and start meeting tonight.

Secretary MARTIN. You are right.

Senator PACKWOOD. That she is free tonight. And tomorrow night.

Secretary MARTIN. This afternoon. I will even bring sandwiches for lunch. Let us go.

Senator PACKWOOD. I am convinced that your approach is right. It is not necessary for everybody to state here in advance the things that we recommend.

We sit down and we say—not unlike in a mark-up or a conference meeting between the House and the Senate—here is your proposal, here is ours. Here is where we might agree; here is where the administration feels very strongly against any substantive changes and would have to stand firm.

And I would wager in 4 hours of meetings, two meetings of 2 hours apiece, we would reach a conclusion.

Secretary MARTIN. I suppose there would always be, Senator, maybe somebody on each side that will say, I will never do that; I do not believe we need that, or we have got to do everything and we have got to do it tomorrow. But I think most men and women of goodwill could quickly reach agreement.

Senator PACKWOOD. I have no questions. I think what the Secretary is says is wise. Mr. Chairman, we ought to start meeting tonight.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Mr. Chairman, let me just say at the outset that I have know the Secretary for a long time and we have had a good personal relationship, and do today and will in the future, regardless of my comments about the issues at hand.

Secretary MARTIN. That bad, huh? [Laughter.]

What are you going to say?

Senator RIEGLE. Well, I want to take issue with some of the things you said, but I want to do it in a vein that recognizes the fact that we have some policy differences and we have some interpretation differences. I do not know that we have any personal differences.

But I listened to what you said and I am very troubled about what I think is an inadequate response by the administration to our unemployment insurance problems.

Frankly, it is not enough to have the President say, why doesn't everybody sit down and meet. Why doesn't he sit down and meet on this important issue? He is the President. Why doesn't he call people together on this issue? You say there are no politics in it. We passed unemployment extensions twice and both were turned down by the administration.

It was not until the third time that we did it and unemployed people in the country were in terrible condition that, finally, there was a change of heart down there.

So, there is a history on unemployment compensation beyond just the extension that was finally agreed to. I think we need an extension, but I think we need some reforms as well. And I think in your heart of hearts you know we need reforms, too.

As you know, the State you previously represented, Illinois, is a lot like Michigan. Both states have a lot of unemployed workers and their families that are caught in a lot of problems in terms of the way the unemployment system works and, the way the system malfunctions. It is not designed properly for the economic downturns we are facing.

I think we need some leadership to make the necessary changes. The way to get this done is in a hurry—and I know this because I have worked together with the administration on other difficult issues, as Chairman of another committee.

If the President wants to solve this, he can certainly gather the people necessary to putting a package together. Certainly he would have you there as his lead player on this issue, and we would get this thing settled in a hurry. But what I sense is detachment, instead of a willingness to lead.

I did not hear you say that the President was prepared to meet or that the President was inviting interested parties to meet. And then, when Chairman Bentsen asked you how this was going to be paid for, what was your answer to that? How is this going to be paid for?

Secretary MARTIN. Well, this is partially what we are talking about, so it is a little hard to say what "your this" is. But when there is agreement on this—

Senator RIEGLE. Well, how would you pay for "your this?"

Secretary MARTIN. And, by the way, I would like to come back to something you said earlier.

Senator RIEGLE. Please do.

Secretary MARTIN. But I will wait until you finish your statement. We believe that, just as the last time, when, under the leadership of many of the people in this committee, we were able to reach successful agreement.

It was done in that way through offsets. There was no tax increase, there was no loss of job creation. The recovery that all of us want to hope for and to see even grow more was not stymied.

And if you are asking me do I think, with the wisdom of the Senators that are on this committee and with their compatriots over in the House we can do it again, the answer is, yes, Senator, I think we can.

Senator RIEGLE. Well, but that is not really what I asked. Let me say it to you again. How do you think we should pay for this unemployment insurance extension? How does the President think we should pay for it?

Secretary MARTIN. This gets back, I guess, to the question. I think the President is, in effect, in the room. I thank you for saying you believe the Secretary of Labor should be there.

The President is directly involved in this, and I think it appropriate that he tells his Secretary of Labor, try, go, work, offer, move. And, so, when we sit in that room together, because I am sure you would be there with the Chairman, we work out how to pay for it. And we think it can be done by offsets. We do set up—

Senator RIEGLE. Which offsets?

Secretary MARTIN [continuing]. The rules that most Senators tend to agree with, that you do not want to see tax increases, you want to do it in the most responsible way, and let us meet and work out those offsets and then bring out what those offsets are. And I would be happy to send our staffs and/or me to make sure, starting anytime you want, Senator.

Senator RIEGLE. Well, let us start now. This is why we are here. Does the President have a preferred way to pay for this unemployment package?

Secretary MARTIN. We are willing to negotiate and work with you to find a mutually acceptable way to do it. And you and I know precisely how that can and should occur.

We should sit down. If you want, I am testifying tomorrow before the House Committee. If you want us to do that, first, then do it, that is fine; whatever way that fits your timing.

And I would say, let us get to it. As I say, I am willing to do it as soon as possible.

Senator RIEGLE. Well, there is no quicker time than now. And, I must say with all due respect, you keep stepping around the issue.

Secretary MARTIN. Oh. I think I am stepping toward the issue, in general. Let us decide—and that, certainly, is up to you—whoever can be in the room, and let us go.

Senator RIEGLE. Does the President have any idea as to how to pay for this?

Secretary MARTIN. Of course he does. And let me just say quickly—

Senator RIEGLE. I am asking it as a serious question. If you want to do this, you have got to pay for it.

Secretary MARTIN. It is serious. That is right.

Senator RIEGLE. How do you pay for it?

Secretary MARTIN. And we believe we can do it by offsets. Let us work together. What would we agree are offsets?

Senator RIEGLE. Well, which offsets? Which offsets are you talking about?

Secretary MARTIN. There are offsets through the budget. Let us sit down and go right through. We did it last time; we can do it again. I am assuming, by the way, Senator, that that is your choice of payment, too, rather than a huge tax increase. I think we match what the Senate and House want to do.

And I certainly do not want to speak for you, Senator. Maybe you would prefer a huge tax increase. But most members of both parties do not. And they would prefer us to come up with a set of offsets; never easy. And we can do it.

Senator RIEGLE. Let me just say, Madam Secretary, that when you come in today, you are here.

Secretary MARTIN. Right.

Senator RIEGLE. When you say, sit down together, how is that different from how we are sitting down together now? It is as if we are not here in this room. It is like we are having a telephone conversation or something, but we are here and we are here for this purpose. And, as I understand it, the President has decided now that we ought to try to extend unemployment compensation.

Secretary MARTIN. Absolutely.

Senator RIEGLE. In order to do it, we have to pay for it. Is that correct?

Secretary MARTIN. Absolutely.

Senator RIEGLE. And, so, I am asking you, are you coming in here to make, in a sense, a proposal today. Does this proposal involve a way to pay for it. I believe the President has to have an idea as to how to pay for his proposal. Maybe he does not have any idea. I am assuming that he does. And, if so, we ought to hear what it is. If he does not have one, you ought to have one. Somebody in the administration has to have an idea on this account.

Secretary MARTIN. Sure. And many do.

Senator RIEGLE. But why can't you tell us what that is? Is there some specific reason for not informing us of the President's entire proposal, including how he will pay for it?

Secretary MARTIN. No.

Senator RIEGLE. Well, then tell us. Just tell us.

Secretary MARTIN. I think you are missing, if I might, just for a moment, a point. Let us set up a meeting, we will have whatever people you want, it can be up to the Chairman. We will set the time of the meeting.

Senator RIEGLE. Well, let us start with this group. We really have the team here now.

Secretary MARTIN. Generally, as I understand how this worked successfully last time, it usually is not—I am here for testimony, not for a meeting.

And if you say right from here, your Chairman agrees right from here, let us go into the meeting to begin the negotiations, I told you, I am here, we will do it. We will call whoever else that your Chairman determines should be part of that. And that is your Chairman's call, and you know it is now mine.

Senator RIEGLE. Well, look. I do not think it is very straightforward.

Secretary MARTIN. Now, wait. That is absolutely what it is. Instead of the long speeches, let us go. Let us get it.

Senator RIEGLE. I do not want a long speech.

Secretary MARTIN. Fine.

Senator RIEGLE. I am getting a long speech, with all due respect.

Secretary MARTIN. Let us sit down.

Senator RIEGLE. I want to know how you think we ought to pay for it.

Secretary MARTIN. With offsets.

Senator RIEGLE. You will not tell us that.

Secretary MARTIN. No. With offsets, Senator. And let us sit down and—

Senator RIEGLE. Well, which offsets? Offsets does not mean a thing if you do not make them specific.

Secretary MARTIN. Well, Senator, I would have to know from your point of view, for instance, how big a program that you are talking about.

Senator RIEGLE. What is your point of view? Let me hear your point of view. What is your point of view as to which offsets?

Secretary MARTIN. We believe that we can have over the next 2 to 3 days, if it is your choice, through a series of meetings, we can have an agreed program, a program that will quickly help the unemployed, a program that can be paid for.

Senator RIEGLE. Do you have a starting point?

Secretary MARTIN. We thought—and I think, in general, it is the most courteous thing to do—to come to the Chairman and to the members of this committee and we start off by saying, yes, we think it should go through the year.

We do not think we should be talking about shorter times. Yes, we think we should pay for it by offsets and not by increased taxes. And we think that matches most of the Senate. Now, do you all agree with that? Where do we move from there?

Now, thus far, understandably, because this is not the appropriate venue, I have not heard from your Chairman or you how you think about those two things, that is one of the things one works through. That is one of the things one works through.

But I hope what we would have consensus on is the desire to reach the agreement quickly so that those who might be running out of benefits by the second week of May could find out across party lines that, yes, their Congress and their President worked together to help them.

Senator RIEGLE. Can I continue for a minute, Mr. Chairman? I realize the time is up. I may come back to this, because I would still like to get an answer to the pay-for issue if we can get one.

Have you seen these two studies requested by the Chairman? Have you had a chance to take a look at them yet, one by the Congressional Research Service and one by the General Accounting Office comparing the Unemployment Compensation system in the United States versus that in the other major seven industrialized countries? Have you seen those?

Secretary MARTIN. I have read about the differences. I am not sure I have read those two reports.

Senator RIEGLE. All right.



Secretary MARTIN. In fact, I know I have not read specifically those two reports.

Senator RIEGLE. Well, let me do this.

Secretary MARTIN. But let us make sure I do.

Senator RIEGLE. I want to make sure you get copies of these today. But let me just quickly summarize for you, in essence, what they say.

Secretary MARTIN. Certainly.

Senator RIEGLE. I went over this material earlier before you arrived. But the essence of it is that these reports that have been done by objective third party analysts indicate that other countries have a much stronger and better unemployment compensation system in place for their workers than we do.

Particularly Japan and Germany are cited, but the other countries, by and large, also do. They provide higher benefits, they have better coverage, they spend a larger part of their gross domestic product to support their work force when people are out of work, and so forth.

Chairman Bentsen asked for this study, and I really appreciate the fact that he did. Because both from the GAO and from the Congressional Research Service it is obvious that we do not have a very good unemployment compensation system, comparatively speaking, to other industrialized nations.

And those nations are doing quite well, as you know. They have relatively low unemployment, they are doing well with their productivity gains, and so forth.

I think it helps point out why just a simple extension that takes us past the election is not enough. It is not enough for those countries, and it certainly is not enough for us. So, I think we need some reforms in this bill.

In the same way and in the same spirit that you say that somehow, if you have a private meeting there is a way to find a funding source in 3 or 4 days, I think, using that same logic, we could also agree on some basic reforms in the system. We could get rid of some of the inconsistencies that cause some people not to get benefits when they need them.

Madam Secretary, you are a logical, rational person. You have represented a Congressional District. You know what these problems are first-hand, because you have had that kind of constituent history.

If we are going to sit down and come up with the magic funding source that we cannot talk about here, we could also do something on these reforms. Other countries are out ahead of us and have established a pattern of unemployment insurance coverage much stronger than ours.

I do not think we should wait. Quite frankly, if you want a political argument for it, I think it would help the President to be able to not just extend benefits past the election period and leave all of the other work undone for some undefined future date. It would be better to do some of it now and craft a package that is concrete and real—one that you can be proud of, that we can be proud of, that the President can have some pride in, and that is available for the great number of American workers who are currently unemployed and their families.

The number I use is about 16 million, in terms of those who are unemployed, discouraged workers, and people working part-time that cannot find full-time work. Right now, 9.3 percent is the unemployment rate in Michigan. That is a very high rate. We have a lot of families in distress.

Why don't we implement some of the necessary reforms now? Are you willing to do some? Is the President willing to do some reforms now? I will work with you on this, but what I do not want to hear and I think it is irresponsible to say, whether it is him speaking, you speaking for him, you speaking for you, is that we are sorry we cannot do any reforms right now. Why can't we do some reforms right now, especially when they are needed and other countries have managed to get them done?

Secretary MARTIN. Senator, it is not for me to say what problems exist in the House and Senate. The reality, though, I must represent men and women who work, or who want to work who are out of work.

And if you are asking me in the next 3 weeks, how do we help them most—and that is a judgment I must make, and I can give to you what I certainly give to the President—it is that, from my experience, the kinds of reforms that you might be for, that Senator Hatch might be for, some other Senators, pick out names anywhere along—

Senator RIEGLE. Well, let us start with the Chairman. The Chairman has some ideas.

Secretary MARTIN. Well, the Chairman, Senator Bentsen. There has not been consensus yet within your bodies. For a moment, I realize it is always fun to throw balls down the other court, but within your bodies. I must do what I believe has to be done to help those workers. I look at the experience that we are facing with the Congress, Senator.

And I say, if you are asking me as a former legislator, is there agreement between the Houses, can you do it in 3 weeks, the answer is, no, I do not think you can.

Senator RIEGLE. You see, with all due respect, I do not think the American people want to hear that.

Secretary MARTIN. Well, you and I might have a different suggestion on how they can cure that. But the fact of the matter is, you and I would agree, I think, publicly and privately, let us both be honest, that you have had some bills in, everyone has had some bills in. This could have been done through the years.

Now we are facing a different time constraint. As I said to this Chairman, this does not preclude people trying to reach agreement on the other issues. In fact, I have some reforms; we all have some reforms.

Senator RIEGLE. Have they been sent up here?

Secretary MARTIN. But while we are looking at trying to look at unemployment and extension of benefits, which is what the testimony concerns itself with today, I believe we can quickly get a bill so that no person has to see those benefits run out while other discussions may or may not be continuing.

And so, I would just hope that we could do that. That does not stop the Senate and the House, certainly, or the administration, from working on other sets of reforms.

And I think—and you and I both know—that in this time period, just as last time, we can quickly reach some agreement to help people that may not always understand the committee process, that may not always understand our arguments, but just know, doggone it, they need some help.

Senator RIGLE. Madam Secretary, the administration has sent up a reform package in this area of unemployment insurance compensation.

Secretary MARTIN. Well, you were talking about wanting to pass a reform package and obviously the Senate and the House can do as they wish. You were talking about comparisons with other nations. We bring to you today not just an offer, but a commitment to quickly take care of this particular problem which directly affects men and women who need these benefits.

Senator RIEGLE. Well, let me cite two or three things.

Secretary MARTIN. It will be your choice whether to accept that offer, or not.

Senator RIEGLE. With all due respect, you have not come in here with any specific suggestion as to how to pay for this compensation package and, you have no reform recommendations to make either.

You have not made any suggestions before today; you are not bringing any ideas today. There are two major reports out. Quite frankly, somebody on your staff should have digested this material and been ready to comment.

Secretary MARTIN. Well, I am sure someone on the staff has.

Senator RIEGLE. I am talking about on your staff.

Secretary MARTIN. Well, I was, too.

Senator RIEGLE. Well—

Secretary MARTIN. Gee. I would think if we were personal friends—gee, what if you did not like me, this would really be fun. [Laughter.]

Senator RIEGLE. It would be a much tougher grilling, I assure you, because I think the issue is an extremely serious one. Let me give you one fact here. In the GAO study, it says, "The proportion of unemployed people in this country who receive unemployment benefits has declined by 20 percent between 1975 and 1991."

Now, that is just one statistic. I mentioned the ones that compare the different countries. We ought to be fighting to correct this. There ought to be a proposal from the administration.

I appreciate the fact that you say, well, whatever you folks want to do, let us take a look at yours and then we will see if that is something that we can live with or agree with, and so forth.

I think the President has a different responsibility. I think he has a responsibility to initiate. I think he has a responsibility to come forward with some specific ideas. And I want to tell you one other thing, and then I will yield the floor.

Secretary MARTIN. Please.

Senator RIEGLE. I appreciate the Chairman's patience in allowing me to continue here for a minute.

If I could just have your attention for a minute. I do not know if you were involved in this, or not; I am not aware that you were. There was a full court press up here just a few weeks ago on Most Favored Nation trading status for Communist China.

I have never seen the White House so active and so vigorous. Phone calls were coming in from various Cabinet officers and from the President. There were all kinds of tactics used to really turn the wheels and so forth.

There was none of this business of sort of a more laid back approach that we see most of the time. This was a full court press during which great effort was made to gain congressional approval for MFN for China. The President has a very strong feeling about it, and China MFN was given a top priority.

I happen to have been on the other side of that issue. I do not think we ought to be giving Most Favored Nation trading status to the Chinese these days, particularly when they have a trade surplus with us of about \$13.6 billion a year.

But it was such a remarkable contrast to administration efforts on unemployment insurance compensation extension and reform. There was a specific proposal that was put out there, and great energy, great initiative, the full court press were utilized—all the stops were taken out to try to get China MFN through Congress.

With all due respect, there is a night and day difference between the effort that I have seen on unemployment compensation and something like the administration's efforts on most favored nation trading status for China. I do not understand it.

I do not understand why we are not seeing that kind of intense, vigorous, focused effort here. We should be working for more than just an extension that sort of limps everybody past the election. We should have a specific proposal to fix the system, fix it once and for all, provide the funding source, do the reforms, and bring us up to the standards where Japan and Germany are today in terms of what they are providing.

And the crazy contradiction between the States, where a family or worker unemployed in one State gets a different kind of a treatment than unemployed families or workers in a different State must be addressed.

We are in a modern age. And why are we not seeing that? I do not understand why we do not act on the apparent problems with unemployment compensation. I think the President would be helped by doing that, quite frankly.

I think the country wants him to do it. American workers do not understand why he is not addressing the unemployment problems they are facing. They do not understand why there is an emphasis on a trade pact with Mexico, a JOBS program down there, and help for Kuwait, and help for China, and help for the rest of the parts of the old Soviet Union, and nothing very specific when it comes to helping people here in this country.

That is the problem. And I do not know how to persuade the administration to make it more specific. How do we do that? How do you do that?

Secretary MARTIN. If I may, just to defuse for a moment, I was going to feel terribly guilty about not reading the GAO report until I saw the date.

It came out today, so I am not going to do quite a mea culpa on that. And the other is April 23rd. So I assure you, I will read them. But the one, since it came out this morning, it is true I did not read it before I came here. But I will certainly look at it.

And, perhaps you did not see that date so that is why you thought—

Senator RIEGLE. No. I know these have just come out. But the point is, they are directly on the subject of the testimony.

Secretary MARTIN. Indeed. I will read them. But they are the same day, so I think that is a bit—perhaps you got them before we did since they are a report to your committee. In a sense, you have now given them to me. I assure you, I assure you, Senator, they will be read by me this afternoon.

Second, perhaps nothing more clearly indicates why we believe that we must work on that is the potential that good people who differ would differ even on a definition of what change should be.

The President of the United States, I suspect, even occasionally by you, has been criticized for saying he would not work with the Congress. Now, often we thought those were unfair criticisms, it is true. But, generally, you do; you think criticism is unfair and you think compliments are duly deserved.

In this case, we come to work with the Senate, the committee. We come to work with the House. Let us quickly get it done and get it out there. Let us accept the already public discussion about having it go for a year.

We clearly lay out that we do not want to see increases in taxes. We do not want to do anything that could discourage job creation, a goal, certainly, that we would all share.

Let us look at what we can agree on as the offset and come to the people and make sure they are covered. I find that not just productive, but the kind of leadership, not just from the President, we are seeking that which, you are right, voters want.

There is a reason for three branches, there is a reason for a powerful House and Senate. That is to work with the administration to achieve this. I think we can do it quickly. Now, if others want to go a different route, I must understand that. I mean, they are freely elected to do so.

But, Mr. Chairman, and Senator, I assure you of our desire to quickly help these people so that by the second week of May they are not saying it is that old Congress's fault, they could not even get that done, or, I bet it is the White House's fault. Who cares whose fault it will be if people cannot be helped? So, let us try to do it.

The CHAIRMAN. Madam Secretary, let me get a specific.

Secretary MARTIN. Sure.

The CHAIRMAN. Does the President support the full benefits that are in the law now? And I am talking about the 33 weeks of benefits in those States with higher unemployment, and I am talking about 26 weeks in all the others. Is the President supporting that?

Secretary MARTIN. I am a little unclear. I should have—and excuse my lack of courtesy—introduced Roberts T. Jones, the Assistant Secretary who works carefully with these programs.

The CHAIRMAN. We are pleased to have you, Mr. Jones.

Secretary MARTIN. So that if there are any specific questions that I cannot answer, I would refer them to Bob.

The CHAIRMAN. Well, let me get the question again.

Secretary MARTIN. But are you asking does he support what we are currently doing?

The CHAIRMAN. That is right.

Secretary MARTIN. That answer is obviously yes, because we could not have gotten where we are if there had not been that agreement in February to bring us here.

The CHAIRMAN. You are supporting that till the end of the year then, the 33 weeks?

Secretary MARTIN. Oh. No. A different thing. All right. That is why I was not quite sure.

The CHAIRMAN. Well, then we need to return to talk to him. That is what I asked you; until the end of the year.

Secretary MARTIN. Well, I believe, and that is why we are trying to be very careful here to listen to you carefully—

The CHAIRMAN. Good.

Secretary MARTIN. It is harder, sometimes, to listen than to talk. I will agree with that.

The CHAIRMAN. I have not learned much while I was talking either. But, go ahead.

Secretary MARTIN. Now, I do not think you are saying what I thought you were, so let me try it again. Could you just ask it again so I am very clear on what you said?

The CHAIRMAN. What I want to know is, does the President support the amount of weeks that are in the law now in the extension to the end of the year, and that is 33 weeks for those States that are hardest hit and 26 weeks for the others?

Secretary MARTIN. What we are looking at now, Mr. Chairman—and thank you for repeating that, because I was unclear—is what agreement we could reach at costs with offsets that we could agree to.

The suggestion you are making—and I would have to roll it through in my mind—if I am correct, would cost about \$4 billion. Would that be correct?

The CHAIRMAN. Between \$4–\$5 billion, as I recall. Between \$4–\$5 billion.

Secretary MARTIN. Between \$4.3, somewhere in there, and \$5 billion. So, I would ask the Chairman—

The CHAIRMAN. I know this is painful, but I—

Secretary MARTIN. No, no. It is not that painful. I am trying to politely ask the Chairman, would he assume that there would be a tax increase to pay for that \$4–\$5 billion, or is that an offset he would be talking about?

The CHAIRMAN. I would really like to get—let me tell you in all candor, Madam Secretary.

Secretary MARTIN. Sure.

The CHAIRMAN. And I think that is part of the frustration of all of us here. A President, we expect leadership from.

Secretary MARTIN. And you are getting.

The CHAIRMAN. And that is not just the good news, but some of the bad news. And when you are talking about offsets, we are talking about either cuts in some programs, which are painful, or we are talking about something that increases taxes, whether you call it that or not, in the process.

I am not talking about rate increases, but a number of these offsets are truly tax increases. And I know that that is word you do

not like to use, but those are the realities. And I am trying to get an answer on that.

Secretary MARTIN. Well, you are asking, do we think that it will be \$4-\$5 billion, that will be part of the negotiations. I am asking you where do you think that you would come—

The CHAIRMAN. I am telling you where I stand.

Secretary MARTIN. So, you are for five—and how would you pay for it, Mr. Chairman?

The CHAIRMAN. I want to do 33 weeks and 26 weeks, and that is between \$4-\$5 billion for that without any changes in TUR and that type of thing. So, I am telling you where I stand. Where does the administration stand? It is tough to say it. I know it is.

Secretary MARTIN. Yes. It is very tough. You still, Mr. Chairman, have not said where the money would come from. And since it is this committee that is an important part of that—

The CHAIRMAN. I am saying we would pay for it.

Secretary MARTIN. I just got criticized for that sort of thing.

The CHAIRMAN. I am just trying to see if you are for either the 33 weeks or 26 weeks, or not.

Secretary MARTIN. Mr. Chairman, I saw a public statement about where you were and did not, in that statement, as I recall, indicate how you thought that the revenues or the offsets would occur to support that. We stand ready to sit and talk to you.

If you are saying can I, off the top of my head, think of \$5 billion worth of offsets, I cannot. I am not sure, though, that is where everyone in the Senate is. Let us begin. Let us meet and see where we go. We will not support tax increases that will hurt the people at work or hurt job creation. And I cannot believe most of the Senate or the House wants to do that, either. But we can do it. It just depends on how much everybody wants to get there.

The CHAIRMAN. Well, I am sorry we cannot get specifics. I have no further questions.

Senator RIEGLE. Mr. Chairman, just finally, I think there is an obligation to be specific. I think the administration does have that obligation, whether the message comes from you today, here—which I think is the appropriate time and place and that is why we are here and that is why we are all gathered—or it can come in a letter from the President, it can come in a public statement that he makes.

I know this may sound surprising in the domestic policy area, but I think there is a major leadership responsibility that only the President carries; not just this President, it is true of any President, regardless of party and so forth.

And, as you look out across the country right now, and as you see what people are trying to say with those that are voting and those that are not, and an awful lot of people not voting at all, I think what they are asking for is leadership. I mean, so much so that we have even got a third party candidate coming in right now that is running ahead of the President in his own home State based on essentially the leadership issue about tackling these kinds of questions. This is a tough question, but this is not the toughest question.

I have been waiting for a proposal on health care that also has to be presented to this committee. We are not getting one. We are

not getting one. What we are getting is sort of little things, what I would call Band-Aids, or things that go just far enough to get us past November of this year. And that is not enough.

The CHAIRMAN. Senator, we are not going to get the specifics. Madam Secretary, thank you for appearing.

Secretary MARTIN. I thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Secretary MARTIN. A small point here. The last two times we have had to extend benefits, the administration, the department, and others, have come up with the offsets. Our record is quite clear on that. We can, and will, at reasonable numbers, work toward that.

And I look forward to working with everyone on this committee to make sure that the people in the second and third week of May, that we do not just give them our speeches to eat, that we are able to show real leadership—and that is everybody—to make sure we achieve that.

And, under your guidance—Mr. Chairman, and the Senator from Michigan, I know, shares the desire to help people, too—I know we can get there.

The CHAIRMAN. Thank you, Madam Secretary.

Secretary MARTIN. Thank you very much for letting me be with you.

The CHAIRMAN. Thank you. The hearing is adjourned.

[Whereupon, the hearing was concluded at 12:19 p.m.]



# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED

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[SUBMITTED BY SENATOR LLOYD BENTSEN]

GENERAL ACCOUNTING OFFICE,  
Washington, DC, April 28, 1992.

Hon. LLOYD BENTSEN, *Chairman,*  
*Committee on Finance,*  
*U.S. Senate*

Dear Mr. Chairman: Although 97 percent of all wage and salary workers are covered under the Unemployment Insurance (UI) program, the proportion of the unemployed who receive UI benefits has declined by one-fifth between 1975 and 1991. The decline in UI reciprocity has been widely reported, raising fears that the UI program no longer acts as an effective economic stabilizer or maintains the purchasing power of the unemployed. At your request, we are conducting a study of certain aspects of the UI program. Specifically, we are examining the decline in the proportion of the unemployed who receive UI benefits, the factors contributing to the decline, and the effect of the decline on the program's objectives. As requested by your office, this letter provides some preliminary results from our work on the decline in the reciprocity rate and its effect on the program's overall objectives. Our forthcoming report will address the reasons for the decline in the proportion of the unemployed who receive benefits, focusing on federal and state UI law changes.

### BACKGROUND

The primary objectives of the UI system are to (1) provide temporary and partial wage replacement to those who lose their jobs through no fault of their own and (2) act as an economic stabilizer during economic downturns. The system, which is operated as a partnership between the federal government and the states, provides for the payment of regular benefits as well as extended benefits during periods of high unemployment. A state UI payroll tax on employers finances regular UI benefits and one-half of the extended benefits program.<sup>1</sup> The federal government levies a payroll tax and uses the proceeds to finance both state and federal UI program administration, pay one-half of the extended benefits program, and create a fund from which loans can be made to states with insolvent UI accounts. During 1991, additional benefits were paid entirely from federal UI funds under a separate program, the Emergency Unemployment Compensation program, enacted in November 1991.

The UI system acts as a stabilizer to the economy because aggregate UI benefit payments typically increase as unemployment rises during recessions—even after adjusting for the unemployment level. Typically, during a recession, the UI reciprocity rate increases as unemployment rises, reflecting an increase, among the unemployed, in the number of workers who lose their jobs and a decline in the number of new entrants and reentrants in the labor force.<sup>2</sup> The opposite occurs during

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<sup>1</sup> The extended benefits program gives unemployed workers additional benefits once they exhaust their regular benefits, which occurs after 26 weeks in most states. Extended benefits are paid on a state-by-state basis during periods of high unemployment.

<sup>2</sup> Not all unemployed workers are eligible for UI benefits. New labor force entrants and most reentrants are not eligible because generally they lack sufficient time in UI covered employ-

a period of economic recovery; the number of job losers declines and, as employment opportunities increase, more new entrants and reentrants are drawn into the labor force. As a result, the UI recipiency rate declines during recovery because those eligible for UI benefits comprise a smaller proportion of the unemployed.

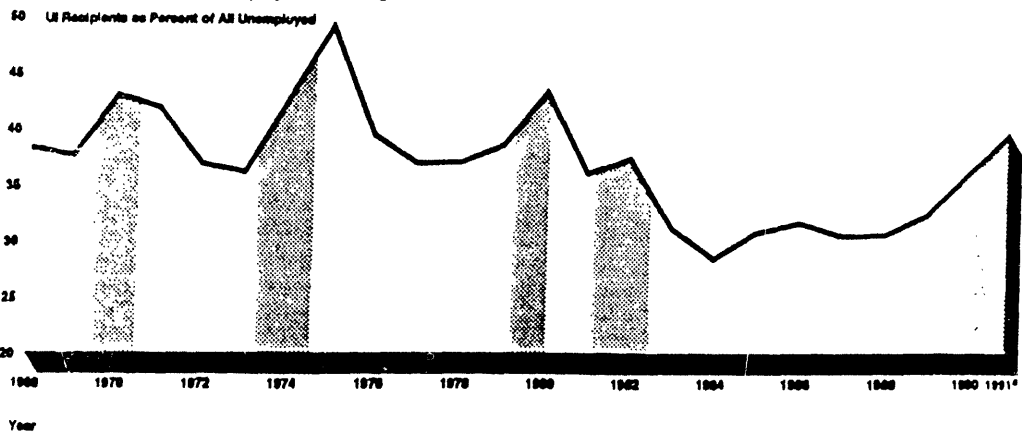
#### RESULTS IN BRIEF

The ability of the UI program to meet its objectives of temporary and partial wage replacement and economic stabilization has been eroded since the 1970s. Our work shows that, relative to the level of unemployment, there has been a long-term decline in the amount of UI benefit funds being injected into the economy to help stabilize economic activity during recessions. This decrease resulted principally from a decline in the percentage of the unemployed who receive UI benefits, a trend that was particularly notable during the early 1980s. If the UI recipiency rate and benefit payments were at the same level during the 1990–91 recessionary period as during the 1974–75 period, about \$20 billion more in UI benefits would have been available to stabilize the economy and maintain a portion of the incomes of the unemployed. Half of this difference was due to a decline in the proportion of the unemployed who received regular UI benefits, and the other half to a decrease in the payment of extended benefits.

#### DECLINING IMPACT OF UI RESULTS FROM LOWER PROPORTION OF UNEMPLOYED RECEIVING BENEFITS

The erosion of the UI system since the 1970s is largely a reflection of the decline in the percentage of the unemployed who receive UI benefits.<sup>3</sup> The UI recipiency rate was 49 percent during the 1974–75 recession, was 43 percent during the 1980 recession, and dropped following the 1981–82 recession to 29 percent in 1984 (see fig. 1). UI recipiency increased slowly after 1984, but remained at historically low levels until unemployment began increasing in 1990. In 1991, the percentage of the unemployed who received UI benefits was 40 percent, which was about 20 percent below the peak 1975 level.

Figure 1: Proportion of Unemployed Receiving UI Benefits Has Fallen Since 1975 Peak



<sup>3</sup>Preliminary data. End of 1990-91 recession has not officially been determined.

The usual pattern of increasing UI recipiency during a recession did not hold during the 1980s. Although UI recipiency increased as the nation entered a recession in 1980, it declined in 1981 while unemployment remained high. As unemployment rose to a post-World War II high in 1982 (9.7 percent), the UI recipiency rate was 37 percent, similar to that of the 1978–79 nonrecession period. And, in 1983, when unemployment remained high (9.6 percent), the UI recipiency rate declined to 31 percent. In contrast, UI recipiency rose to 43 percent in the 1969–70 recession, and

ment. Also, workers who voluntarily leave their jobs may not be eligible or may be eligible only after a waiting period.

<sup>3</sup>UI recipiency includes only those receiving regular benefits, not those receiving extended benefits.

to 49 percent during the 1973-74 recession. During recovery periods following these recessions, UI reciprocity did not fall below 36 percent.

The 1990-91 recessionary period showed a more typical pattern, with an increase in the percentage of UI recipients as unemployment increased. However, at 40 percent, the reciprocity rate was well below the peak rate of 1975.

#### LESS UI FUNDING AVAILABLE AS AN ECONOMIC STABILIZER

The economic stabilization provided by the UI system has been lessened since the 1970s. We estimate that, had the UI system paid benefits during the 1990-91 recession at a rate equivalent to its peak rate, that of the 1974-75 recession, about \$20 billion more would have been pumped into the economy than actually was in 1990-91. The UI system paid about \$50 billion in benefits in the 1990-91 period. Had the system paid benefits to the same proportion of the unemployed as it did in 1974-75, after correcting for inflation and unemployment levels, over \$70 billion of benefits would have been paid in 1990 and 1991. Half of the difference was due to a decline in the payment of regular benefits, and half was due to the decrease in extended benefit payments. Similarly, had UI benefits been paid at a rate equivalent to that of 1980, \$7 billion additional would have been available as an economic stabilizer in 1990-91.

Most recently, the trend has returned to its traditional pattern of increased UI benefit payments as unemployment rises during recessions. For example, the UI system paid out about \$1 billion more in benefits during the 1990-91 recessionary period than it would have at the 1981-82 rate.

We are continuing our work in response to your request, and our forthcoming report will respond to each of the matters you asked us to address. If you have any questions or need additional information, please call me at (202) 512-7014 or Sigurd Nilsen of my staff at (202) 512-7003.

Sincerely yours,

LINDA G. MORRA, *Director, Education  
and Employment Issues*

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[SUBMITTED BY SENATOR LLOYD BENTSEN]

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UNEMPLOYMENT COMPENSATION IN THE  
GROUP OF SEVEN NATIONS: AN INTER-  
NATIONAL COMPARISON

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Prepared by the Congressional Research Service at the  
Request of the

COMMITTEE ON FINANCE  
UNITED STATES SENATE  
LLOYD BENTSEN, *Chairman*

AND THE

COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
DAN ROSTENKOWSKI, *Chairman*



APRIL 1992

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LETTER OF SUBMITTAL

April 23, 1992

Honorable Lloyd Bentsen  
 Chairman  
 Committee on Finance  
 U.S. Senate  
 Washington, D.C. 20510

Dear Mr. Chairman:

This report constitutes the Congressional Research Service (CRS) response to your letter of January 16, 1992, in which you and Representative Rostenkowski, Chairman of the House Committee on Ways and Means, requested a study comparing the U.S. unemployment compensation program with those of other industrialized countries.

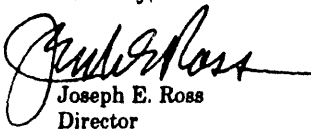
As you requested, this study encompasses the following aspects of the unemployment compensation systems analyzed: objectives, coverage, funding sources, eligibility requirements, benefit levels and durations, associated employment services, program administration, and historical development. The detailed comparison was undertaken for the Group of Seven nations: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. In addition, summary information is provided on the types of unemployment benefits offered in other countries.

The comparison reveals that each of the systems studied is unique, and the variations in program features among these seven major industrial countries are significant. The study provides information on program design in other countries that Members may find useful as they consider further changes in the U.S. unemployment compensation system.

The study was directed by James R. Storey and written jointly by him and Jennifer Neisner, both of the Education and Public Welfare Division. Helpful comments were contributed by Vee Burke and Gene Falk, also of the Education and Public Welfare Division.

We hope that this report will be helpful to your Committee and to the Congress.

Sincerely,



Joseph E. Ross  
 Director

Enclosure



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LETTER OF SUBMITTAL

April 23, 1992

Honorable Dan Rostenkowski  
 Chairman  
 Committee on Ways and Means  
 U.S. House of Representatives  
 Washington, D.C. 20515

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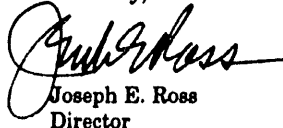
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Joseph E. Ross  
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## UNEMPLOYMENT COMPENSATION IN THE GROUP OF SEVEN NATIONS: AN INTERNATIONAL COMPARISON

### SUMMARY

The recession and worker dislocations have highlighted unemployment compensation (UC) problems and prompted interest in how other nations provide UC. This report compares UC in the Group of Seven (G-7): Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

Since the U.S. system operates largely under State rules, it varies more than those of the other six nations, but all seven rely mainly on payroll taxes to fund benefits. All the G-7 except Canada also use general government revenue for UC, but mainly to pay for means-tested unemployment *assistance* (UA) rather than for unemployment *insurance* (UI). France, Germany, and the United Kingdom offer UA. Only Japan uses general government revenue to pay part of UI benefits; the United States uses general government funds to extend UC for workers made jobless by import competition. The other six nations tax more of their wages than does the United States. The United States is the only one to relate employers' tax rates to their unemployment experience.

The work history required for UI eligibility is generally lower in the United States. The median State's earnings requirement is \$1,418 in a year (42 days' work at the minimum wage), whereas Germany requires 360 days' work over 3 years and Japan 6 months' work over 12 months. Workers jobless because of voluntary quitting, misconduct, a labor dispute, refusal of suitable work, or refusal of training are disqualified by all seven nations. Most U.S. States disqualify job quitters for the whole jobless spell, but the other nations disqualify them only for a specific time.

Benefits in the United States typically are 50 percent of past wages, subject to State maximums. Benefit rates are higher in Canada, Germany, Italy, and Japan. The United Kingdom's UI benefits are based on age and family size rather than wages; their UA program provides three-fourths of their UC benefits. All the G-7 nations except Germany and Japan tax benefits as income.

Maximum benefit durations are longer for prime-age, full-year workers in Canada, France, Germany, and the United Kingdom than in the United States. Durations are longer still for older, long-term workers in France, Germany, and Japan. Canada sets durations based on how much a person worked in the past year and the regional unemployment rate. The United States triggers extended benefits based on State unemployment rates.

The largest UC programs as a share of gross domestic product (GDP) are in Canada, France, and Germany, and the smallest are in Italy and Japan. Adjusting these shares for unemployment rate, the U.S. program ranked either sixth or seventh among the G-7 during the 1970s and 1980s.

Training is integrated with UC in Canada, France, Germany, and Japan. The United States requires training for claimants receiving longer benefits because they lost their jobs to import competition. Spending for employment services relative to GDP is greatest in France, Germany, and the United Kingdom and is the lowest in the United States and Japan.



## UNEMPLOYMENT COMPENSATION IN THE GROUP OF SEVEN NATIONS: AN INTERNATIONAL COMPARISON

### INTRODUCTION

Several factors have focused attention on the unemployment benefits available to jobless Americans and raised the issue of whether the system should be changed. First is widespread dissatisfaction with the response of the system to extended joblessness in the 1990-1991 recession. Second is concern that a North American Free Trade Agreement among Canada, Mexico, and the United States, now under negotiation, may lead to worker dislocation in certain sectors of the economy. Third is the worker dislocation caused by reductions in military bases and military procurement associated with the end of the Cold War. Fourth is the threat to jobs posed by Federal initiatives to protect environmental quality and to enforce the Endangered Species Act.

In considering changes to the unemployment compensation (UC) system, it is useful to examine how other nations aid their jobless, since UC systems vary greatly. This report compares UC among the Group of Seven (G-7) nations: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. These seven nations are the industrialized countries with the largest economies. They meet annually to review their economic policies and consider policy changes that might be mutually beneficial.

The main body of the report describes major events in the development of each of the seven systems, analyzes how they differ along several dimensions, and provides examples of how other nations' systems differ from the G-7 programs. Appendices provide a description of the UC system in each of the G-7 countries and a chronological chart of how each country's system developed.

In this report, the term unemployment compensation (UC) is used to refer to a nation's overall system of unemployment benefits. Unemployment insurance (UI) is used to refer to components of these systems that base benefits on insured work histories without regard to need. Unemployment assistance (UA) is used to refer to programs that are integral to the UC systems but that do base benefits on financial need.

The reader should be aware of three limitations of this report. First, need-related aid for the unemployed (UA) is included in the discussion only where it is offered as an integral part of a UC system. All seven nations have need-related assistance programs outside their UC systems, but they are not covered here. Second, employment services are discussed only to the extent that they are explicitly a part of a UC system. Third, special arrangements that may exist for the unemployed in the public sector are not discussed except to the extent that such arrangements are integrated with, and identical to, provisions for compensation of private-sector workers.

In drawing comparisons of program rules across nations, this report cannot describe the full historical, economic, and political contexts that determine international variations. However, the reader should keep in mind that such factors as unionization, government relationships to industries, labor force diversity and mobility, and economic trends are important in understanding the significance of the program differences highlighted in this report.

Monetary figures used in the report are stated in the national currency,<sup>1</sup> with the U.S. dollar equivalent shown in parentheses. Dollar equivalents were calculated using the currency exchange rates in effect for December 31, 1991.

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<sup>1</sup>Abbreviations of currency names used in this report are as follows: \$A--Australian dollars; £--British pounds; \$C--Canadian dollars; F--French francs; DM--German marks; L--Italian lira; ¥--Japanese yen; K--Swedish kronor.

## MAJOR EVENTS IN THE DEVELOPMENT OF UNEMPLOYMENT COMPENSATION<sup>2</sup>

Unemployment protection schemes were organized in several countries through trade unions, mutual benefit societies, and other workers' associations by the end of the 19th century. Under these plans, members contributed into a fund from which benefits were provided. Organizations in France, Germany, and the United Kingdom provided such services, which in some cases (notably France) were subsidized by government contributions. The inadequacies of such funds led to a recognition that broader measures would be needed to protect more of the populace and that national governments would have to be involved.

In 1911 the United Kingdom became the first country to legislate a national compulsory UI program with the passage of the National Insurance Act. In 1919 Italy instituted a UI program covering most manual workers. Though these programs were limited in coverage and benefits, they were soon expanded. In the period following World War I, several countries instituted unemployment programs, the majority of which were compulsory insurance schemes, notably Germany's UI system in 1927. In addition, six countries employed subsidized voluntary schemes.

The economic depression of the 1930s and the risk of high unemployment following World War II led several countries to develop comprehensive social security programs for the unemployed. This development included the improvement of existing schemes, as in Italy and the United Kingdom, and the establishment of new programs, as in Canada in 1935 and 1940, in the United States with passage of the Social Security Act of 1935 which contained UC, and in Japan with enactment of the Unemployment Insurance Law of 1947.

During the postwar period until the recessions of the early 1970s, most countries concentrated on modifying their existing systems by extending coverage and increasing benefit duration and rates. In the late 1960s and early 1970s, UC programs were overhauled in several countries in response to changes in the objectives held for UC. An emphasis was placed on integrating the income maintenance aspects of UC with a wider human resources policy, one that emphasized job training and related provisions. In Germany, UI was integrated into the Employment Promotion Act of 1969. Japan adopted the new Employment Insurance Act in 1974. This act, which replaced the Unemployment Insurance Act, emphasizes the concept of lifetime employment as opposed to temporary aid. Canada enacted a new Unemployment Insurance Act in 1971 that included job training provisions as well as benefits in case of sickness, maternity, and retirement. Likewise, the United Kingdom restructured UI under the Social Security Act of 1975. The United States enacted a trade adjustment assistance (TAA) program in 1962 and expanded it in 1974 to provide workers displaced by import competition with compensation and employment services.

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<sup>2</sup>See appendix B for a chronological listing of major developments in each G-7 country.

The 1980s saw several countries revoke or cut back on program reforms of the 1970s. The United Kingdom eliminated its earnings-related benefit in 1982, returning to a flat-rate UI benefit. France restored its dual UI-UA system in 1984 following disappointment with a unified system. The United States tightened eligibility for extended benefits and TAA in 1981 and made all UI benefits taxable in 1986. TAA claimants were required to accept retraining in 1988.

In the past few years, UC has not changed dramatically in most countries. Modifications again focused on existing systems. Germany, faced with increasing unemployment since reunification, extended UI benefits to the former German Democratic Republic (GDR) in 1990. Canada passed Bill C-21 in 1990, the most important provision of which ended government contributions to UC. The United States, faced with increasing unemployment due to the 1990-1991 recession, enacted Emergency Unemployment Compensation (EUC) in November 1991, and extended the new program in February 1992. This marked the third time that Congress enacted *temporary* extended benefits since creation of a *permanent* extended benefits program in 1970.

## **COMPARISON OF UNEMPLOYMENT PROGRAMS IN THE G-7 NATIONS**

The UC systems of the G-7 nations are described in detail in appendix A to this report. This section compares these seven systems using the same structure followed in the appendix: objectives, administration, financing, coverage, eligibility, benefits, and employment services.

### **Objectives**

The formally stated objectives of the seven systems are similar. They all are intended to provide income support to jobless workers and promote stability of employment. However, the relative emphasis given to different objectives varies substantially, and two systems (those of Canada and Japan) specify reentry into employment as a main objective of UC.

The sections that follow describe the variations among the seven systems, key among which are:

- The degree of national control over the system;
- The division of program funding among employees, employers, and government;
- The work history required for eligibility;
- The relationship between benefit amounts and past wages;
- Adjustment of benefit duration according to economic conditions;
- Extension of benefit duration for hard-to-employ workers;
- Coverage of new labor force entrants and reentrants;
- Means-tested benefits for the long-term jobless; and
- The inclusion of job training activities in the UC system.

### **Administration**

Each of the seven systems is supervised nationally by an executive department or ministry of the national government. However, the delegation of authority by the supervising organization differs substantially across nations. Also, collection of program revenue is handled differently from administration of benefit claims in each nation.

The collection and management of earmarked tax revenue is managed by the national revenue agency in Canada, Italy, and the United States, although most U.S. revenue is collected first by State agencies before being deposited with

the U.S. Treasury. The United Kingdom relies on its Department of Social Security for tax collection, and Japan on its Labor Ministry. In France, financial management is the responsibility of employer associations known by the acronym of ASSEDICs. Germany's earmarked tax is collected through the social security tax collection system by sickness funds that serve specific localities, enterprises, or occupational groups.

Five of the seven countries administer claims through a local office network under the direct management of the national executive agency responsible for employment matters. The two exceptions are France and the United States. Administration in France is the responsibility of UNEDIC, an acronym for an employees' organization. Municipalities perform payment functions where there is no UNEDIC office. Local administration in the United States is handled by the local office networks of 53 distinct State employment security agencies,<sup>3</sup> which operate under the general guidance of the U.S. Department of Labor.

### Financing

Program financing methods vary among the G-7 nations in regard to who pays, for what each party pays, and how much they pay. The various funding arrangements are summarized in table 1.

All seven nations use a payroll tax to fund their general UI benefit programs. While Japan pays one-fourth of these benefits with government funds, the other six rely on the payroll tax exclusively (chart 1). Five of the seven apply the tax to both employee and employer; Italy and the United States (except for three States) do not tax employees.<sup>4</sup> Japan taxes all covered wages, the United Kingdom applies its employer tax to all wages, and Italy taxes all wages above an exempt amount. The others have ceilings on taxable wages. All six nations tax more of their wages than does the United States (chart 2A).

Five of the seven nations have fixed tax rates, the employee rates ranging from 0.55 percent (Japan) to 2.52 percent (France) and the employer rates from 0.55 percent (Japan) to 4.43 percent (France). Of the two systems with variable tax rates, the United Kingdom's varies with wage level, while U.S. rates vary by State and by firm within State. The latter variation reflects the States' efforts to "experience rate" program financing so that employers creating larger unemployment costs pay more taxes. The other six nations do not vary rates for experience, although Italy does levy a higher tax on industrial firms and an even higher tax on construction firms. The average State tax rate in the United States is 1.9 percent, and the Federal tax rate is 0.8 percent. If all U.S. wages

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<sup>3</sup>The U.S. system operates in the District of Columbia, Puerto Rico, and the Virgin Islands, as well as in each of the 50 States.

<sup>4</sup>This discussion refers to the nominal tax rates applied to employee paychecks. The actual incidence of employer and employee taxes is not addressed. Many economists believe that payroll taxes on employers ultimately are borne by employees in the form of lower wages.

were taxed, the effective rate would be 1.0 percent. Chart 2B compares nominal payroll tax rates.

Germany relies most heavily on employee taxes (covering 50 percent of UI benefit costs), with Canada (42 percent), Japan (37.5 percent), and France (36 percent) next. The least reliant on employee taxes are the United States (less than 4 percent) and Italy (0 percent).<sup>6</sup>

The non-UI parts of these seven UC systems are supported by general government revenue. The three nations with UA programs<sup>6</sup> (France, Germany, the United Kingdom) pay for UA entirely with government funds. Germany has a special arrangement for jobless workers in the former GDR that is government funded, as is the special trade adjustment assistance (TAA) program in the United States that extends benefits to workers dislocated by import competition. Italy has a wage supplement that is supported partly by government funds and partly by the employer payroll tax.

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<sup>6</sup>The share of the United Kingdom's program paid from employee taxes could not be determined.

<sup>6</sup>The international literature classifies the United States as being without a UA program. However, in 1990 Federal legislation mandated that all State welfare systems provide aid to families with dependent children (AFDC) to families with an unemployed parent. In the States affected by this mandate, such aid may be denied for families that have received benefits in at least 6 of the preceding 12 months. The program is administered by welfare agencies and is funded by State funds and Federal formula matching grants.

TABLE 1. Funding Sources for UC Benefits in the G-7 Nations

Nation/Program	Proportion of benefit cost paid from:			Level of tax on:			
	Payroll tax on--		Govt. subsidy	Employee		Employer	
	Employee	Employer		Tax rate	Wage base <sup>a</sup>	Tax rate	Wage base <sup>a</sup>
Canada--UI	42%	58%	0%	2.25%	\$30,576	3.15%	\$30,576
France							
--UI	38	64	0	2.52 <sup>b</sup>	97,668	4.43	97,668
--UA	0	0	100	--	--	--	--
Germany							
--UI	50	50	0	2.15 <sup>c</sup>	48,285	2.15 <sup>c</sup>	48,285
--UA	0	0	100	--	--	--	--
--GDR program	0	0	100	--	--	--	--
Italy							
--Basic benefit	0	100	0	--	--	1.61	<sup>d</sup>
--Special benefit	0	100	0	--	--	1.61-2.41 <sup>e</sup>	<sup>d</sup>
--Wage supplement	0	NA	NA	--	--	1.9-2.2 <sup>f</sup>	<sup>d</sup>
Japan--UI	37.5	37.5	25	0.55 <sup>g</sup>	All wages	0.55 <sup>h</sup>	All wages
United Kingdom							
--UI	NA	NA	0	2.0/9.0 <sup>i,j</sup>	31,616 <sup>j</sup>	0/5.0-10.45 <sup>i,j</sup>	All wages <sup>j</sup>
--UA	0	0	100	--	--	--	--
United States							
--UI	1-4 <sup>k</sup>	96-99 <sup>k</sup>	0	0.0-1.125 <sup>l</sup>	0-22,600 <sup>l</sup>	0.5-5.4 <sup>m</sup>	7,000-22,600 <sup>m</sup>
--TAA	0	0	100	--	--	--	--

<sup>a</sup>Wage base figures were converted to U.S. dollars using December 31, 1991, exchange rates and annualized.

<sup>b</sup>Tax rate is 2.47 percent on first \$24,420 of earnings.

<sup>c</sup>The employer pays full 4.3 percent for employees earning less than \$4,828 per year.

<sup>d</sup>Taxable wage base is wage in excess of \$44 a day. No upper limit.

<sup>e</sup>Tax rate is 1.9 percent on industrial firms and 2.41 percent on construction firms.

<sup>f</sup>Tax rate is 1.9 percent for firms with fewer than 50 employees.

<sup>g</sup>Construction workers and seasonal workers pay 0.65 percent of wages.

<sup>h</sup>Employers of seasonal workers pay 0.65 percent, and construction firms pay 0.75 percent. All employers pay an additional 0.35 percent to fund employment services.

<sup>i</sup>The first rate applies to the first \$4,160 of weekly earnings and the second rate to additional earnings. A range of rates is shown for employers because the rate is higher at higher wage levels.

<sup>j</sup>The United Kingdom payroll tax funds other social security programs in addition to UI. In 1989, UI benefits accounted for 4.4 percent of all benefit costs financed by this tax.

<sup>k</sup>Employee share is estimated by the Congressional Research Service (CRS) to be 4 percent or less.

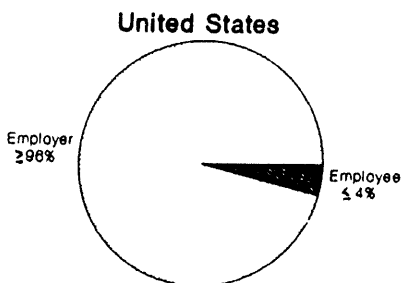
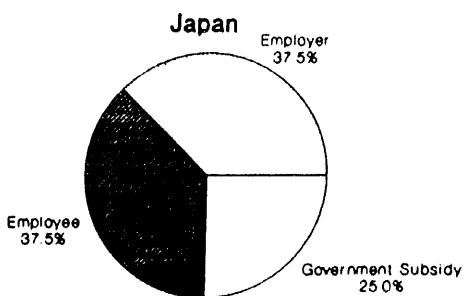
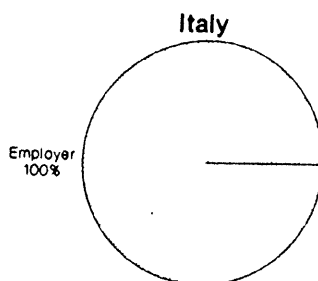
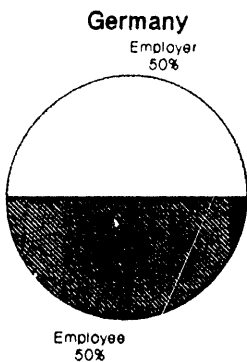
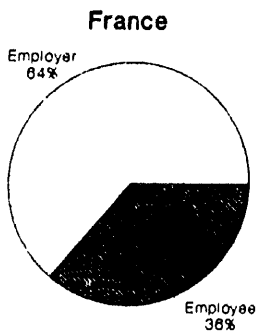
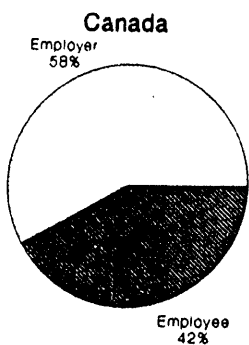
<sup>l</sup>Only three States tax employees. The rate ranges from 0.1 percent in Pennsylvania to 1.125 percent in New Jersey. Taxable wages range from \$8,000 in Pennsylvania to \$22,600 in Alaska.

<sup>m</sup>Tax rates and taxable wages vary by State, and tax rates vary by firm in each State. The rates shown are the lowest and highest average State rates. The national average tax rate applied to taxable wages in covered employment is 1.9 percent State and 0.8 percent Federal. If all covered wages were taxable, the national average rate would be 1.0 percent. The taxable wage base for the median State is \$8,250.

NA = Not available.

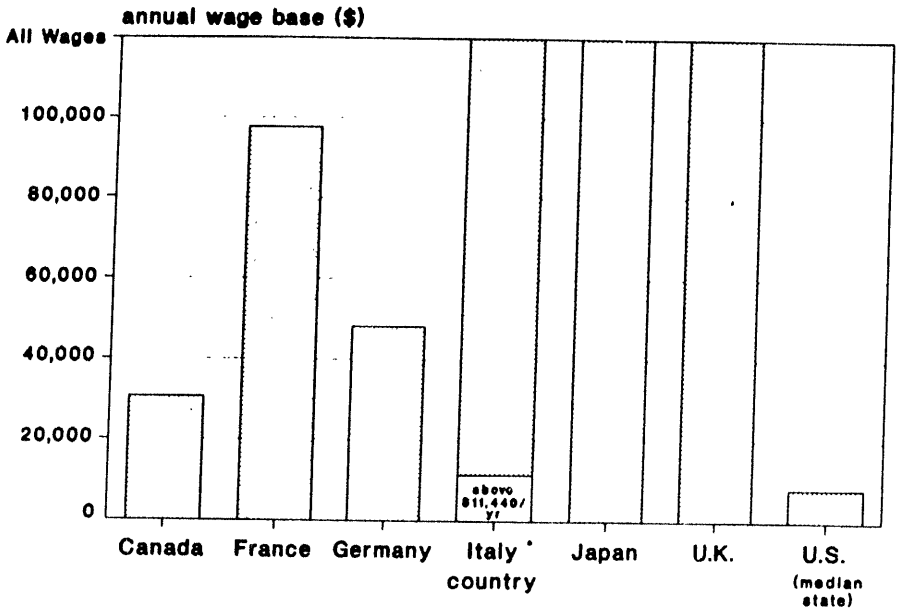


**CHART 1. Shares of UI Benefits Paid by Employers, Employees, and Government**



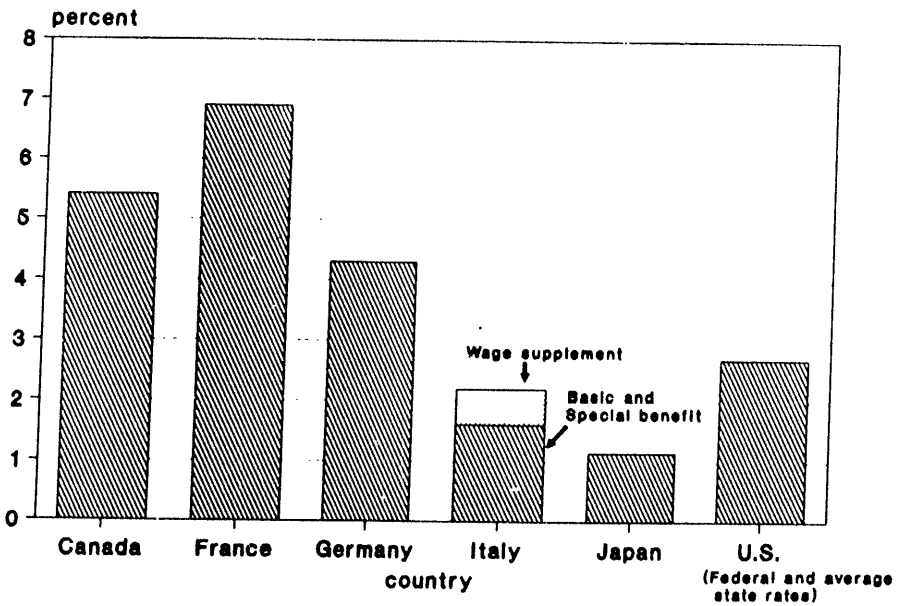
[Note: United Kingdom not shown because employee share could not be determined.]

### CHART 2A. Taxable Wage Base for UI



\* Italy taxes all wages above an exempt amount.

### CHART 2B. Nominal UI Payroll Tax Rates



[Note: Chart does not include the U.K. as their payroll tax funds other social security programs in addition to UI and no specific UI rate could be determined.]

The level of expenditure which these financial arrangements support is shown in chart 3 for each G-7 nation as a percent of gross domestic product (GDP) for selected fiscal years beginning in 1975 through 1990. Three systems (those of Canada, France, and Germany) consistently cost more than 1 percent of GDP during the 1980s. The United Kingdom's program, now 0.90 percent, surged to 2 percent in 1985 before declining. The other three systems are much smaller relative to the respective national economies, Japan's being the smallest at 0.32 percent of GDP, half the size of the U.S. program (0.60 percent). The U.S. program exceeded 1 percent only in the recession year of 1975.

Chart 4 shows this expenditure data adjusted for level of unemployment by dividing each GDP percentage by the corresponding unemployment rate. The resultant statistic indicates the divergence in relative program cost in the 1970s has narrowed. However, the systems of Canada and Germany continue to be the most expensive and the Italian program to be the least expensive. By this adjusted measure, the U.S. program ranks sixth and is 50 percent smaller than that of Germany. The U.S. program ranked either sixth or seventh throughout the period.

### Coverage

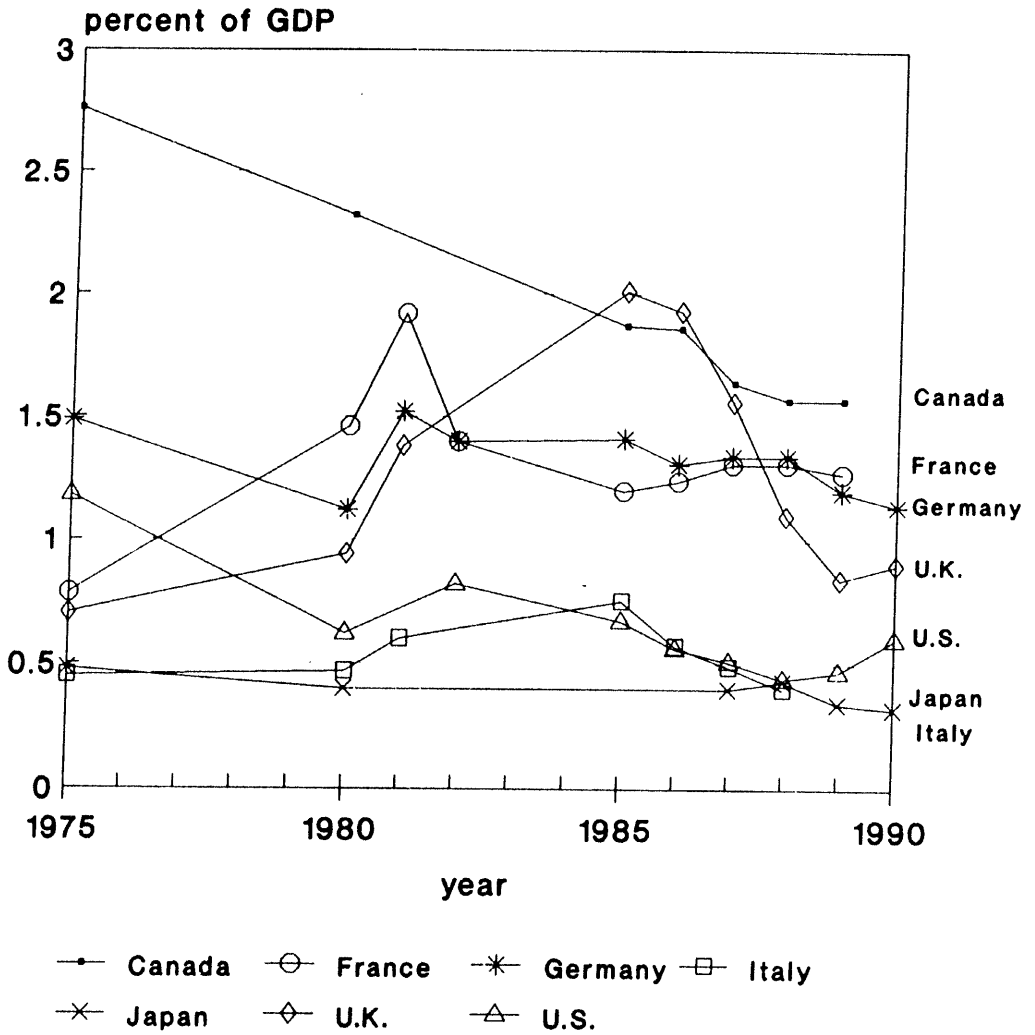
All seven systems provide broad coverage to wage and salary workers. Three UC systems (France, Germany, Japan) coordinate coverage with national pension systems by excluding workers over pensionable age. Four systems specifically exclude part-time workers (Canada, Germany, Italy, Japan) based on a weekly threshold for hours worked. Italy excludes managerial personnel from UI eligibility.

Some systems have special arrangements for seasonal workers. Canada has special rules for self-employed fishermen. France has special rules for construction workers, the merchant marine, longshore workers, and aviators. Germany excludes seasonal workers working less than 50 days a year. Italy excludes seasonal workers. Japan excludes those working 4 months or less in a year and covers small firms in selected industries only on a voluntary basis. In the United States, seasonal workers whose work spells fall below thresholds set by each State are excluded.

France and the United Kingdom provide coverage for virtually all unemployed persons who do not qualify for UI through their UA programs. Self-employed persons are generally not eligible for UI, though the State of California covers them on a voluntary basis.

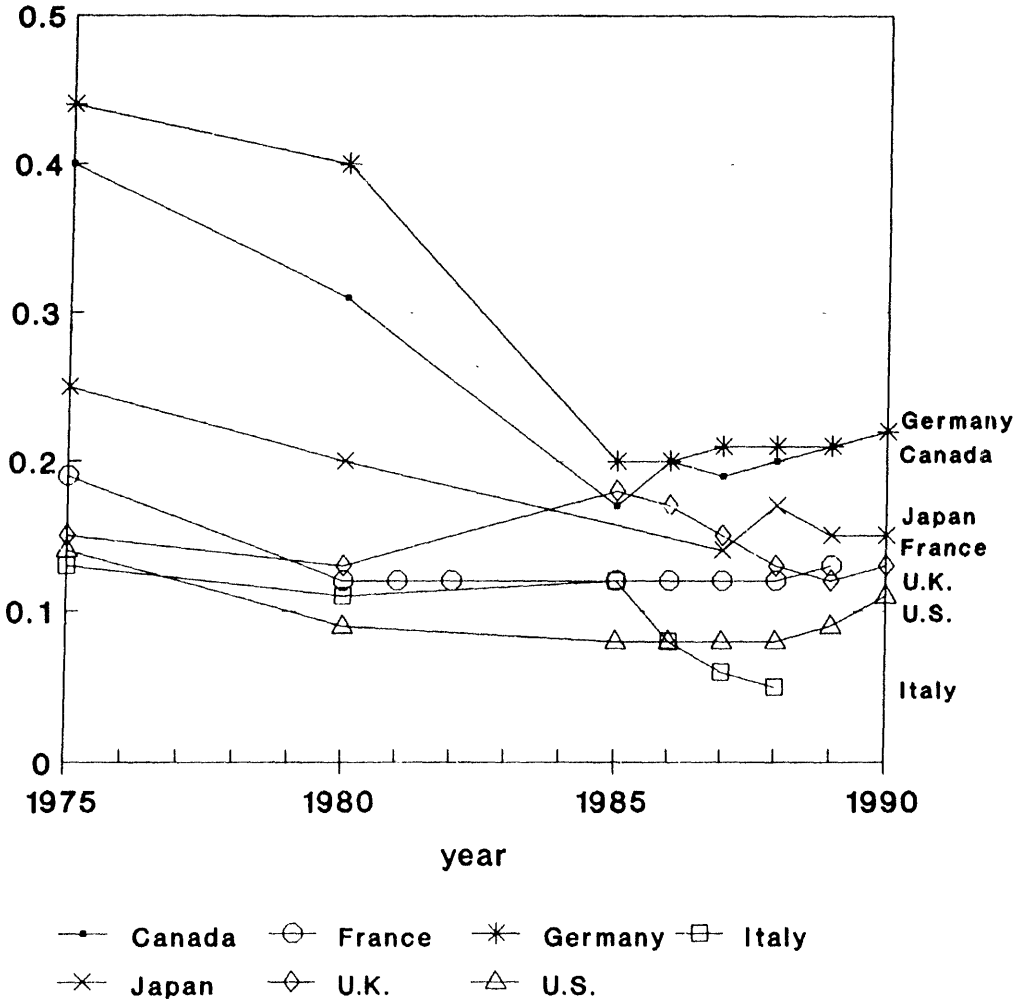
Workers on reduced schedules may receive UI in all seven countries. In the United States, this "short-time" compensation is only available in 16 States, however.

# CHART 3. Public Expenditures for UC as a Percent of GDP



[Note: Data not available for all years.]

**CHART 4. Public Expenditures for UC as a Percent of GDP per Percentage Point of Unemployment**



[Note: Data not available for all years.]



Italy's requirement is the strictest, amounting to half of the past 2 years, 13 weeks of which must be continuous to receive full benefits. Japan requires work for half of the past year, but the base period can be extended up to 4 years for those out of the work force because of illness, injury, or pregnancy. Germany has the longest base period--3 years--and requires covered work for at least 40 percent of that time. The Canadian requirement calls for work for at least 40 percent of a 1-year base period, although Canada's criterion is more lenient in regions with high unemployment. The requirement in France calls for covered work for one-fourth of the prior year.

The minimum work requirements in the United Kingdom and United States are primarily earnings based and relatively low. The United Kingdom requires a year's earnings to exceed \$4,000 for full benefits. The rule in the United States varies by State, but the median State requires only \$1,418 in covered wages (equivalent to 42 days of work at the minimum wage) over four quarters to qualify for a minimum benefit. However, nine States do have requirements for work duration, ranging from 15 to 20 weeks in four quarters, and the majority of States require a minimum earnings amount in the worker's highest paid quarter. Of the States with this latter requirement, the median State's high-quarter earnings requirement is 62 percent of the earnings required over four quarters.

Each of the seven nations has rules that disqualify claimants whose unemployment results from voluntary quitting, misconduct, refusal of a suitable job, involvement in a labor dispute, or failure to accept training. Those jobless because of labor disputes are generally disqualified for the duration of the dispute. However, the length of disqualification for other causes of unemployment varies among the seven programs. Italy disqualifies job quitters for 30 days, but disqualifications for other reasons last for the duration of unemployment. Disqualifications last only 6 weeks in the United Kingdom. Canada disqualifies up to 12 weeks, as does Germany. Japan's disqualifications last as long as 3 months. France disqualifies job quitters for 3 months and denies eligibility for misconduct or job offer refusals. The United States has the strictest rules on disqualification, which are set by each State. For example, chart 5 shows that the disqualification for voluntary quitting is for the duration of the unemployment spell in 47 of the 53 State programs.

Eligibility rules for UA in the three nations that have these programs are also tied to work history. France requires employment in at least 5 of the past 10 years but reduces this requirement by up to 3 years for periods spent rearing children. Germany's program requires at least 150 days of insured employment during the past year. The United Kingdom has no specific work history requirement. UA claimants have to comply with work registration rules similar to those for UI claimants. UI exhaustees are eligible for UA in all three countries. A means test is used by the three countries to limit UA eligibility to those in financial need.

**CHART 5. Disqualification Periods for Voluntary Quits**

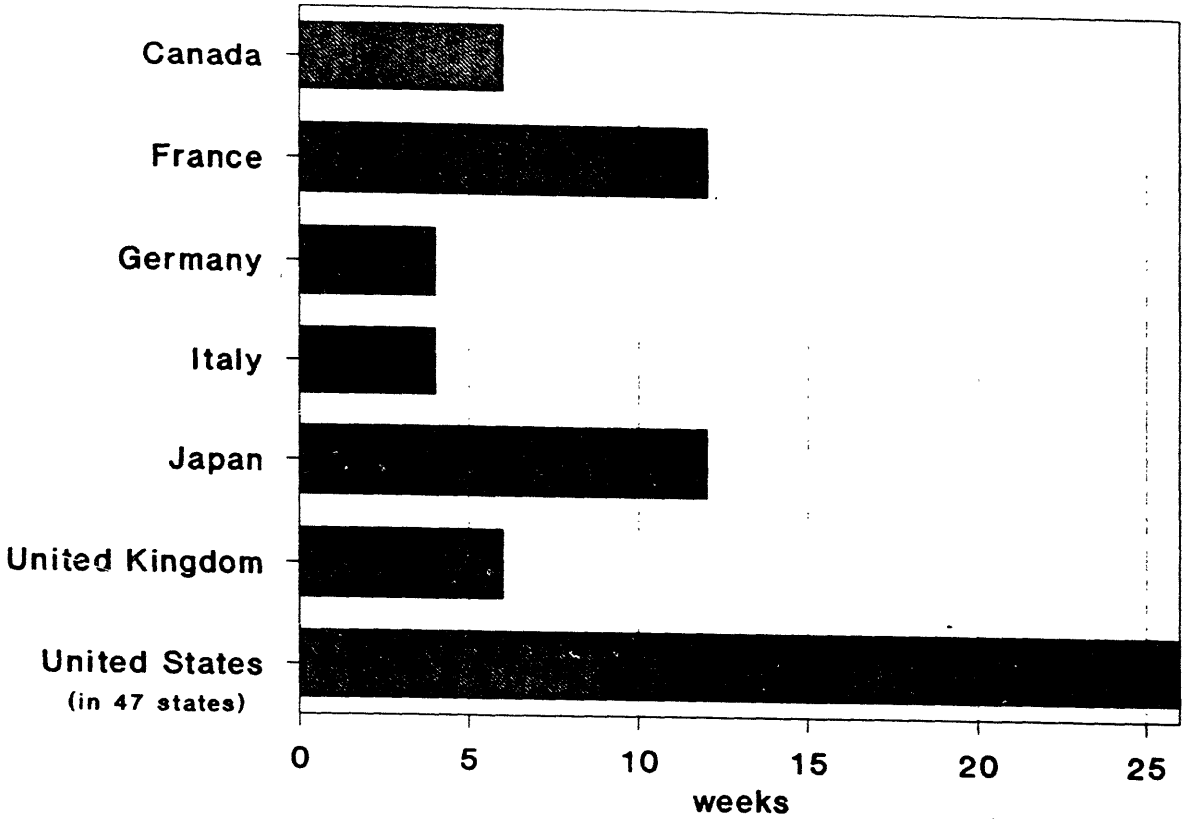


Chart shows disqualification periods for an unemployment spell of 26 weeks.



The proportion of unemployed workers assisted by the U. S. program in the mid-1980s was low relative to the proportions assisted in Canada, France, and Italy. The U.S. figure was similar to those for the UI figures in Germany and the United Kingdom, but those countries' figures are much higher when UA recipients are counted. In 1985, 34 percent of U.S. jobless workers received UI. Comparable figures for the other nations are:<sup>7</sup> Canada, 80 percent; France, 55 percent (72 percent when UA recipients are included); Germany, 39 percent (68 percent when UA recipients are included); Italy, 60 percent (for 1981-83); and the United Kingdom, in 1984, 32 percent (90 percent when UA recipients are included). It should be noted that unemployment rates in Canada, France, and the United Kingdom were 1.5 times the U.S. rate in the mid-1980s. Higher unemployment usually means that a higher proportion of the jobless qualify for UI since there are relatively more job losers than job quitters during downturns.

### Benefits

The method of calculating UI benefits is unique to each program. The main factors taken into account by the benefit formulas are displayed in table 3.

The United Kingdom does not relate benefits to past wages. The other six programs do, though France and Italy also have a flat-rate component in their formulas. Germany replaces 63 percent of after-tax wages; the other systems base benefits on gross pay. Japan's formula is the only one that provides a more generous rate of wage replacement, the lower the wage level.<sup>8</sup> Canada, Japan, and the United States limit benefits with maximums, those in the United States being the lowest except for a few States. Japan's wage replacement rate of 80 percent at low wage levels is the highest rate, but the wage figure used in Japan excludes overtime pay and bonuses, which account for nearly one-third of cash compensation in Japan. UI benefits are subject to income taxes in all the G-7 nations except Germany and Japan.

Age is generally not used as a factor in computing UI benefits, but Japan does pay lump-sum benefits to persons over 65, and the United Kingdom has higher benefit levels for unemployed workers who are over pensionable age. Benefits are more generous for workers with dependents in Germany, the United Kingdom, and nine U.S. States. Claimants with at least 6 months of insured employment are subject to a more generous benefit formula in France, and the United Kingdom awards lump-sum "redundancy" benefits to long-term employees who have been dismissed. Italy uses a higher wage replacement level for those dismissed by firms that are experiencing major long-term downturns or reorganizations. The U.S. system is the only one without a national benefit formula, its UI benefits being determined by 53 different State formulas that produce widely varying benefit amounts.

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<sup>7</sup>No comparable figures were obtained for Japan.

<sup>8</sup>A few States in the United States use higher wage replacement rates at lower wage levels in computing benefits.

Chart 6 compares weekly UI benefit amounts across the seven nations for three hypothetical cases. For the United States, amounts are shown for the States with the highest (Massachusetts) and lowest (Alabama) benefit maximums. Case 1 is a young single worker age 25 who has worked 6 months at an annual salary rate of \$10,000. Case 2 is a 31-year-old married worker with one child who has worked 3 years and was earning \$28,000 a year at the time of job loss. Case 3 is a married worker age 55 with two children who has worked 25 years and was earning \$50,000 a year. Case 1 would be ineligible in Germany and Italy. There is little variation across the other countries, the benefit being near \$100 a week in each, with Alabama the highest at \$150. However, for case 2, benefits are over \$300 a week in Canada, Germany, and Italy but only \$150 in the United Kingdom and Alabama. The benefit for case 3 is over \$600 in Germany and Italy, and between \$350 and \$450 in the other countries and in Massachusetts, but the benefit remains capped at \$150 in Alabama. Thus, the spread in benefit amounts grows as cases with higher wages, older ages, and longer tenure are compared.

TABLE 3. Major Determinants of UI Benefit Amounts in the G-7 Nations

Nation	Relationship of UI benefit formula to: <sup>a</sup>				
	Past wages	Age <sup>b</sup>	Work history <sup>b</sup>	Region <sup>b</sup>	Dependents
Canada	60% of average gross wage, maximum of \$353/week	none	none	none	none
France	\$6.91/day plus 30% of average gross wage <sup>c</sup>	none	\$9.21/day plus 40% of average gross wage if worked 6 months or more	none	none
Germany	63% of average net wage	none	none	none	68% of average net wage for claimant with children
Italy	Basic benefit none—benefit is \$0.87/day	none	none	none	none
	Special benefit 66% of average gross wage	none	none	80% of average gross wage at firms with long-term layoffs	none
Japan	80% of average gross wage at low wage levels, 60% at high wage levels, maximum of \$59/day	lump-sum benefit for workers over 65	none	none	none
United Kingdom	none—benefit is \$64.91/week	\$81.56/week if over pension age, plus \$49.01 for spouse and \$16.74/child	lump-sum benefit for workers dismissed after 104 weeks of continuous employment	none	additional \$40.03/week with dependents
United States	50% of average gross wage in most States, maximum of \$116 to \$336/week <sup>d</sup>	none	none	different formula in each State	nine States have dependents' allowances, which add as much as \$148/week

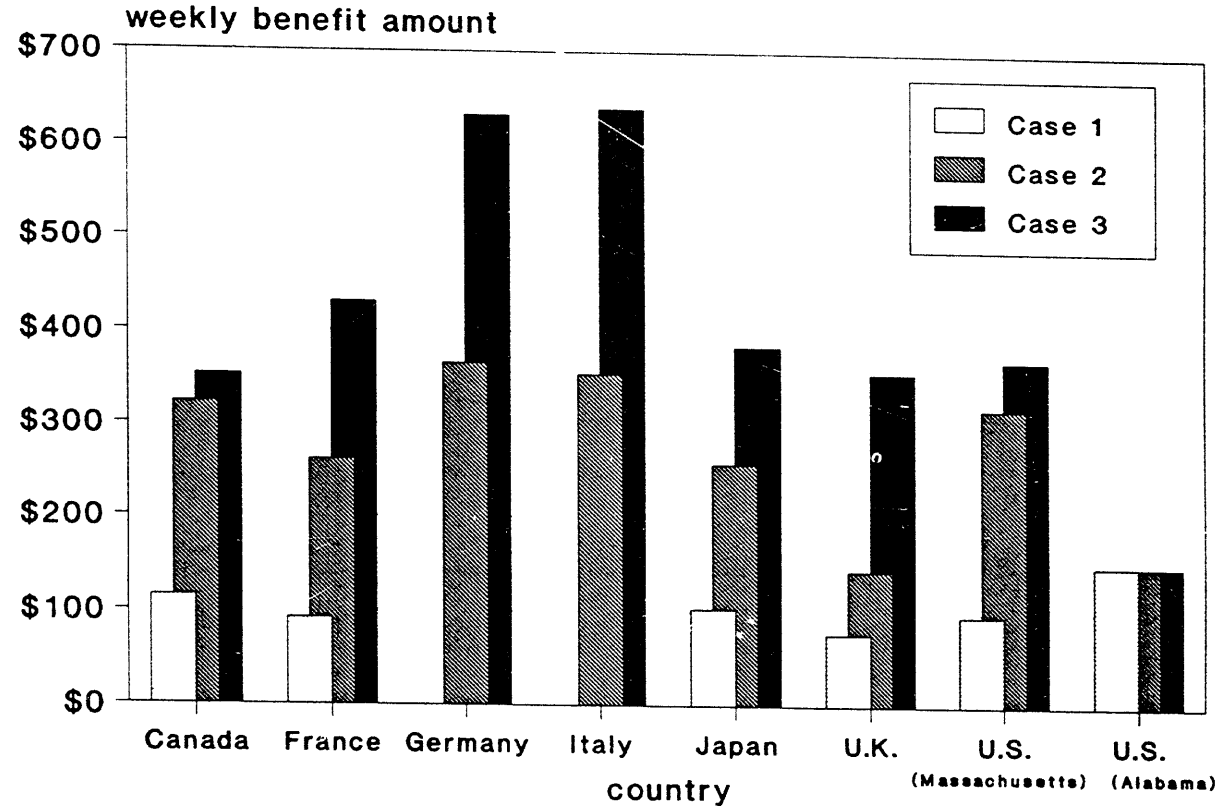
<sup>a</sup>Currency figures were converted to U.S. dollars using December 31, 1991, exchange rates.

<sup>b</sup>Benefit amounts naturally vary with age, work history, and region since these factors are often related to wage levels and, therefore, benefit amounts. However, this table displays only the relationship of each factor to a program's benefit formulas.

<sup>c</sup>After the original and extended benefit periods have lapsed, the benefit paid is a flat amount unrelated to wages.

<sup>d</sup>The maximum in the median State is \$212 a week.

# CHART 6. UI Benefit Amounts for Three Hypothetical Cases



[Note: Case 1 is ineligible in Germany and Italy. Germany's benefit is based on after-tax wages, but the benefit is not taxed; Japan does not tax benefits. These different tax treatments were ignored in computing benefit amounts. Japan's benefit is based on wages net of bonuses and overtime pay, so Japan's benefits were calculated based on 2/3 of the annual earnings for each case to reflect the average person's pay composition in Japan.]

Maximum benefit durations also vary widely across the G-7 nations, as shown in table 4. The first column shows the "maximum duration for full-time workers." For such workers, UI benefits generally last about half a year in Italy, Japan, and the United States, two-thirds of a year in Canada and France, and a full year in Germany and the United Kingdom. However, maximum durations can vary considerably from these benchmark figures in every country except the United Kingdom. Table 4 illustrates how four key factors (work history, age, unemployment rate, and region) affect maximum benefit durations.

France, Germany, and Japan vary maximum durations by age and length of service in combination. Basic benefit periods can be extended for these factors as follows:

- In France, the regular 8-month period can be increased to 27 months for workers age 55 and older who have worked at least 2 of the last 3 years;
- In Germany, the regular 52-week period can be increased to 104 weeks for workers 54 and older who have worked at least 6 years;
- In Japan, the regular 180-day period can be increased to 300 days for workers 55 and older who have worked at least 10 years.

In Canada and the United States, on the other hand, age is not a factor in determining duration, nor is service occurring before the base period.

The level of unemployment is a determinant of duration in Canada, France, and the United States. Benefit extensions are granted by the ASSEDICs (employer associations) in France, where the maximum extension for those entitled to 8 months of benefits provides a total duration of 15 months. Benefit extension periods in France are determined by age and service as well. For example, the maximum combination of age and service can result in an older, long-term worker's 27-month regular benefit period being lengthened to as much as 60 months. France reduces a person's original UI benefit amount by 15 percent when benefits are extended (10 percent for those over age 50). During the final benefit period, the benefit paid is a flat amount unrelated to wages.

**TABLE 4. Determinants of Maximum UI Benefit Durations in the G-7 Nations**

Nation	Maximum benefit duration for full-time workers	Variation in maximum duration in relation to:			
		Work history	Age	Unemployment rate	Region
<b>Canada</b>	35 weeks (worked all year)	17 weeks with 20 weeks of work in 1 year	NV	up to 50 weeks in regions with high unemployment	varies for regions with unemployment over 6%
<b>France</b>	8 months (worked more than half-year)	3 months with less than 6 months of work in 1 year; 14 months for long-term workers	9 months if 50 or older; 18-27 months for long-term workers 50 or older	15 months if extended (21 months for workers 50 or older); 30 months if extended for long-term workers (45-60 months for those 50 or older)	extensions granted by employer groups
<b>Germany</b>	52 weeks (worked last 3 years)	16 weeks with 1 year of work; longer durations for combination of age and service (see next column)	69 weeks for workers 44 or older with 4 years of work; 86 weeks if 49 or older and 5 years of work; 104 weeks if 54 or older and 5 years of work	NV	separate UA program for former East German workers
<b>Italy</b>					
Basic benefit	180 days	90 days for construction workers, less than 180 days for some farm workers	NV	NV	NV
Special benefit	6 months	NV	NV	9 months in firms with long-term layoffs or reorganizations	NV
<b>Japan</b>	180 days (age 30-44 and worked 5-9 years; under 30 and worked over 9 years; 45-54 and worked 1-4 years)	90 days for less than 1 year of work; 210-300 days for certain age and service combinations	90 days if under 30 unless worked 10 years or more; 210-300 days for certain age and service combinations	NV	NV
<b>United Kingdom</b>	52 weeks	NV	NV	NV	NV
<b>United States</b>					
UI	26 weeks in 51 States (must have worked certain amount in 43 States)	5-24 weeks for minimum work required by State in 43 States <sup>a</sup>	NV	39 weeks with extended benefits; 52-59 weeks under temporary program	30 weeks maximum in 2 States; reduced durations for short work histories vary among 43 States <sup>a</sup>
TAA	26 weeks (adds to UI duration)	52 weeks if in training (adds to UI duration)	NV	NV	NV

NV = No variation.

<sup>a</sup>Median minimum duration for these 43 States is 13 weeks.

Canada and the United States provide longer benefit periods based on unemployment rates in labor market regions and States, respectively. Canada also takes weeks of insured employment into account; its normal 35-week benefit period can be as long as 50 weeks for full-year workers in regions with unemployment above 10 percent. The durations that apply in Canada for particular combinations of service and unemployment rate are shown below:

Regional unemployment rate	<u>Benefit duration for:</u>	
	<u>Half-year worker</u>	<u>Full-year worker</u>
6% or less	22 weeks	35 weeks
6%-7%	25	38
7%-8%	28	41
8%-9%	32	45
9%-10%	36	49
10%-11%	40	50
11%-12%	44	50
12%-13%	46	50
13%-14%	48	50
Over 14%	50	50

The usual U.S. maximum benefit duration of 26 weeks is extended to 39 weeks in States where the insured unemployment rate<sup>9</sup> for a 13-week period exceeds 5 percent and is at least 120 percent of the corresponding rates in the 2 preceding years. In 41 States, an insured rate of 6 percent will trigger the extension without regard to the rates in the preceding 2 years. A temporary benefit extension now in effect supplants the permanent extended benefits (EB) program with benefits that can total up to 52 or 59 weeks depending on whether a State's total unemployment rate exceeds 9 percent or its insured unemployment rate, augmented by its number of benefit exhaustees, exceeds 5 percent. The United States has enacted temporary benefit extensions during each major recession since 1958. The other six nations have changed permanent law in reaction to economic change, but they have not relied on temporary programs for benefit extensions.

Chart 7 compares maximum UI benefit durations for the same three cases for whom benefit amounts were shown in chart 6. The typical 26-week U.S. benefit period is relatively generous for the youngest worker (case 1), being a longer duration than would be available from UI in France or Japan. Again, this case would be ineligible in Germany and Italy. For case 2, however, the regular benefit duration in the United States would be shorter than in all but Italy and Japan. Eligibility for EB would bring the U.S. duration up to the Canadian level for their regions of low unemployment. For case 3, all six nations would provide benefits for a longer time than would the United States, but EB would make the U.S. duration similar to that in a low-unemployment Canadian region. However, a U.S. claimant eligible for TAA or the temporary

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<sup>9</sup>The insured unemployment rate is the proportion of workers covered by UI who claim UI benefits.

EUC benefit has a maximum duration better than or comparable to that of all situations shown in chart 7, with two exceptions; the benefit periods could be more than 100 weeks for case 3 in France and Germany.

Chart 7 does not show UA durations, which can extend benefits at a lower rate indefinitely in France, Germany, and the United Kingdom. Eligibility for UA is indefinite but, as noted before, is subject to a means test. France pays a flat-rate benefit of F66.43 (\$12.82) a day, with larger benefits for eligibles who meet criteria for old age and length of service. France also covers certain new entrants to the labor force under UA without a means test,<sup>10</sup> but their eligibility is limited to 1 year. Germany's UA benefit is 56 percent of net wages (58 percent for those with children). The special benefit for jobless workers from the former GDR is DM500 (\$330) a month, plus a supplement from the last employer to bring the total to 70 percent of net wages. The UA benefit in the United Kingdom for those with no other income is £39.65 (\$74.17) a week (£62.25 (\$116.45) for couples).

The relative importance of UA varies among the three countries with joint systems. In Germany, UA benefits comprise about one-third of total UC benefits, and in France this proportion is less than one-fourth. In the United Kingdom, on the other hand, UA amounts to three-fourths of total UC benefits.

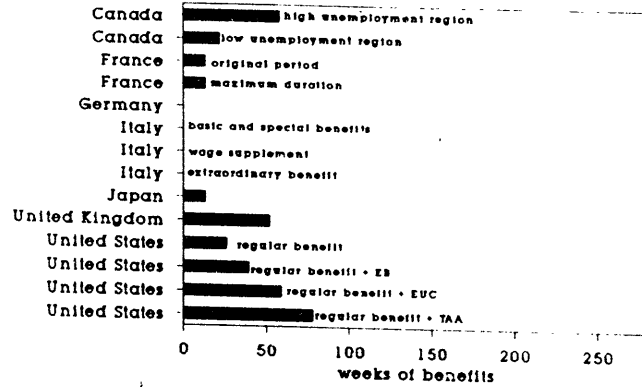
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<sup>10</sup>Although UA programs generally apply means tests to determine eligibility, certain groups not covered by UI have been granted limited access to UA without regard to financial status.

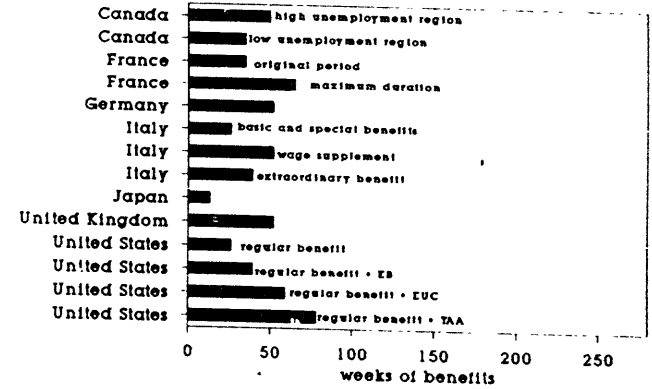


CHART 7. UI Maximum Benefit Durations for Three Hypothetical Cases

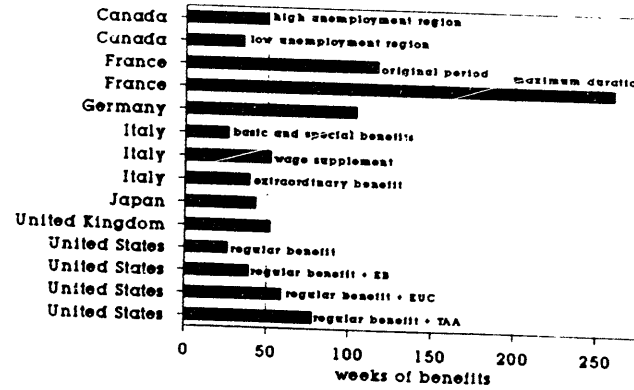
Case 1



Case 2



Case 3



## Employment Services

All seven nations have public programs to provide job training and other employment services to those with employability problems. This discussion is limited to those services that are integral to each nation's UC system.

All seven nations require UC claimants to register with employment offices where information is provided on available jobs. Service provision to UC claimants beyond this basic help varies a great deal. Italy and Japan use wage supplements and subsidies to firms to permit them to retain employees during short downturns. Canada, France, Germany, and Japan provide skills development training as part of their UC systems. In the United States, job training is not available within UC, but TAA claimants are required to enroll in approved training unless this requirement is waived. All of these training opportunities usually include continued receipt of benefits and special allowances for job search and relocation.

Unemployment benefits have been used to help claimants start new businesses in Canada, France, Germany, Italy, and the United Kingdom. The United States is testing this idea in two State demonstration projects.

In 1987, public expenditures for employment services, including programs outside the UC systems, were as follows:

<u>Nation</u>	<u>Percent of GDP</u>
Canada	0.57
France	0.74
Germany	0.99
Italy	0.46
Japan	0.17
United Kingdom	0.89
United States	0.24

Spending was highest in Germany, the United Kingdom, and France. The lowest expenditures relative to size of economy were registered by the United States and Japan.

## OTHER TYPES OF UNEMPLOYMENT COMPENSATION SYSTEMS

### Overview

This section presents an overview of the types of UC systems found worldwide and then describes three systems that contrast sharply with the programs of the G-7 nations.

The 1989 edition of *Social Security Programs Throughout the World*<sup>11</sup> describes the programs of 145 countries. Of these 145 countries, 89 had no formal public arrangement for the compensation of unemployed workers. Another five countries had programs that excluded many occupational groups or industries from coverage. The UC systems in the remaining 51 countries can be classified as follows:<sup>12</sup>

- Compulsory social insurance--27 countries;
- Voluntary social insurance--3 countries;
- Means-tested assistance--19 countries, including 10 countries that also operate social insurance programs; and
- Severance pay--12 countries.

All of the G-7 nations and 20 others operate compulsory social insurance programs. These programs are characterized generally by broad coverage and some linkage of program funding and/or benefit amounts to covered wages. However, one program (Chile's) is funded entirely from general government revenue and pays flat-rate benefits. The 20 countries in addition to the G-7 nations that operated compulsory social insurance schemes are as follows:

Austria	Egypt	Ireland	Norway
Barbados	Ghana	Israel	Portugal
Belgium	Greece	Luxembourg	Spain
Chile	Hungary	Malta	Switzerland
Cyprus	Iran	Netherlands	Uruguay

Three Scandinavian countries (Denmark, Finland, and Sweden) have voluntary social insurance systems. Their UC systems are operated through labor unions, but union participation in UC is voluntary.

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<sup>11</sup>U.S. Dept. of Health and Human Services. Social Security Administration. Research Report #62.

<sup>12</sup>It should be noted that the political upheaval in the Soviet Union and the Eastern European States occurred after publication of this reference. The newly independent states that were part of the Soviet Union and the Eastern European nations have altered their social programs since publication as part of their economic and political reforms.

Means-tested assistance programs apply means tests to unemployed workers to determine their eligibility, and benefit amounts may be related to need as well. These programs may stand alone or be a component of a larger UC system. Nine countries had only a means-tested program. They are:

Australia	Hong Kong	Mauritius	Tunisia
Brazil	India	New Zealand	Yugoslavia
Bulgaria			

Ten countries used means-tested assistance to augment a social insurance program, either for selected unemployed workers with little or no recent work experience, or for those exhausting their UI benefits, or both. Three of the G-7 nations (France, Germany, and the United Kingdom) have such arrangements. The other seven countries with dual UI and UA programs are:

Austria	Ireland	Portugal	Sweden
Finland	Netherlands	Spain	

The final category of countries offers only severance pay to unemployed workers. Usually this benefit is paid by the employer under a labor law that specifies the employer and employee types to which it applies and the amount of the severance pay. The 12 countries with severance pay only are:

Bolivia	Ecuador	Mexico	Solomon Islands
Botswana	Honduras	Nigeria	Tanzania
Colombia	Libya	Pakistan	Turkey

The remainder of this section describes three UC systems that differ from those of the G-7 nations: a voluntary social insurance program (Sweden); a solely means-tested program (Australia); and a severance pay law (Mexico).

### **Voluntary Social Insurance--Sweden**

Sweden is the largest of three Scandinavian countries that have voluntary UI systems. There are two aspects of voluntarism in this system. First, unemployment funds for UI are established voluntarily by trade unions. Second, although union members generally must participate in their union's fund, nonunion workers in the industry may voluntarily accept coverage by the union fund. About two-thirds of all employees are covered by this system. Workers ineligible for this coverage and new labor force entrants are covered by a means-tested UA program called the "labor market support program."

The UI system, which is supervised by the National Labor Market Board, is funded by employee, employer, and government. Employees pay up to K40 (\$7) a month, the exact amount varying by fund. These employee contributions cover 23 percent of UI costs. Employers are taxed at a rate of 2.16 percent of payroll, which covers 31 percent of UI costs and two-thirds of UA costs. Government funds pay for 46 percent of the cost of UI and one-third of UA, which is administered by county labor boards and local employment offices.

Eligibility for UI requires 12 months' membership in a union fund, including at least 5 of the last 12 months before unemployment. Eligibles must be registered at an employment office and capable of work. Workers whose unemployment is a result of voluntary quitting, misconduct, or refusal of suitable work are usually disqualified for 4 weeks. Eligibility rules for UA are basically the same, except for the work history requirement. A person can meet the requirement either by working for at least 5 of the past 12 months or by meeting an education or training criterion.

The UI benefit amount varies by fund and wage level, ranging from K158 (\$29) to K450 (\$81) a day. It is pegged to 80 percent of the average wage in each covered trade. Benefits are payable for up to 60 weeks after a 1-week waiting period. Benefits are considered taxable income.

The UA benefit amount is K158 (\$29) a day and is payable after a 1-week waiting period for up to 30 weeks. For those age 55 to 59, benefit duration is 60 weeks. For those age 60 to 64, or for dislocated workers age 55 to 59, benefit duration is 90 weeks.

### **Unemployment Assistance--Australia**

Australia is the most industrialized nation offering unemployment benefits solely on the basis of a means test. First enacted in 1944, this UA program covers all employed persons and is funded from general government revenue. Benefits are administered by the Department of Social Security. Local offices of the Department of Employment, Education and Training receive claims and apply a work test.

To be eligible, an unemployed worker must be at least 16 years old and below pensionable age (65 for men, 60 for women). Eligibles must be capable of and available for work and actively looking for jobs. Jobless workers whose unemployment is a result of voluntary quitting, misconduct, or refusal of suitable work are subject to disqualification for up to 12 weeks. Those unemployed because of a labor dispute are disqualified for the duration of the dispute.

Benefits are paid after a 1-week waiting period for as long as an individual is qualified. In addition to income, benefit amounts depend on marital status, age, number of children, amount of rent, and location of residence.

The means test has been liberalized numerous times to allow the disregarding of more nonbenefit income in computing the benefit. Currently, the first \$A20 (\$15) of weekly income and half of weekly income between \$A20 (\$15) and \$A70 (\$53) is disregarded.

### **Severance Pay--Mexico**

Like several other Latin American countries, Mexico's only form of unemployment benefit is a government requirement that employers pay

departing employees a severance benefit under prescribed circumstances. Mexico has two forms of severance pay: the *cesantia*, payable when separation occurs without just cause, and the *antiquedad*, payable based on tenure without regard to the reason for termination.

The *cesantia* equals 3 months' pay plus 20 days' pay per year of service. Pay is defined to include bonuses, commissions, and benefit payments except profit-sharing. A worker must have been employed for at least a year to be entitled for this benefit upon job loss without just cause. Examples of just cause are a worker's engaging in dishonest, negligent, immoral, or violent acts, or coming to work in an intoxicated state. The reason for an employee's dismissal must be communicated in writing to be considered justified.

The *antiquedad*, adopted in 1970, equals 12 days' pay per year of service but cannot exceed twice the minimum-wage salary. It is payable upon retirement, death, disability, or termination of employment. To qualify for this benefit upon voluntary termination, the worker must have worked at least 15 years with the firm. No minimum service period is required for involuntary termination, death, or disability, but service is counted only back to 1970 for involuntary termination.

**APPENDIX A: PROGRAM DESCRIPTIONS FOR THE G-7 NATIONS****CANADA**

**Objectives.** When the UI system was established in 1940, the central objective was to provide workers with economic security during short-term unemployment by paying benefits related to past contributions but not to exceed wages. Emphasis was given to adherence to insurance principles in the system's design. A major reform of the system in 1971 added a second objective--aiding the reentry of jobless workers into the labor market.

**Administration.** A national agency, the Canada Employment and Immigration Commission, administers UC through regional and local offices. The nation is divided into 62 regions for the purpose of administering UC. Most of these regions represent urban labor markets, with rural areas of provinces making up the balance. Payroll taxes that fund the system are collected by the national revenue agency.

**Financing.** Revenue is raised from a payroll tax on both employer and employee. In 1990, the employer paid 3.15 percent and the employee 2.25 percent on the first \$C680 (\$588) of each covered worker's weekly wage. No general government revenue is used to support the program.

**Coverage.** All wage and salary jobs are covered except those providing less than 15 hours of work per week and paying less than \$C136 (\$118) a week. Self-employed fishermen are covered under special rules. Provincial government jobs are covered at the option of those governments.

**Eligibility.** To qualify for UI benefits, an unemployed worker must have worked for a minimum number of weeks during the prior 52-week period. The qualifying period can be longer than 52 weeks for those who were ill, injured, pregnant, or in training. An insurable week is one in which the person worked at least 15 hours or earned at least \$C136 (\$118). The minimum number of weeks required varies by unemployment in the region, from 10 weeks where the unemployment rate is over 15 percent to 20 weeks where the rate is 6 percent or less. A new entrant or reentrant to the labor force needs 20 weeks to qualify.

Persons who quit jobs, are fired for misconduct, refuse suitable jobs, or refuse required training are disqualified for periods ranging from 7 to 12 weeks. Persons jobless because of labor disputes are disqualified for the duration of the dispute.

**Benefits.** Benefits are equal to 60 percent of average insured gross earnings over the prior 52 weeks, subject to a weekly maximum of \$C408 (\$353) in 1991. Benefits are fully taxable as income. High-income beneficiaries (over \$C49,920 (\$43,198) in 1990) must pay back part of the UC benefits they received. Benefit payments begin after a 2-week waiting period.

The duration of benefits varies with the number of insurable weeks of work and the regional unemployment rate. The maximum duration is at least 17 weeks for persons with 20 weeks of work in regions with unemployment of 6 percent or less. The maximum duration for those who worked every week of the qualifying period is at least 35 weeks. Durations reach as long as 50 weeks for some combinations of work history and regional unemployment, as shown below (NE means not eligible):

Regional unemployment rate	<u>Maximum benefit duration (weeks)</u>			
	Weeks worked in past year:			
	<u>13</u>	<u>26</u>	<u>39</u>	<u>52</u>
6% or less	NE	22	29	35
6%-7%	NE	25	32	38
7%-8%	NE	28	35	41
8%-9%	NE	32	39	45
9%-10%	NE	36	43	49
10%-11%	NE	40	47	50
11%-12%	NE	44	50	50
12%-13%	34	46	50	50
13%-14%	36	48	50	50
14%-15%	38	50	50	50
15%-16%	40	50	50	50
Over 16%	42	50	50	50

**Employment Services.** The Employment Commission maintains lists of available jobs and provides counselling on job search and retraining programs. The agency offers job training and work experience programs for the long-term unemployed.

## FRANCE

**Objectives.** The UC system consists of two distinct parts. UI provides wage replacement to workers who lost their jobs involuntarily with benefits that are in part wage-related but which decline as the period of unemployment lengthens. The "solidarity" UA program provides a need-based benefit to insurance exhaustees and a flat-rate, 1-year benefit for certain categories of new labor force entrants and reentrants.

**Administration.** The system is supervised by a national agency, the Ministry of Health and Social Security. Funds are managed by ASSEDICs, an acronym for associations of employers. Payments are administered by UNEDIC, an employees' organization. Municipalities distribute payments in places where these organizations have no offices.

**Financing.** Employers and employees are required to contribute to the ASSEDICs. Employers pay 4.43 percent and employees 2.47 percent of earnings up to F42,160 (\$8,139) a month. Employees pay an extra 0.5 percent on monthly earnings between F10,540 (\$2,035) and F42,160 (\$8,139). The



government pays for the solidarity program that benefits certain persons ineligible for UI.

**Coverage.** Workers under age 60 (or under 65 and not covered for a social security old-age pension) are covered by UI, except for domestic employees and seasonal workers. There are special rules covering construction and longshore workers, the merchant marine, and aviators. Certain new entrants are covered by the solidarity program, including new labor force entrants age 18-25, apprentices, freed prisoners, recently discharged military veterans, newly widowed or divorced women, single women with children, and unemployed workers who have exhausted their UI benefits.

**Eligibility.** To be immediately eligible, the jobless worker must be involuntarily unemployed. Unemployment cannot be because of misconduct or refusal of suitable job offers. Those who leave jobs voluntarily are disqualified from benefits for 3 months. A claimant must be able to work and registered at a job exchange. Eligibility also requires that the person have worked for at least 91 days or 520 hours during the 12 months preceding job loss.

Eligibility for a solidarity benefit for those who have exhausted their UI benefits requires employment in at least 5 of the past 10 years, but this requirement can be reduced by 1 year per child for childrearing for as many as three children. Eligibility is also income-tested, with the limits set at F3,870 (\$747) a month for a single person or F7,740 (\$1,494) for a couple. The solidarity benefit for new labor force entrants is not income-tested.

**Benefits.** The UI benefit consists of fixed and variable amounts. The fixed amount is F35.78 (\$6.91) a day for those who have worked less than 6 months and F47.71 (\$9.21) for those who have worked more. The variable amounts for these two groups are 30 and 40 percent, respectively, of the wages on which the payroll tax was paid for the preceding 12 months. Benefits are capped at 56.25 and 75 percent of wages, respectively, for the two groups. All benefits are taxed the same as earnings.

Benefits are paid without a waiting period. Extension periods are granted beyond the original benefit period at the discretion of the ASSEDICs. The lengths of these periods depend on length of employment and age. Benefits in an extension period are 85 percent of the original period amount (90 percent for those over age 50). When extensions are exhausted, beneficiaries are eligible for a flat-rate final allowance of F70.18 (\$13.55) a day (F97.28 (\$18.78) if over age 55, unemployed over a year, in covered employment at least 20 years, and continuously employed at least a year during the 5 years preceding job loss).

Original benefit periods and maximum durations are shown below:

<u>Work history</u>	<u>Original period</u> (months)	<u>Maximum duration</u> (months)
Less than 6 months in year . . . . .	3	3
6-12 months in year and:		
under age 50 . . . . .	8	15
age 50 or older . . . . .	9	21
6-12 months in year (12-24 months in 2 years), employed 10 years in last 15, and:		
under age 50 . . . . .	14	30
age 50 or older . . . . .	18	45
24-36 months in 3 years and:		
age 50 to 54 . . . . .	21	45
age 55 or older . . . . .	27	60

The solidarity benefit is F66.43 (\$12.82) a day. A higher rate of F95.40 (\$18.42) is paid to those age 55 to 57½ and employed at least 20 years and those age 57½ and older and employed at least 10 years. Benefits are payable for periods of 6 months but may be renewed. Eligibility terminates at age 60 for those with old-age pension coverage. Benefits for new entrants, which are not means-tested, are limited to 1 year.

**Employment Services.** UI beneficiaries are required to register with an employment exchange where information on available jobs is maintained. The government has begun to use UI funds for skills development activities and pays allowances to persons in training.

## GERMANY

**Objectives.** The Employment Promotion Act of 1969, which established Germany's present UC system, states the intention that the program contribute to the prevention of unemployment and underemployment as well as assist unemployed workers with income replacement.

**Administration.** The UC system is supervised nationally by the Federal Ministry of Labor and Social Affairs. Contributions for this system and other parts of the social security system are collected by sickness funds operated by various localities, enterprises, and occupational groups. Unemployment benefit payments are administered by the Federal Placement and Unemployment Insurance Institute through its regional and local offices.

**Financing.** Funds for UI are raised from the compulsory social security tax on employers and employees. The UI system's share of these contributions comes from a payroll tax of 4.3 percent on the first DM73,200 (\$48,285) of

annual earnings, split equally between employee and employer. The employer pays the full 4.3 percent for employees earning less than DM7,320 (\$4,828) a year.

A means-tested UA program is funded by the government, as is a special program created in 1990 for jobless workers in the former German Democratic Republic (GDR).

**Coverage.** All employees with earnings subject to the social security tax are covered by UC. Workers exempted are those working less than 15 hours a week and earning less than DM430 (\$284) a month. Those working less than 2 months or 50 working days in a year are also exempt.

**Eligibility.** To be eligible for UI benefits, unemployed workers must be under age 65, capable of and available for work, and registered with a local employment office. Eligibility also requires that the person have worked in insured employment for at least 360 days during the past 3 years (180 days for seasonal workers). Otherwise qualified individuals are disqualified for up to 12 weeks for voluntary leaving, misconduct, participation in a strike, participation in training, or refusal of a suitable job offer.

A means-tested UA program covers those who fail to qualify for UI benefits if they had insured employment for at least 150 days during the past year. Persons exhausting their UI benefits may also be eligible.

To be eligible for the special program in the former GDR, jobless workers must meet requirements similar to those stated above for the regular UI program. Insured status is granted to those who have contributed to an occupational insurance fund in the 12 months preceding unemployment.

**Benefits.** The UI benefit amount is 68 percent of after-tax income for persons with children and 63 percent for others. It is payable without a waiting period. Benefits are not subject to the income tax.

The duration of UI benefit payments differs according to length of work history and age. For those under age 44, benefit durations vary proportionately from 16 weeks with 1 year of covered work up to 52 weeks with 3 years of covered work. For those 44 or older, benefits can be paid for up to 69 weeks with 4 years of covered work. For those 49 or older, benefits can last up to 86 weeks with 5 years of covered work. For those 54 or older, benefits can last up to 104 weeks with 6 years of covered work.

The means-tested UA benefit is 58 percent of after-tax income for persons with children and 56 percent for others. Benefits are available for 1 year but may be extended for 1-year periods indefinitely.

The benefit in the special GDR program is DM500 (\$330) a month, with reductions for part-time workers and for those whose wage rate was less than this amount. A claimant's last employer must pay a supplemental benefit to

increase the public benefit by the difference between 70 percent of the claimant's after-tax wages and the public benefit, not to exceed the DM500 (\$330) level.

**Employment Services.** Beneficiaries must register with an employment office. The administering agency can use payroll tax funds to provide job counselling and training. Maintenance grants are available for persons in training.

## ITALY

**Objectives.** The original UI system provides a small stipend that does not vary with wage level. It has been augmented with supplementary benefits designed to replace wages more adequately and to provide job continuity in firms experiencing downturns or disruptions in their operations.

**Administration.** Benefit payments are administered by a national agency, the National Social Insurance Institute. Payroll taxes that support the program are collected by the Treasury.

**Financing.** Employer payroll taxes fund UI benefit costs. The tax is assessed on wages in excess of L50,884 (\$44) a day. The tax rate is 1.61 percent. Industrial employers pay an additional 0.3 percent (0.8 percent in the construction industry) for special benefits and 2.2 percent for the wage supplement fund (1.9 percent for firms with less than 50 workers). General government revenue pays for administration and part of the cost of wage supplements.

**Coverage.** All workers in private employment are covered except occasional and seasonal workers and part-time employees.

**Eligibility.** To be eligible for basic UI benefits, a jobless worker must have at least 2 years of insured employment, at least 52 weeks of which occurred in the past 2 years. Special UI benefits, available to industrial and construction workers, require at least 13 weeks of continuous covered employment as well.

Eligibility further requires that the jobless worker be registered at an employment office and be capable of and available for work. Claimants may be disqualified if unemployment results from voluntary leaving (30 days) or misconduct or if a suitable job or prescribed training is refused.

**Benefits.** The basic UI benefit is L1,000 (\$0.87) a day for the worker and each dependent and is payable for 180 days after a 1-week waiting period. This benefit is not available to managerial personnel. Construction workers are limited to 90 days of benefits. Agricultural workers are limited to 270 days minus the number of days actually worked, not to exceed 180 days.

Special benefits are available to employees in industrial and construction firms with fewer than 500 employees. Aid to employees of larger businesses is

available by decree of the Ministry of Labor and Social Welfare. The amount and duration of these benefits depend on the circumstances of the firm. A temporary downturn or disruption results in a benefit ("ordinary assistance") for wage employees worth 66 percent of wages. It is payable for up to 6 months. A long-term, sectorwide downturn or a business reorganization results in a benefit ("extraordinary assistance") of 80 percent of wages for both wage and salary employees, subject to a maximum for salaried staff. These benefits may be paid for up to 9 months. Again, managerial personnel are not eligible. Special benefits, which do not include any dependents' allowances, are reduced for any basic benefits received.

Employees of the firms covered by special benefits who are partially unemployed may be eligible for wage supplementation. Such supplementation cannot be paid to persons receiving special unemployment benefits. The supplement is an amount sufficient to replace 80 percent of lost wages and is paid for 3-month periods. A supplement cannot be received for more than 12 months in a 2-year period.

All benefits are subject to the income tax.

**Employment Services.** Claimants must register with a local placement office where information on available jobs is maintained.

## JAPAN

**Objectives.** The UC system is called "employment insurance," which reflects its multiple objectives: to help maintain workers' incomes during unemployment, to stabilize employment, and to strengthen the employment security of workers through skills development.

**Administration.** The system is administered by a national agency, the Employment Security Bureau under the Ministry of Labor.

**Financing.** Most of the system's cost is borne by employer and employee payroll taxes. Each pays 0.55 percent of wages for a total of 1.1 percent. (Employees who are seasonal or construction workers pay 0.65 percent. Employers of these workers pay 0.65 percent for seasonal employees and 0.75 percent for construction workers.) In addition, employers pay 0.35 percent of wages to support employment services. These payroll taxes apply to total wages. General government revenue is used to pay one-fourth of benefit costs generally and one-third of benefit costs for unemployed day laborers.

**Coverage.** All workers are covered except those age 65 or older, part-time workers working less than 22 hours a week, and seasonal workers who work 4 months or less in a year. Jobs with small firms (less than five employees) in the agriculture, forestry, and fishing industries are covered on a voluntary basis.

**Eligibility.** To be eligible, a worker must have been in insured employment for at least 6 of the last 12 months. The reference period can be

extended to 48 months for those out of the labor force because of illness, injury, or pregnancy.

Eligibility requires registration with an employment security office. An eligible must be capable of and available for work and report to the local office every 4 weeks. A claimant may be disqualified for up to 3 months if unemployment resulted from voluntary leaving, misconduct, or refusal of a suitable job offer. Nonattendance at recommended training can also result in disqualification.

**Benefits.** The basic benefit applicable for most workers varies by wage level. The benefit is 80 percent of past wages for the lower wage workers and 60 percent of wages for higher wage levels.<sup>13</sup> The minimum basic benefit is ¥2,390 (\$20) a day; the maximum is ¥9,040 (\$73). A separate benefit schedule for day laborers ranges from ¥1,770 (\$14) a day for the lowest wage laborers to ¥6,200 (\$50) for the highest wage laborers. Benefits are paid after a 1-week waiting period and are not subject to taxation.

Unemployed workers age 65 or older receive a lump-sum benefit that ranges in value from 50 days of the basic benefit for those in insured employment less than 1 year to 150 days for those in insured employment 10 years or more. Unemployed seasonal workers receive a lump-sum benefit worth 50 days of basic benefits.

The duration of benefit eligibility depends on age and work history as follows:

Age	Period of insured employment			
	< 1 year	1-4 years	5-9 years	> 9 years
< 30	90 days	90 days	90 days	180 days
30-44	90 days	90 days	180 days	210 days
45-54	90 days	180 days	210 days	240 days
55-64	90 days	210 days	240 days	300 days
Difficult to employ and:				
< 55	90 days	240 days	240 days	240 days
55-64	90 days	300 days	300 days	300 days

If a worker obtains a steady job before half the applicable maximum benefit period has expired, a reemployment allowance is paid that is worth from 30 to 120 days of the basic benefit amount.

Benefit durations are shorter for "short-time" workers (those working between 22 and 33 hours a week) age 30 and older. Those age 30 to 54 must have worked at least 5 years to receive benefits for 180 days. Those over 54

<sup>13</sup>It should be noted that the wage figures used by Japan for benefit computation exclude overtime pay and bonuses, which together constitute nearly one-third of total cash compensation in Japan.

have a maximum duration of only 210 days with 10 or more years of service. The difficult to employ are also limited to 210 days (180 days if under age 55). The benefit amount for short-time workers is 60 percent of lost wages.

**Employment Services.** Employment services aimed at combatting structural unemployment and labor market problems associated with factors such as age and region are an integral part of Japan's UI system. These services include skills development training and support services such as relocation assistance and job search assistance. Firms can also receive employment stabilization subsidies to allow them to retain employees during short-term downturns. These funds can be used to support production activities or on-the-job training.

## UNITED KINGDOM

**Objectives.** The UC system provides a fixed amount of income support for those with substantial work histories who lose their jobs involuntarily. However, brief disqualification periods and a broad program of need-related aid result in significant income support for the unemployed generally.

**Administration.** The UC system is administered by two national agencies. The Department of Social Security is responsible for tax collection and award of income-tested UA benefits. The Department of Employment administers UI benefits through 8 regional and about 9,000 local offices.

**Financing.** UI benefits are funded by part of the payroll tax that finances the overall social security system. Income-tested UA is funded from general government funds.

The employer tax applies to total earnings, while the employee's share of the tax applies to the first £325 (\$608) of weekly wages (in 1989). Revenue is allocated among all the insurance programs (pension, sickness, maternity, unemployment, and work injury benefits), the National Health Service, which is mostly government funded, and redundancy payments (severance benefits). In 1989, UI benefits were 4.4 percent of all benefits financed by the payroll tax.

The tax rates are graduated according to wage level. The employee pays 2 percent on the first £43 (\$80) per week and 9 percent on additional wages up to the overall ceiling. Employees over pension age (65 for men, 60 for women) do not pay the employee tax. Employers pay nothing on the first £43 (\$80) of a worker's weekly wage but pay from 5 to 10.45 percent on additional wages, the rate rising with wage level. Persons below pension age who are not employed can contribute voluntarily at a flat rate of £4.15 (\$7.76) a week.

**Coverage.** All workers who earn sufficient wages to pay the payroll tax are covered. The self-employed are excluded.

**Eligibility.** All jobless workers who had earnings in the prior tax year of at least 50 times the minimum threshold of taxable earnings (i.e., £43 (\$80) a

week) are eligible for full UI benefits. Reduced benefits can be paid to those with earnings of at least 25 times the earnings threshold. To remain eligible, beneficiaries must register with a job exchange and be physically capable of and available for work.

Those workers who left jobs voluntarily or engaged in misconduct can be disqualified for 6 weeks. This disqualification period also applies to those who refuse a suitable job or fail to accept job training. Those who are jobless because of a labor dispute are disqualified for the duration of the dispute.

After UI benefits are exhausted, a person can regain eligibility only after working for at least 16 hours a week in each of 13 weeks. There is no work history requirement for UA eligibility.

**Benefits.** A flat-rate benefit of £41.40 (\$77.45) is paid weekly to the jobless worker, plus another £25.55 (\$47.80) for a spouse or dependent adult. Those over pension age receive higher benefits: £52.00 (\$97.28) for the worker, £31.25 (\$58.46) for the spouse/dependent adult, and £10.70 (\$20.02) for each dependent child. Benefits are payable, after a 3-day waiting period, for up to 52 weeks. UI benefits are taxed the same as earned income.

Redundancy benefits are paid by an employer in a lump sum to employees under pension age who are dismissed after at least 104 weeks of continuous employment by the employer. The benefit equals years of service times £172 (\$322) times a factor for weeks of pay per year of service. This factor is 0.5 for those under age 22, 1.0 for those 22 to 40, and 1.5 for those over 40.

The social security system includes need-based UA, for which the unemployed who meet the needs test are eligible indefinitely. This benefit for those with no other income is £39.65 (\$74.17) a week (£62.25 (\$116.45) for couples). Over half the unemployed receive need-based UA rather than UI benefits.

**Employment Services.** Beneficiaries must register with a labor exchange operated by the Department of Employment. This agency maintains information on available jobs.

## UNITED STATES

**Objectives.** Before establishment of the UC system in the Social Security Act of 1935, principles were set forth by the Committee on Economic Security that have guided the program since without major change. The system was intended to compensate jobless workers for short periods of unemployment with payments proportionate to wages and not subject to any means test. Establishment of UC was left to the States, but State action was induced through a Federal tax on employers that is reduced substantially if a State has a UC program in compliance with Federal law. Specific provisions of eligibility and benefits were left to the States, but financial control over program administration was placed with the Federal Government to assure adequate



**State administering agencies.** Financing was to rely on employer taxes, and possibly employee taxes as well, but no subsidy from general government revenue was included. Finally, it was intended that the system be designed to promote stabilization of employment and that long-term unemployment would be dealt with by creation of public jobs rather than long-term UI benefits.

**Administration.** Fifty-three State employment security agencies administer UC through local offices in each of the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands. The U.S. Department of Labor oversees State compliance with Federal law, provides grants to State agencies for administrative expenses, and provides research and statistical services. The U.S. Treasury Department receives State and Federal unemployment tax revenues, maintains a set of trust fund accounts for the system, and reimburses State agencies for their benefit expenditures.

**Financing.** Benefits are financed through the Unemployment Trust Fund by payroll taxes levied by the States. These taxes are applied solely to employers in all but three States, where employees are also taxed. In 1991, State taxes averaged 1.9 percent of taxable wages and 0.7 percent of all covered wages. Tax rates are experience-rated by individual firm to some degree in all States. The 1992 ceilings on taxable yearly wages range from \$7,000 in 16 States up to \$22,600 in Alaska. Each State program has a Federal trust fund account that is credited with its tax receipts.

A payroll tax of 0.8 percent on the first \$7,000 of each covered worker's annual wages is levied on employers as authorized by the Federal Unemployment Tax Act (FUTA). The FUTA tax pays for half of the permanent extended benefits (EB) program, Federal and State administration of UC, and loans to States that experience insolvency in their trust fund accounts. It also pays the full cost of a temporary emergency UC program scheduled to expire on July 4, 1992.

**Coverage.** Federal law indirectly compels State UC programs to cover most jobs. Nonfarm jobs are covered for employers that employ at least one worker in 20 or more weeks or have a quarterly payroll of at least \$1,500. Farm jobs are covered for agricultural employers that have at least 10 employees in 20 weeks or pay at least \$20,000 in quarterly cash wages. Domestic employment is covered for employers that pay cash wages of at least \$1,000 quarterly. Federal law directly requires coverage for jobs in State and local governments and most nonprofit organizations. The largest uncovered worker category is the self-employed. UC covers 98 percent of all wage and salary workers.

**Eligibility.** States determine eligibility requirements. Most States require that a worker have covered wages above a minimum level during the first four of the past five calendar quarters to be eligible. The median minimum earnings required in 1992 is \$1,418. Nine States require that the worker had employment for at least a minimum number of weeks (15 to 20) during the base period. In addition, 31 States require that a substantial part of the required minimum earnings fall within one quarter, and 11 other States require some

concentration of the required earnings as a criterion of serious attachment to the labor force.

States disqualify workers who leave jobs voluntarily, with all but six States extending the disqualification for the duration of the unemployment spell. Jobless workers are also disqualified for: willful misconduct on a job (for the entire spell in 42 States); refusal of suitable employment (for the entire spell in 41 States); a labor dispute (for its duration in most cases); fraud; or receipt of disqualifying income. This last disqualification usually results in an offset of UC benefits by some or all of the disqualifying income. Federal law requires that States reduce UC benefits for pension benefits received from a base-period employer and for social security benefits received.

**Benefits.** UC benefit levels and durations are set in State law. Most States peg benefits to 50 percent of the prior gross wage level, but all States set benefit caps that result in lower wage replacement for those who earn more than the average wage. Benefit maximums in 1992 range from \$116 a week in Indiana to \$444 a week in Massachusetts (for a worker with dependents). Fourteen States provide supplemental benefits for workers with dependents. All UC benefits are fully taxable as income. A waiting period of 1 week is applicable in 42 States; there is no wait in the other States.

The UC system was designed to compensate for job loss because of normal business cycles. Thus, regular benefit durations are limited to no more than 26 weeks in all but Massachusetts and Washington, where benefits can last for 30 weeks. Eleven States currently operate State-funded extended benefit programs.

The Federal-State extended benefit (EB) program, funded 50-50 from Federal and State payroll taxes, is automatically triggered in an individual State when its insured unemployment rate over 13 weeks exceeds 5 percent and is at least 120 percent of the rate during the corresponding periods of the past 2 years. At State option, a rate above 6 percent will trigger EB regardless of the relationship to the preceding years' rates. EB provides an additional 13 weeks of benefits. It was in operation in nine States as of June 1991 in response to the 1990-91 recession, but only Puerto Rico was operating EB in March 1992.

EB has been effectively supplanted by a temporary emergency UC program, funded entirely from Federal payroll taxes, that is to expire on July 4, 1992. This program provides either 26 or 33 weeks of added benefits depending on the level of unemployment in a State. The higher figure pertains to States with a 6-month average total unemployment rate above 9 percent or a 13-week insured unemployment rate, adjusted to add in benefit exhaustees, above 5 percent.

Since UC was not designed to help dislocated workers faced with long-term unemployment and the need to make a career transition, Congress acted in 1962 to provide special help to workers dislocated by U.S. trade policies. Under the trade adjustment assistance (TAA) program, workers who are certified eligible may receive cash benefits and training, and firms may receive technical or financial assistance to cope with import competition. TAA cash benefits are at

the same dollar level as UI benefits in the State where the beneficiary is paid. TAA benefits are paid only after UI benefits expire and are, thus, an extension of the regular UI program. The combined duration of TAA and UI benefits, including any EB or emergency benefits, is limited to 52 weeks (78 weeks in the case of workers engaged in approved training that lasts beyond 52 weeks). To be eligible, a worker must have been employed with a single trade-affected firm during at least 26 of the 52 weeks preceding layoff and must have received wages of at least \$30 per week.

There is no need-tested benefit integrated with UC. U.S. assistance programs apply differently to different categories of needy people, and benefits in some programs vary widely by State. The assistance program most closely related to UC is the unemployed parent component of the Federal-State aid to families with dependent children (AFDC-U). To qualify for AFDC-U, the unemployed parent must have a minimum work history, meet a test of unemployment in addition to a need test, and accept work or training as required by the State. Time spent in school can substitute for part of the required work history.

**Employment Services.** UC beneficiaries are eligible for assistance from the U.S. Employment Service, which maintains listings of available jobs. Federally funded job training is available from a separate program for dislocated workers under the Job Training Partnership Act. UC can be received while in training only if the State approves the training course for the individual. Demonstration projects in two States are allowing claimants to use UC funds to start new businesses.

Workers who receive TAA cash benefits must participate in job training unless exempted by the Secretary of Labor. Cash benefits are extended for up to 26 additional weeks when training lasts beyond the normal eligibility period. Special allowances of up to \$800 are available to TAA beneficiaries for job search expenses and for relocation expenses.

**APPENDIX B: MAJOR EVENTS IN THE DEVELOPMENT OF UNEMPLOYMENT COMPENSATION**

Decade	Canada	France	Germany	Italy	Japan	United Kingdom	United States
Early 1900s		Private contributory unemployment benefit funds organized by trade unions or mutual benefit societies and subsidized by government contributions.	Trade unions and voluntary communal insurance funds provided help for members who became unemployed.			Cash benefit plans for unemployed organized by trade unions and workmen's associations.	
1910-1919		National unemployment assistance (UA) scheme established. Benefits provided through funds created and operated locally. Subsidized by government revenue.		Decree issued in 1919 making Unemployment Insurance (UI) compulsory for most manual workers.		UK became first country to legislate a national compulsory UI program with passage of the <i>National Insurance Act of 1911</i> .	
1920-1929			Compulsory national UI program established in 1927 for all wage earners and lower paid salaried employees.			UI extended to most workers in industry and commerce in 1920.	

Decade	Canada	France	Germany	Italy	Japan	United Kingdom	United States
1930-1939	<i>Employment and Social Insurance Act</i> passed in 1935. UI program funded by tax revenue from employers, employees and the government.			Decree issued in 1939 extending the ordinary unemployment benefit, financed through employer taxes and general government revenue, administered by the National Social Insurance Institute (INPS).		UI benefits limited following financial strain on government in the mid-1930s. Means-tested UA program initiated.	<i>Social Security Act of 1935</i> . UI was established as a Federal-State program designed to provide temporary financial assistance to eligible unemployed workers and to maintain consumer spending in recessionary periods.
1940-1949	<i>Unemployment Insurance Act of 1940</i> . Established compulsory UI program and National Employment Service to operate in conjunction. Program administered by Unemployment Insurance Commission.	Social Security established. Unemployment not regarded as insurable risk.		In 1941 the <i>Fund for Supplemental Earnings (CIG)</i> was instituted to guarantee part of the pay of workers and salaried staff whose pay may be threatened by reduced work under certain circumstances. Fund financed through employer taxes to the INPS.	<i>Unemployment Insurance Law</i> enacted in 1947. Established country's first compulsory UI scheme.	Enactment of unified system of social insurance contained in the comprehensive <i>National Insurance and Industrial Injuries Scheme</i> of 1946.	

Decade	Canada	France	Germany	Italy	Japan	United Kingdom	United States
1950-1959	1940 UI Act repealed and replaced by <i>Unemployment Insurance Act of 1955</i> . Designed to make UI more effective, it expanded coverage, eased qualifying conditions, increased benefit rates, lengthened duration and increased allowable earnings.	Private contributory plans nearly extinct. Legislation enacted in 1951 to improve existing programs and provide work projects for the unemployed.  Following a national labor-management agreement in 1958, a UI scheme was established which provided coverage to all firms belonging to trade associations or inter-occupational organizations affiliated with the National Council of French Employers (CNPF).	Federal Institution for Placement and Unemployment Insurance established in 1952 to administer UI program.				<i>Temporary Unemployment Compensation</i> program enacted in 1968 providing one-half of regular benefit entitlement up to 13 weeks, financed through a temporary Federal program of loans to States.

Decade	Canada	France	Germany	Italy	Japan	United Kingdom	United States
1960-1969		<p>UI made compulsory in 1967, extending UI benefits to all workers in industrial and commercial sectors of economy. Administered by joint labor-management bodies at the national and regional levels (the UNEDIC and the ASSEDIC), scheme was private contributory insurance program receiving no financial assistance from government. Public means-tested UA program extended to cover unemployed workers in all regions.</p>	<p>In 1969 the 1927 Act was replaced by the <i>Employment Promotion Act (AFG)</i>, providing cash benefits of two kinds: unemployment benefits, financed by earnings-based payroll taxes; and unemployment assistance (UA), a means-tested program for those either ineligible for UI or who have exhausted their UI benefits, financed by general government revenue. Act provides job training and other benefits as well. Complemented by the <i>Federal Social Assistance Act</i> which provides aid to those not entitled to either UI or UA.</p>	<p>Special unemployment benefit program established in 1968 to provide economic support to those made redundant by industries affected by sectoral or local economic crises.</p> <p>Special benefit of the <i>Earnings Supplemental Fund</i> introduced in 1968. Designed to address economic difficulties at the enterprise, industry or regional level impacting on the employment and level of income of industrial workers, it is financed through government funds and administered by the INPS.</p>		<p>In 1966 UA program merged into a general supplementary benefit system, a means-tested program providing cash assistance to help guarantee a minimum standard of living. Also, Earnings Related Supplement (ERS) introduced, based on earnings in the preceding year and supplementing flat-rate UI benefit for up to 6 months.</p>	<p><i>Temporary Extended Unemployment Compensation</i> passed in 1961, providing one-half of regular benefit up to 13 weeks, financed by a temporary increase in Federal unemployment taxes.</p> <p>Trade adjustment assistance (TAA) authorized to compensate workers displaced by import competition.</p>

Decade	Canada	France	Germany	Italy	Japan	United Kingdom	United States
1970-1979	<p>New <i>Unemployment Insurance Act of 1971</i> enacted. Intended to make UI compatible with other Social Security programs, it included universal coverage, eased eligibility and new benefits in case of sickness, maternity, and retirement. Distinguished between claimants with "major attachment" to labor force who were eligible for regular benefits, and claimants with "minor attachment" who were eligible for special or miscellaneous benefits (sickness, maternity, job training, etc.).</p>	<p>In 1979 the Government proposed unified UC system, financed in part by earnings-based taxes and in part by general government revenue.</p>	<p>According to a 1977 provision, unemployed person who cannot find a comparable job to the one from which he was terminated must accept a less skilled job after 4 months, provided salary is not less than 80 percent of his former gross wage.</p>	<p>New regulations established for ordinary benefits paid by the <i>Earnings Supplemental Fund</i>.</p>	<p>1947 law replaced by employment insurance system in 1975. Program designed to provide income security for unemployed persons and contribute toward implementation of a national manpower policy. Emphasizes continuous skill development for all workers.</p>	<p>UC restructured in 1975 under the <i>Social Security Act</i> which covers not only unemployment, but also income loss due to sickness, work injury, old age, invalidity, and death of breadwinner. New scheme based on earnings-related payroll tax paid by both employers and employees. Benefit still a flat-rate award.</p>	<p>Permanent Federal-State extended benefits (EB) program established in 1970, providing one-half of regular benefits up to 13 weeks; financed one-half each by Federal unemployment taxes and State UC taxes.</p> <p>Emergency Unemployment Compensation Act passed in 1971 to further extend one-half of benefits for up to 13 weeks. Benefits financed entirely by FUTA taxes.</p> <p>Federal supplemental benefits passed in 1974 to provide up to 26 weeks of benefits, financed through FUTA taxes and Federal general revenues.</p> <p>TAA eligibility rules eased and benefits liberalized in 1974.</p>



Decade	Canada	France	Germany	Italy	Japan	United Kingdom	United States
1980-1989		In 1984 the dual UI-UA system is restored following the failure of the unified scheme on financial and institutional grounds. New program consists of UI program, financed by payroll taxes on employees and employers and administered jointly by UNEDIC-ASSEDIC, and a revamped UA or "solidarity" scheme, financed entirely by general government revenues.				ERS is abolished in 1982, leaving only the basic flat-rate benefit and the supplementary benefit system.	<p>Eligibility for EB and TAA tightened in 1981.</p> <p><i>Federal Supplemental Compensation</i> passed in 1982, providing benefits which varied by State depending on insured unemployment. Benefits financed through Federal general revenue.</p> <p>UI benefits made fully taxable in 1986.</p> <p>TAA claimants required to undergo job retraining in 1988 act.</p>

Decade	Canada	France	Germany	Italy	Japan	United Kingdom	United States
1990-1992	<p>Bill C-21 passed in 1990. Intended to increase private sector training and make the UI program more responsive to the needs of those it covers, it reduces the maximum benefit period in most regions, extends coverage to workers over 65, provides for a multi-tier special benefit structure, and encourages greater use of program funds for experiments. The government no longer contributes general revenue to the system, requiring about \$3.0 billion to be replaced by an increase in employer/employee taxes.</p>		<p>UC system established for the former German Democratic Republic; consists of flat-rate benefit plus redundancy allowance.</p>				<p><i>Emergency Unemployment Compensation (EUC)</i> passed in November 1991 to provide additional weeks of benefits to those who exhausted State UC and extended benefits, financed through FUTA taxes.</p> <p>EUC program amended in February 1992 to provide additional weeks of benefits and extend program's expiration date to July 4, 1992.</p>

## APPENDIX C: BACKUP TABLES FOR CHARTS

TABLE C.1. Public Expenditures for UC Programs in the G-7 Nations, Fiscal Years Beginning in 1970-1990

Nation	Fiscal year beginning:								
	1970	1975	1980	1985	1986	1987	1988	1989	1990
	Public expenditures for UC as percent of GDP								
Canada .....	1.67	2.76	2.32	1.87	1.86	1.64	1.57	1.57	NA
France .....	0.32	0.78	1.46	1.20	1.24	1.31	1.31	1.27	NA
Germany .....	0.40	1.49	1.12	1.41	1.31	1.34	1.34	1.20	1.14
Italy .....	0.18	0.45	0.47	0.75	0.57	0.49	0.40	NA	NA
Japan .....	0.27	0.48	0.40	NA	NA	0.40	0.43	0.34	0.32
United Kingdom .....	0.47	0.70	0.94	2.01	1.93	1.56	1.10	0.84	0.90
United States .....	0.42	1.18	0.62	0.61	0.56	0.51	0.44	0.47	0.60
	Public expenditures for UC as percent of GDP per percentage point of unemployment								
Canada .....	0.29	0.40	0.31	0.17	0.20	0.19	0.20	0.21	NA
France .....	0.13	0.19	0.23	0.12	0.12	0.12	0.13	0.13	NA
Germany .....	0.80	0.44	0.40	0.20	0.20	0.21	0.21	0.21	0.22
Italy .....	0.06	0.13	0.11	0.12	0.08	0.06	0.05	NA	NA
Japan .....	0.22	0.25	0.20	NA	NA	0.14	0.17	0.15	0.15
United Kingdom .....	0.15	0.15	0.13	0.18	0.17	0.15	0.13	0.12	0.13
United States .....	0.09	0.14	0.09	0.08	0.08	0.08	0.08	0.09	0.11

NA = Not available.

Source: Organisation for Economic Co-operation and Development (OECD), *Employment Outlook*, July 1991. The unemployment rates used by CRS to adjust the OECD data are from the *Economic Report of the President*, Feb. 1992.

**TABLE C.2. Unemployment Rates Used To Adjust Statistics  
in Table C.1**

Year	Unemployment rates for:						
	Canada	France	Germany	Italy	Japan	U.K.	U.S.
1970	5.7	2.5	0.5	3.2	1.2	3.1	4.9
1971	6.2	2.8	0.6	3.3	1.3	3.9	5.9
1972	6.2	2.9	0.7	3.8	1.4	4.2	5.6
1973	5.5	2.8	0.7	3.7	1.3	3.2	4.9
1974	5.3	2.9	1.6	3.1	1.4	3.1	5.6
1975	6.9	4.1	3.4	3.4	1.9	4.6	8.5
1976	7.1	4.5	3.4	3.9	2.0	5.9	7.7
1977	8.1	5.1	3.4	4.1	2.0	6.4	7.1
1978	8.3	5.3	3.3	4.1	2.3	6.3	6.1
1979	7.4	6.0	2.9	4.4	2.1	5.4	5.3
1980	7.5	6.4	2.8	4.4	2.0	7.0	7.1
1981	7.5	7.6	4.0	4.9	2.2	10.5	7.6
1982	11.0	8.3	5.6	5.4	2.4	11.3	9.7
1983	11.8	8.5	6.9	5.9	2.7	11.8	9.6
1984	11.2	10.0	7.1	5.9	2.8	11.8	7.5
1985	10.5	10.4	7.2	6.0	2.6	11.2	7.2
1986	9.5	10.6	6.6	7.5	2.8	11.2	7.0
1987	8.8	10.7	6.3	7.9	2.9	10.3	6.2
1988	7.8	10.2	6.3	7.9	2.5	8.6	5.5
1989	7.5	9.6	5.7	7.8	2.3	7.1	5.3
1990	8.1	9.2	5.2	7.0	2.1	6.9	5.5

Source: *Economic Report of the President*, Feb. 1992.

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## PREPARED STATEMENT OF WARREN G. BLUE

Mr. Chairman and members of the Committee, I am Warren G. Blue, Senior Vice President and General Counsel, R.E. Harrington, Inc., Columbus, Ohio, a nationwide unemployment compensation third party administrator firm representing many thousands of employers in all states. I am testifying today on behalf of the National Association of Manufacturers. I am accompanied by Chris Bowlin, Associate Director, NAM, Industrial Relations Department.

Thank you, Mr. Chairman, for the opportunity to present NAM's views on the current state of the unemployment insurance (UI) program and to discuss whether any permanent changes to the program need to be made. We commend you and members of the Committee for holding today's hearing on this important issue.

Mr. Chairman, one year ago you invited NAM to present our views on the state of the UI program. Much has happened in the past year. I would like to make one initial general recommendation and then present NAM's general views on the current state of the UI system. Our comments deal with benefits under the UI system, with proposed permanent changes to the system, and with experience rating, all of which are very important.

First and foremost is the recognition on the part of NAM that changes in the American labor market, seemingly permanent in nature, may present unemployment duration problems for some Americans which are beyond the scope of relief provided by the current federal/state unemployment compensation program. The present program was designed to address relatively short-term, temporary lay-offs and transitional unemployment. That phenomenon is still a dominant characteristic of the American labor market, and the unemployment compensation program has effectively addressed it.

The relatively recent increase in structural unemployment presents new problems; problems that may best be resolved by a different program with different benefits and different requirements on the individual. Efforts to restructure the present U.C. system to meet this challenge could damage the program and be counter-productive.

NAM believes this issue deserves careful study. An attempt at its resolution should not be merged with the immediate decision relative to temporarily extending the life of a temporary program. Rather, we strongly recommend that decisions making permanent changes to the unemployment compensation program be presented to the Congressionally mandated Advisory Council on Unemployment Compensation for study and recommendations. NAM believes it would be premature and potentially damaging to move forward with significant permanent changes without the Council's careful consideration of all points of view.

Section 303 of Public Law 102-164, the Emergency Unemployment Compensation Act of 1991, amended section 908 of Social Security Act to require the Secretary of Labor to establish a quadrennial Advisory Council on Unemployment Compensation beginning in February 1992. The eleven-member council would be created every four years and consist of five members to be appointed by the president and three each by the House and Senate.

According to the statute, the function of the council is to "evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement.

The Council will report to the president and to the Congress with recommendations and findings every four years, with the first report due February 1, 1994—just twenty-two months from now.

NAM believes that it is in the public interest to allow this "Blue-Ribbon" Council to consider all the issues relating to the UI system within the context of current labor market characteristics.

This congressionally mandated council has yet to be appointed. However, your colleagues in the House, Mr. Chairman, have already introduced legislation proposing some drastic permanent changes to the UI program. We believe it would be premature to make such changes. Instead, the Advisory Council should be allowed to deliberate and recommend any modifications to the system that may be necessary. Under this process the public interest will be best served.

Before moving into our general views about the current unemployment system I would like to make a comment about where we have come in the past year with respect to the unemployed and the unemployment insurance system. In the past year, while ultimately receiving the appropriate assistance, the unemployed have become unfortunate elements of the politically charged climate inside the Beltway. Each proposal to extend emergency unemployment benefits was used as ammunition

by both sides of the political aisle. Within the current politically charged climate, we urge that the plight of the unemployed be elevated above the political warfare. Congress and the administration should act where it is in the public interest, but withstand actions that are primarily for political gain. This employer-financed and employer-supported program is too important to the American public to be mired in politics, especially this year.

#### NAM VIEWS OF THE CURRENT SYSTEM

From time to time the dynamic nature of our industrial economy brings with it temporary and involuntary unemployment. Unemployment is an intrinsic characteristic of our economic system. Recessions come and go at periodic intervals. Some are prolonged, others are relatively brief. Congress has always been sensitive to the hardship resulting from troughs in the business cycle. In 1970 Congress enacted a permanent program to extend automatically UI benefits when unemployment exceeded specified thresholds. The Extended Benefits (EB) program was designed as an automatic response that would activate and deactivate as appropriate, obviating the need for congressional action. It was a prudent thing to do. The Council may determine that program needs adjustment—or modification—once it has carefully examined all of the ramifications.

Since 1936, this nation has utilized the federal-state system of unemployment compensation to provide benefits to the unemployed and to provide an incentive to employers for steady employment. NAM would not like to see that program damaged.

NAM supports the current triggering mechanism by which individuals in states with "high" unemployment levels receive benefits beyond the 26 weeks of regular unemployment compensation. Many in Congress have recently considered whether the measure used to trigger extended benefits needs to be changed. NAM supports activation of the EB program based on the employment statistic that reflects the status of individuals covered by the program. The only appropriate measure is the insured unemployment rate (IUR). The IUR is the employment measure that reflects the number of individuals currently unemployed that are covered under the UI program. The EB program should not be triggered by any employment statistic that has a tenuous relationship to the program under which benefits are paid. An employment measure that is often considered as an alternative to the IUR is the total unemployment rate (TUR). The majority of the unemployed reflected in the TUR are not beneficiaries of the U.C. program and should not be factored into the operating determinants of the program.

As you know, Mr. Chairman, to receive regular UI benefits individuals must meet certain eligibility requirements. The TUR counts many individuals outside of the covered labor force. Some of the unemployed included in the TUR are new entrants to the workforce with no covered wages; others have scant work history with insufficient covered wages; others are re-entrants to the labor market having no recent wages; others were disqualified from benefits because they voluntarily left their job without good cause, or were discharged because of misconduct connected with their work, or they refused an offer of a suitable job; others have exhausted all of their benefit entitlement. NAM believes the TUR is inappropriate as an activating statistic for extended benefits.

There has always been a gap between the total unemployment count and the number of unemployed actually drawing UC benefits. There are legitimate reasons for the gap including some I have just mentioned.

#### FEDERAL-STATE RELATIONSHIP

NAM supports the equal cost sharing between states and the federal government for extended benefits. We believe this equal sharing of responsibility provides the proper incentives at both levels to influence labor market behavior and insure administrative accountability. A less than equal sharing of responsibility reduces employers' ability to stabilize employment provided by experience-rating the employer tax at the state level. To the extent possible, the program should be financed using the state experience-rating system. The purposes of a strong experience rating systems are to distribute cost equitably, provide incentives for employers to stabilize employment and generate the necessary active interest of employers in the program's operation. Strong experience rating is very important to NAM members. NAM believes that the costs of administering the U.S. system, providing a reserve for extended benefits and maintaining a loan fund should be apportioned equally among employers in relation to the number of individuals they employ. Their functions are equally beneficial to all employers. For that reason, NAM strongly opposes

any change in the F.U.T.A. tax structure that would disproportionately shift those costs.

NAM believes that adherence to the following principles is essential if a state-administered unemployment compensation system is to work successfully in our free economy.

(1) The intent of the unemployment compensation program should be to serve the public interest and not special interest groups. Any extension of the program resulting in a maldistribution of costs or administrative problems should be discouraged.

(2) To meet the varying economic and social conditions throughout the country, the responsibility for administration of sound unemployment compensation systems should remain with the state governments, since they are better equipped to evaluate their individual state's needs.

(3) Federal legislative and administrative action should not infringe upon the rights and abilities of states to autonomously administer their systems. Further, federal responsibilities should be limited to assuring that states establish and operate a state unemployment compensation program, and to the financing of costs directly related to the administration of such a program. These responsibilities should not include the establishment of any binding standards which preempt the states' formulation and administration of their respective unemployment compensation programs.

(4) State-administered unemployment compensation benefit payments should be directly related to earnings and service resulting from previous employment and should constitute a partial indemnity for loss of wages as determined by each state. Payments should not be so high as to weaken the incentive to return to the work force.

#### QUALIFICATION

NAM believes that benefit payments made under the program should be paid only to individuals who become temporarily unemployed through no fault of their own, who are genuinely part of the work force, who are sincerely and actively seeking employment, who do not refuse suitable employment when offered, and who are not unemployed as a result of their participation or interest in a labor dispute.

#### DURATION

NAM believes benefit payments must be limited strictly to compensation for periods of temporary involuntary job-connected unemployment. Unemployment of longer duration is outside the proper scope of a program to be financed by an employer-paid payroll tax system.

Unemployment of durations longer than those "temporary unemployment" periods, as determined by the individual states, is symptomatic of far greater, more deeply ingrained economic problems than those which employers can reasonably be held financially responsible.

#### EXPENDITURE OF FEDERAL UNEMPLOYMENT TAX REVENUES

Regarding the use of Federal Unemployment Tax Act (FUTA) receipts, NAM believes receipts should be used for the following purposes:

- To finance federal and state administrative costs directly related to benefit payments and determination of employers' tax liability;
- To finance those functions of the employment service system which are essential to a state's UI program;
- To provide a loan fund for states that temporarily exhaust their trust funds. However, realistic and enforceable repayment provisions should be provided; and
- To finance no more than half the cost of the State-Federal Extended Benefit Program.

There should be no allocation of FUTA receipts for the purpose of providing special benefits to a specific industry which is adversely affected by economic conditions relative only to said industry.

#### CONCLUSION

In conclusion, NAM supports the following: current federal-state unemployment compensation program which provides temporary benefits to individuals who become temporarily unemployed through no fault of their own; consideration by the Advisory Council on Unemployment Compensation of all issues relating to unemployment (both temporary and structural) and how current programs address the

labor market realities; and activation of the extended benefits program based on the insured unemployment rate.

PREPARED STATEMENT OF WILLIAM J. CUNNINGHAM

Mr. Chairman, the AFL-CIO appreciates this opportunity to support extension of the Emergency Unemployment Compensation program to help long-term jobless workers. We appreciate your leadership and the interest of this committee in helping to meet the income maintenance needs of unemployed workers and their families.

Unemployment remains very high at 7.3 percent. More than 9 million workers are officially jobless. In addition, there are 1 million discouraged workers and 6.5 million involuntary part-time workers who want full-time jobs and full-time paychecks. The shortfall in growth of the labor force indicates another 1 million hidden unemployed. So partial and total unemployment hits 17.7 million people to give a true unemployment rate of 11.5 percent. At least 1.8 million workers have been jobless for 27 weeks or more, and this total will probably go up during the rest of 1992.

We see three immediate priorities for jobless workers:

(1) First is the urgent need for extension of the current Emergency Unemployment Compensation program (EUC). This is needed to provide continuing, immediate income support to workers who exhaust their regular state unemployment insurance benefits.

(2) The permanent Extended Benefits program (EB) must be reformed. The failure of EB makes EUC extension necessary as a temporary expedient, but EB reform is necessary as a long-run answer to the needs of long-term unemployed workers who exhaust their regular state UI benefits.

(3) State UI programs must reach more jobless workers. Too often unreasonable and unfair state UI program requirements deny eligibility and disqualify unemployed workers who should be getting UI benefits by normal standards of logic and fairness. This contributes to the low proportion of unemployed workers receiving benefits.

UI REFORM STILL NEEDED

UI is the first line of defense for workers and their families when the worker loses his or her job. It is a key part of the nation's "safety net" which helps workers and their families maintain a minimum standard of living when workers lose their jobs and their income. And by helping these families maintain a portion of their consumer buying power, UI payments serve as a counter-cyclical stimulus when the economy is in recession.

In spite of successful action by Congress in November 1991 and February 1992 to help long-term jobless workers with EUC benefits, UI reforms are still urgently needed. Too many jobless workers don't get any regular state UI benefits—over 4 million according to recent estimates—and too many long-term unemployed workers—some 200,000—don't get any EB or EUC benefits. We want the nation's unemployment compensation system to work with more logic, fairness, compassion, and efficiency.

(1) EXTEND CURRENT EUC PROGRAM

We strongly urge extension of the current Emergency Unemployment Compensation program.

In 1990, there were 2.3 million jobless workers who exhausted their regular state UI benefits. In 1991, there were 3.5 million jobless workers who exhausted their state UI benefits. There are currently about 1.7 million long-term unemployed workers drawing EUC payments after exhausting their state UI benefits. And many long-term jobless workers simply do not qualify for EUC benefits.

Let there be no doubt about the continuing need for the EUC program. The existing state UI programs cannot cope with the demands of long-term unemployment; and the existing Extended Benefits program is almost totally ineffective and, indeed, almost non-existent in the present recession.

Even if the current serious recession were to end tomorrow, unemployment is going to remain high for a long time to come. The nation's unemployment experience after past recessions indicates that unemployment typically gets worse after the upturn from recession to recovery starts. And the long-term jobless are often the last to be re-hired. It generally takes years for unemployment to recede to pre-recession levels.

The AFL-CIO supports extension of the EUC program, but we urge an open-ended extension beyond January 1, 1993. We ask you to continue EUC at least 60 days after the month in which the three-month moving average national unemployment rate falls below 6.0 percent. This is necessary to avoid the one-month glitches that often occur in national unemployment statistics.

We urge you to amend the present Emergency Unemployment Compensation program to allow states to use state qualification requirements for EUC benefits instead of the more restrictive requirements of the Extended Benefits program. Workers who have suffered half a year unemployed while receiving state UI benefits cannot understand why they are not eligible for EUC benefits. We urge you also to restore state law and state rules to the EUC program not only for qualification requirements but also for disqualification, job search, and reemployment requirements. These changes are necessary to bring more fairness and consistency to the application of EUC.

#### (2) REFORM EXTENDED BENEFITS PROGRAM

The existing inadequate, ineffective, and largely unused Extended Benefits program must be reformed. This is a long-run answer to long-term unemployment when jobless workers exhaust their regular state UI benefits. The Extended Benefits program should be modeled on the EUC program.

The EB program now is supposed to cut in for a state with an additional 13 weeks of extended benefits when the insured UI recipient rate in a state rises above a trigger rate that is very difficult to attain. During 1991, only eight states briefly qualified for the EB program.

A major weakness of the EB program is the insured unemployment rate (IUR) trigger. We urge you to substitute the much more realistic and labor-market-related total unemployment rate (TUR) as a trigger to bring on state eligibility for EB.

We also urge you to consider making EB benefits 100 percent federally financed; but, at least, there should be an increase in federal matching for EB from 50 percent to 75 percent and an increase in weeks of EB benefits beyond the present 13 weeks up to the EUC limit of 26 to 33 weeks. An increase in the federal UI taxable wage base is a reasonable way to finance these new benefits.

We urge you to change EB qualification, disqualification, and job search requirements from federal to state law. This action would correctly reverse the restrictive federal eligibility changes made in 1980 and 1981 which made EB so ineffective as anti-recession assistance to long-term jobless workers. These EB restrictions were adopted in the EUC program and seriously weakened EUC effectiveness in helping jobless workers.

The erosion of state UI coverage fostered by public policy in the 1980s has been thoroughly documented in a recent Economic Policy Institute report, "Unprepared for Recession," by Marc Baldwin and Richard McHugh. A September 1988 GAO report found that 44 states adopted stricter eligibility requirements between 1981 and 1987.

#### (3) REFORM STATE UI PROGRAMS

Too often unreasonable and unfair state UI requirements deny eligibility and disqualify unemployed workers who should be getting UI benefits by normal standards of logic and fairness. For example, the percentage of jobless workers getting regular UI benefits was only 14 percent in South Dakota, and for the nation as a whole only 36 percent in the 12 months ending in September 1991.

The AFL-CIO has long called for comprehensive reform of the present federal-state unemployment insurance system. In the long run, the system must be federalized, with appropriate worker protections, so that it will operate with consistency and fairness. At present, federal minimum standards are desperately needed to protect jobless workers and their families.

Therefore, as a minimum start on reform, we urge you to widen eligibility for state benefits by requiring the inclusion of the last completed quarter of earnings for eligibility, restricting state disqualifications for leaving the last job, and requiring states and employers to notify laid-off workers about their UI eligibility and benefits.

Disqualifications for most causes should be limited to six weeks, with no reduction or cancellation of benefit rights. Jobless workers who quit work to look after a sick family member or who failed to search for work because of sickness or caring for a sick family member should not be denied state UI benefits after returning to job search activity. In general, state eligibility criteria should be broadened to help more unemployed workers rather than restricted to cut employer costs.

## RAISE TAXABLE WAGE BASE

To increase funds available for UI administration and benefits, we support raising the taxable wage base to a more realistic level, specifically, annual average earnings of workers in covered employment. The wage base should reflect the wages of workers covered by the UI system. This would strengthen the progressive ability-to-pay principle in the FUTA tax on employers.

As a general principle, we oppose taxation of UI benefits and urge repeal of such taxes. If such personal income taxes continue, it seems appropriate that they be dedicated to a reformed Extended Benefits program. This is the approach taken with taxes on Social Security benefits.

We support removal of the unemployment trust fund from the unified federal budget. UI payments to jobless workers should not be hostage to federal budget deficits and spending caps.

Mr. Chairman, I appreciate this opportunity to present some of the concerns of the AFL-CIO. We are eager to work with you on this constructive legislation to help America's jobless workers. Thank you.

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 PREPARED STATEMENT OF SENATOR CHARLES E. GRASSLEY

Mr. Chairman: I appreciate the holding of today's hearing on further extended unemployment benefits. Last November, the Congress and President Bush reached a bipartisan agreement that brought relief to hundreds of thousands of unemployed Americans.

At that time, there was no question that the President and most of Congress supported extended benefits. The only question or disagreement revolved around whether the program was going to be paid for, or was the deficit just going to be increased. Congress finally listened to the President and agreed to pay for the program rather than further increasing the deficit.

Unfortunately, hard times have continued for many, and people have continued to struggle. In addition to extending benefits further for a short time earlier this year, the President and Congress are now considering further relief.

During consideration of the last UI extension, I made the point that there were a number of underlying problems with the current law that were preventing people from getting help and these problems needed to be looked into. These problems continue today.

As has been mentioned, there are major conflicts between State and Federal law regarding work search, qualifying base periods, job placement requirements and others. These problems have precluded thousands of exhautees from getting help. And, of course, there are still people out of work who lost their jobs prior to March 1991 who weren't helped in the last few bills.

Mr. Chairman, I appreciate the fact that we are now looking into some of these problems. Solutions may be costly, and, of course, these costs will have to be weighed against the benefits. In addition, the question of how the costs will be paid for will likely be a determining factor.

I thank all of the witnesses for appearing today and I look forward to their testimony.

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 PREPARED STATEMENT OF WILLIAM D. GROSSENBACHER

Mr. Chairman and members of the Committee, my name is Bill Grossenbacher. I am President of the Interstate Conference of Employment Security Agencies and Administrator of the Texas Employment Commission. The Interstate Conference of Employment Security Agencies (ICESA) is the organization of state officials who administer unemployment compensation laws, the public employment service, labor market information programs, and in many states, job training programs. Thank you for the invitation to appear today to discuss extending the Emergency Unemployment Compensation Act and making changes in permanent provisions of the unemployment compensation program.

## EXTENSION OF EMERGENCY UNEMPLOYMENT COMPENSATION PROGRAM

As you consider extending the Emergency Unemployment Compensation (EUC) program, ICESA has several recommendations for making the program more easily administered and equitable.

*Qualifying and Eligibility Requirements.* In testimony before this committee earlier this year, I described in detail how federal qualifying and eligibility require-

ments restrict the number of unemployed workers who qualify for EUC and create bureaucratic hurdles related to work search and suitable work for those who meet the initial qualifying requirements. A chart showing the percent of unemployed workers in each state that have exhausted state unemployment benefits but do not meet the federal requirements to qualify for EUC and a written description of these requirements and their impact are attached to my statement.

The federal requirement for base period wages is only slightly more stringent than many state laws. For example, in Texas, we require that base period wages total at least 37 times the weekly benefit amount; the federal requirement is 40 times the weekly benefit amount. Some states require total base period earnings of  $1\frac{1}{4}$  times the high quarter rather than the federal requirement of  $1\frac{1}{2}$  times high quarter.

In Texas, as in almost every other state, we require that recipients of state unemployment benefits search for work every week. However, we try to make those requirements reasonable, particularly in locations such as the McAllen area where unemployment is approximately 19%. A few weeks ago, there were about 9,000 on the unemployment insurance rolls of the office that serves the McAllen area, and only 400 jobs listed with the employment service. A total of more than 30,000 people are unemployed in the county.

The federal EB/EUC work search requirement permits no flexibility based on economic conditions or the individual's situation. In Texas, we believe that the unemployed should be out there looking for jobs if there is even a slim chance of finding one. But it makes no sense to us to simply erect bureaucratic hurdles that are frustrating for unemployed workers, to the employers they contact, and to our staff who must enforce the letter, rather than the spirit, of the work search requirement.

In addition, if an unemployed worker fails to meet the federal work search requirement one week, for whatever reason—illness included—he is disqualified for future benefits indefinitely. Under Texas and other state laws, if an individual fails to meet work search requirements for one week, he does not receive benefits for that week, but can be eligible for future weeks, if he meets requirements for those weeks. In our view, the federal requirement is unduly punitive.

Another change to eligibility requirements which has been proposed by Senators Kennedy and Kerry and others would permit individuals to choose to receive EUC rather than apply for a new regular benefit claim. In addition, individuals who were found ineligible for EUC because they qualified for a new regular benefit claim could defer the regular benefits and become eligible for EUC based on their previous benefit year. Some states have experienced administrative and public relations problems when individuals who have exhausted regular benefits qualify for a new benefit year based on work during the previous benefit year. The weekly benefit amount may be much lower on the subsequent claim because it is based on part-time or short term work. Those individuals feel that they are penalized for having worked during the course of their previous claim; otherwise they would qualify for EUC at a higher benefit level. ICESA supports this change in eligibility for EUC.

*Phase-Out Procedures.* The current program provides for a phase down period between June 13 and July 4, during which individuals who file new EUC claims would be eligible for fewer weeks than those who filed new EUC claims before June 13. There is a provision related to phase down which appears to be inequitable and which we would like to see changed.

Individuals who qualified for EUC prior to June 13 must continue to meet eligibility requirements for consecutive weeks in order to avoid a reduction or termination of their remaining entitlement. For example, an individual who, prior to June 13 qualified for twenty-six weeks of EUC and had already claimed fifteen weeks, would have a remaining entitlement of eleven weeks. If he or she is sick, or takes a temporary job, or for any other reason is not eligible for consecutive weeks of benefits for a week beginning after June 13, under the current statute his/her claim would be recomputed at the lower rate. The recomputed maximum amount available to the individual would be thirteen weeks. Since the fifteen weeks already received exceed this number, the individual would have no remaining entitlement. Explaining to an unemployed worker that his remaining entitlement to benefits has been wiped out because he was sick for a week will be impossible. We urge you to correct this inequity as you consider lengthening the program. The public can understand that a program ends, after a certain date, but they will not understand why the maximum number of weeks available to them would be suddenly reduced, perhaps to zero, because they do not claim or are not eligible for one week.

*Combined Wage Claims.* A combined wage claim (CWC) is one which is based on wages earned by an individual in more than one state. In most instances, the state where the claim is filed requests the transfer of wage records from other states where the individual has worked. The individual's entitlement to benefits is deter-

mined under the laws of the state where the claim is filed (paying state). Benefits which are paid to the individual are billed to the states from which wages were transferred (transferring state) on a pro rata basis.

In the EUC program, benefits paid on the basis of wages from government or non-profit employers are paid from general revenues; all other EUC benefits are paid from the Extended Unemployment Compensation Account (EUCA). The paying state does not know the source of transferred wages. Therefore, for all combined wage EUC claims, the paying state must send the transferring state an initial notice of entitlement and subsequent notices if the number of weeks available in the state increases. In addition, the paying state must bill the transferring state each quarter for its share of EUC benefits. The transferring state must then request reimbursement from federal funds. When the paying state receives the reimbursement from the transferring state, it must offset that amount against future draw-downs from EUCA for EUC.

These transactions between states are costly administratively. Several states have estimated that the computer programming cost (\$250,000-\$380,000) of keeping track of CWC EUCA and general revenue charges is prohibitive and are instead doing so manually.

Combined Wage Claims account for about 2.2% of all claims. Of those 2.2%, only a small portion include government or non-profit wages. Therefore, the effort involved to charge these benefits to general revenues rather than to EUCA assuredly costs more than the amount of benefits involved.

ICESA urges you to require the Department of Labor to estimate the amount of EUC paid on CWCs that are attributable to wages from government or non-profit employers and make the reimbursement from general revenues to EUCA on that basis.

*Overpayment Recovery.* A number of states have reported difficulties with implementation of the overpayment recovery provisions of EUC. Some of these difficulties are inherent in running dual systems, i.e. different procedures must be followed for EUC than for recovery of overpayments under state laws, and some are the result of unduly complicated interpretations by the Department of Labor of the requirements of the Emergency Unemployment Compensation Act.

States often "recover" overpayments by permitting the individual to certify to future weeks of unemployment for which he meets all requirements, even though he may have received all benefits available on his claim. When the overpayment is determined, the overpaid amount is credited/restored to the individual's potential entitlement and an outstanding overpayment set up as a debit. If, in the future, the individual meets all eligibility requirements for a week, a week's worth of benefits are deducted from the potential total entitlement and credited toward reducing the overpayment. The individual receives no payment. Due to the 50% limit on recovery by offset, DOL will not permit states to use this recovery method.

Individuals must request a waiver before an overpayment can be waived. This is another piece of paper to be handed back and forth, signed by the individual, and kept on record. In addition, the DOL instructions seem to require states to periodically review the financial status of individuals—over the three years following the overpayment—if the waiver was due to economic hardship.

Running dual overpayment recovery systems is complicated and costly and there can be unintended results. ICESA urges you to eliminate the overpayment recovery provisions for EUC and permit the provisions of state laws to apply to recovery of overpayments of EUC.

#### CHANGES TO THE FEDERAL-STATE EXTENDED UNEMPLOYMENT COMPENSATION ACT

During this recession, it became apparent to both Congress and the Administration that, as currently structured, the extended benefits (EB) program was not providing the protection to workers nor the counter-cyclical economic stimulus that the economy needed.

Although ICESA's members have held in-depth discussions about proposals to change EB, it has not been possible for us to reach a consensus on the basic issue of the level of unemployment at which EB should be triggered, nor whether the insured or total unemployment rate is the best measure of economic distress.

Some believe that the insured rather than the total unemployment rate is the more appropriate trigger for extended benefits because the total unemployment rate (TUR):

- includes those (new entrants and re-entrants) not eligible for UI;
- is an estimate based on a relatively small sample; and,
- can have wide swings from month to month.



Others believe that the total rate is more appropriate because the insured unemployment rate (IUR):

- excludes those who have exhausted regular state benefits and would qualify for EB;
- is not comparable among states because it is influenced by state UI requirements and labor force composition;
- does not reflect the condition of the job market in a state as well as the TUR;
- and,
- is not well understood by the public.

Consensus has been easier to reach on several other issues related to EB. First, as you know, ICESA has long supported repeal of the federal qualifying and eligibility requirements that are part of the EB program and have been applied to the EUC program. Our reasons are discussed in detail in an attachment to my statement.

Second, ICESA supports an increase in the federal share of EB. Under the current program, costs are shared equally. Since the federal government has the predominant role in determining the extent to which extended benefits are available, it seems fair that the federal government should bear the primary financial responsibility.

#### WITHHOLDING OF INCOME TAXES FROM UNEMPLOYMENT BENEFITS

This spring, many unemployed workers have been surprised and unprepared to find themselves holding a bill for income taxes on unemployment benefits. One proposal to address this problem is to authorize state agencies to withhold federal, state, or local income taxes from unemployment benefits if the individual elects to have them withheld.

This proposal would be complicated and costly to administer. Some issues that arise include how to deal with recovery of benefit overpayments from which taxes were withheld. Withholding instructions (W-4's) providing marital status and number of exemptions would have to be obtained from each person electing withholding. This information would have to be maintained and updated. Computer systems would have to be redesigned to provide fields in benefit payment files for information about whether withholding is or is not elected, number of exemptions, marital status, and a cumulative amount withheld. A document showing withholdings would have to accompany each check. The redesign of automated systems and the additional file space required to accommodate accounting for income tax withholding would be a major automation project which could not be accomplished within current resources.

A simpler and less expensive alternative would be to furnish information to UI recipients periodically about taxation of benefits and make information and forms available for filing estimated taxes. This would give individuals an early warning about taxes that might be due and would assist those who elect to pre-pay taxes.

#### REEMPLOYMENT ASSISTANCE FOR UNEMPLOYMENT INSURANCE RECIPIENTS

Congressmen Downey and Rostenkowski's comprehensive unemployment compensation reform bill, H.R. 4727, includes a proposal which would encourage states to set up state funded reemployment assistance programs financed by payroll taxes. Employers who make payments to a state-established reemployment assistance fund would be permitted to credit those payments against their Federal Unemployment Tax (FUT) liability up to 12% of the FUT which would otherwise be owed. In order to qualify for the credit, the reemployment assistance program must be certified by the Secretary of Labor as meeting certain general requirements: It must be funded by contributions from employers subject to the state unemployment compensation law, and the contributions must be deposited in a special fund to be used solely for providing reemployment assistance to eligible workers.

Reemployment assistance is defined very generally to include counseling and testing, intensive job search assistance, job search vouchers, retraining assistance/vouchers, job search and relocation allowances, self-employment assistance, and cash allowances to individuals in training. Eligible worker is defined as any individual who has received unemployment for at least 4 consecutive weeks and who worked for his last employer at least 126 weeks (at wages of \$30 or more per week) during the past three years.

Perhaps the weakest aspect of this country's unemployment insurance system is its linkage with reemployment assistance. In recent years, as our economy has experienced a number of changes, we find a growing number of unemployment insurance recipients who are not expected to return to their former job or occupation. Some

may need training, others may need help in assessing the applicability of their skills to other occupations. This proposal offers sufficient flexibility for states to provide whatever services are needed and to reconfigure the mix of services as needs change.

One part of this provision which should be modified is the definition of eligible worker. Limiting participation to those who have worked for their last employer for 126 weeks of the past three years is too restrictive. Many workers may have found a short-term job after lay-off from a long-term employer, or could have experienced several substantial spells of unemployment during the past three years, particularly if they were employed in a declining industry. In addition, states do not maintain wage information for three years or, in most states, records on the number of weeks an individual was employed. In order to provide maximum flexibility, the federal law should require only that the individual have a current benefit year when he enters the program, and permit states to set any eligibility requirements beyond that minimum.

There is one other aspect of this provision which should be clarified. It is not clear to us from the legislation whether the cost of administering this program would be a cost of administration of the state unemployment compensation law, as defined in Title III of the Social Security Act, or whether administration as well as the cost of services such as training and relocation allowances would be borne by the proceeds of the special tax.

#### MODIFICATION TO REGULAR STATE UNEMPLOYMENT COMPENSATION PROGRAMS

There are several other provisions of H.R. 4727 which give us serious concern. Two are new requirements for state unemployment compensation laws. One would require states that use the first four of the last five completed quarters as the base period to provide an alternate base period for those who fail to qualify—the most recent four completed quarters. The second would prohibit disqualifications for voluntary leaving of employment for any except the most recent separation.

ICESA opposes federal standards for state unemployment benefits. Decisions about eligibility for benefits should rest with state governors and legislatures which bear the responsibility for financing state benefits.

#### BENEFIT INFORMATION REQUIREMENTS

In addition, H.R. 4727 would require employers to post information about rights to unemployment benefits and to furnish each employee who is separated "such written statements regarding claims for compensation as may be provided by the state agency . . ."

Employers in many states are currently required to post or make available such information. While we support making information about rights to unemployment benefits widely available, we were not aware that the lack of such information is a problem. If there is a problem, States would voluntarily work to improve dissemination of information, but see establishment of a conformity/compliance standard as out of proportion to the issue. Potentially, if an employer failed to comply with this requirement, the FUTA tax credit for all employers in the state would be at risk.

#### UNEMPLOYMENT TRUST FUND

As you consider an extension of emergency unemployment benefits, a question which inevitably arises is the impact on the federal budget deficit. As you are well aware, EUC is paid from the Extended Unemployment Compensation Account in the Unemployment Trust Fund where funds are intended to be accumulated in good times to be used when economic times are bad.

ICESA has long-standing policy which supports removal of the state and federal accounts in the Unemployment Trust Fund from calculation of the federal budget deficit. For the past decade, state administrators have watched the decline in funding for employment security that resulted from federal budget deficit considerations while balances in the UTF's Employment Security Administration Account grew by leaps and bounds.

The Unemployment Trust Fund, like the Social Security Trust Fund, is made up of dedicated revenues. Federal and state unemployment taxes can be used only for unemployment benefits and for administration of unemployment insurance and employment services.

Including these trust funds in federal budget deficit calculations serves only to mask the size of the deficit. Removing the UTF from calculation of the federal budget deficit would allow decisions to be made on the merits rather than on budget deficit considerations.

## ATTACHMENT—IMPACT OF EXTENDED BENEFIT ELIGIBILITY REQUIREMENTS

STATE	Percent not qualified due to base period wages requirement	Percent not eligible due to re-employment requirement
Alabama .....	1.6	3.1
Alaska .....	2.0	5.0
Arizona .....	1.0	0
Arkansas .....	4.9	12.0
California .....	13.0	( <sup>1</sup> )
Colorado <sup>2</sup> .....		
Connecticut .....	1.4	0
Delaware .....	0	0
District of Columbia .....	2.0	0
Florida .....	( <sup>1</sup> )	0
Georgia .....	0	0
Hawaii <sup>2</sup> .....		
Idaho .....	7.8	1.9
Illinois .....	6.5	0
Indiana .....	0	0
Iowa .....	18.0	0
Kansas .....	3.0	0
Kentucky .....	0	0
Louisiana .....	( <sup>1</sup> )	0
Maine .....	8-10	
Maryland .....	0	3
Massachusetts .....	2.0	0
Michigan .....	0	0
Minnesota .....	5.2	1.8
Mississippi .....	0	0
Missouri .....	0	0.5
Montana .....	0	0
Nebraska .....	9.5	34.0
Nevada .....	1-2	0
New Hampshire .....	0	0
New Jersey .....	5.0	2.0
New York .....	0	0
New Mexico .....	10.7	0
North Carolina <sup>2</sup> .....		
North Dakota .....	1.0	0
Ohio .....	0	0
Oklahoma .....	( <sup>1</sup> )	0
Oregon .....	2.3	0
Pennsylvania .....	( <sup>1</sup> )	0
Puerto Rico .....	0	0
Rhode Island .....	6.4	0
South Carolina <sup>2</sup> .....		
South Dakota .....	0	5.0
Tennessee .....	0	0
Texas .....	3.5	( <sup>1</sup> )
Utah .....	0	0
Vermont .....	2.7	3.0
Virgin Islands <sup>2</sup> .....		
Virginia <sup>2</sup> .....		
Washington .....	( <sup>1</sup> )	0
West Virginia .....	0	2.6
Wisconsin .....	( <sup>1</sup> )	( <sup>1</sup> )
Wyoming .....	0	

<sup>1</sup> Less than one percent.<sup>2</sup> No response to survey.

## ATTACHMENT—TERMS AND CONDITIONS OF ELIGIBILITY FOR EXTENDED BENEFITS AND EMERGENCY UNEMPLOYMENT COMPENSATION

The Emergency Unemployment Compensation (EUC) Act requires that the same "terms and conditions" that apply to claims for extended benefits (EB) will apply to claims for EUC. These requirements have the effect of restricting the number of individuals who qualify for EUC and of creating bureaucratic hurdles individuals must overcome to remain eligible.

Prior to 1981, any individual, who exhausted state unemployment benefits when the state was in an extended benefit period, qualified for EB. In December 1980, P.L. 96-499 amended the Federal-State Extended Unemployment Compensation Act to require denial of EB to individuals who had been disqualified under the state law, based on reason for separation from employment or refusal of suitable work, unless the state law required reemployment subsequent to the disqualification. In August 1981, P.L. 97-35 again amended the Federal-State Extended Unemployment Compensation Act to require a minimum of 20 weeks of work, or the equivalent in wages, to qualify for EB.

Also prior to 1981, state law requirements related to work search and suitable work also applied to claims for extended benefits. P. L. 96-499 established specific EB eligibility requirements related to seeking work and applying for suitable work.

The EB/EUC qualifying and eligibility requirements and how they are implemented are described below along with a general description of state practices.

*Work Search: Extended Benefits Requirements.* Individuals are required to make a systematic and sustained search for work and to present tangible proof of the search, such as a list of the names, addresses, and telephone numbers of persons with whom the individual filed applications. The number of job contacts which constitute a "systematic and sustained" search has been defined in many states by the courts and is usually two to four contacts per week. If the individual fails to make such a search for any reason (e.g. illness), he is disqualified for further benefits until returning to work for at least four weeks and earning at least four times his weekly benefit amount.

The "systematic and sustained" work search requirements apply regardless of the economic situation or the individual's circumstances. In some rural areas where unemployment is high, where there are only a few major employers, and where it is known that those employers are not hiring, it is a meaningless exercise to require each EUC recipient to call on those few employers every single week in order to be eligible for benefits. In many states the number of job contacts required by EUC recipients each week outnumbers the employers in the state. For example, in Texas we have about 326,000 employers. In January, an estimated 540,000 job search contacts per week will be required by EUC recipients. In addition, our regular state benefit recipients will also be out looking for work, increasing the number of people knocking on the doors of employers who have no job openings.

*Work Search: State Laws.* Under most state laws individuals are required to make a search for work each week. Some states require "proof;" others do not. However, states generally have provisions to waive work search requirements in areas where unemployment is extraordinarily high and where there are virtually no job openings in an individual's line of work. Under state laws, work search requirements can be tailored to the locality and to the individual. In addition, under state laws if an individual fails to make a required work search for one week due to illness or other reasons, he is ineligible only for that week, not indefinitely as under the EB/EUC requirements.

*Suitable Work: Extended Benefits Requirements.* In order to qualify for EB/EUC, an individual must be willing to accept any work that is within his or her capabilities and that pays more per week than unemployment benefits. For example, unemployed airline pilots in Dade County, Florida, would be required to accept jobs cutting sugar cane were they offered. Sugar cane growers generally don't want to hire airline pilots. However, this illustrates the absurdities that result from this requirement.

*Suitable Work: State Laws.* Most state laws define suitable work as the type of work for which the individual is suited by training or experience and that offers pay comparable to the level of earnings before layoff. After the individual has been unemployed for some time, he is expected to reduce the lowest salary he will accept.

*Disqualifications: Extended Benefits Requirements.* The Extended Benefits requirements that also apply to EUC dictate that any provisions of state laws which terminate disqualifications for voluntarily leaving employment, misconduct, or refusal of suitable work on any basis other than employment subsequent to the disqualification do not apply for purposes of determining eligibility for EB/EUC.

*Disqualifications: State Laws.* Since the amendment to the Extended Benefit legislation in 1980, many states have changed state laws to match the federal EB requirement. However, a number of states still have state law provisions which disqualify individuals for a certain number of weeks rather than requiring reemployment. In response to a survey by ICESA, twelve states indicated that 1% to 34% of individuals who would otherwise have been eligible for EUC were not due to this requirement. Nebraska is the state where the largest percent of individuals, 34%, is not eligible. In Texas, this provision disqualifies from EUC one group, mostly women, who quit a job to move with a spouse.

**Qualifying Base Period Wages: Extended Benefits Requirements.** To qualify for EB/EUC, an individual must have worked at least 20 weeks in his base period or have earned the equivalent in wages. The wage equivalent is defined as 1 1/2 times high quarter wages or 40 times the weekly benefit amount.

**Qualifying Base Period Wages: State Laws.** A number of states have less stringent requirements for base period wages than the EB requirement. In response to ICESA's survey, 21 states reported that from 1% to 18% of those who exhausted regular state benefits were not eligible for EUC due to the base period wages requirement. The average was about 4%. The greatest impact of this requirement is in Iowa, where 18% are not eligible for EUC. The largest number affected is in California where 13%, or 23,335 regular benefit exhaustees, are not eligible for EUC.

**Job Placement Requirements.** The Extended Benefits law and regulations place certain requirements on state Employment Service operations without any additional funds. Each person claiming EUC benefits, whose reemployment prospects are determined to be "not good," must be reinterviewed by the state Employment Service and referred to any jobs that are listed with the Employment Service and meet the suitable work definition, that is, the job is within the individual's capabilities.

These interview requirements, especially for the large number of individuals brought in by the "reachback," have been overwhelming for many state Employment Service offices. In many cases, a review of the individual's application with the Employment Service would be adequate to determine whether a personal interview would be beneficial. In localities where there are virtually no jobs listed due to economic conditions, or where the jobs listed are not within the capabilities of the individual, the rigid requirement for a personal interview is just another example of the bureaucratic wheel-spinning to which both unemployed workers and our own staff are subjected.

**Conclusion and Recommendation.** The stringent requirements that apply to EB/EUC are inconsistent with the fact that these programs are available only because economic times are bad and jobs are scarce. We treat people who have not been able to find a job after 26 weeks as if it were their fault; they just didn't try hard enough. The fact is that these requirements are not designed to help people get back to work, but merely to restrict the number who qualify for extended or emergency benefits. These requirements create needless paper work for staff in local unemployment offices and bureaucratic hassles for unemployed workers with enough problems already. We urge you to repeal the terms and conditions that apply to the Federal-State Extended Benefit program and to Emergency Unemployment Compensation and permit the terms and conditions of qualifying and eligibility for state benefits to apply to Extended Benefits and Emergency Unemployment Compensation.

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#### PREPARED STATEMENT OF LYNN MARTIN

Mr. Chairman and Members of the Committee: I appreciate this opportunity to appear before you today to discuss an extension of the Emergency Unemployment Compensation (EUC) program.

I mentioned in my January testimony before this Committee that when I was in Congress, I represented a district with a city that had the highest unemployment rate in the nation during the last recession. This affected some of my friends, neighbors, and members of my family. I understand the devastating effect that the loss of a job can have on men and women who want to work but cannot find employment.

President Bush shares this concern regarding our country's unemployed men and women, their families, and their future. The Administration is committed to providing, as the economy recovers, needed assistance to those Americans who have lost their jobs.

Therefore, the President has directed me to work with Congress to do the following:

First, develop and quickly enact an extension to the Emergency Unemployment Compensation (EUC) program.

Second, this EUC extension should be through the end of 1992, when economic recovery will be well underway. Currently, the economy is steadily improving. Senators, we all want a sustained recovery. We have already seen positive signs—a higher than expected annual growth rate in the economy for the first three months of the year, and a two year high in construction of new homes and apartments. Also, America's labor market is looking stronger with each passing week. It's not yet time to celebrate, but we now have had three straight weeks of declining initial claims

for unemployment insurance which indicate that the fruits of the recovery are now reaching American workers and their families.

While it appears that the recovery is already underway, job growth traditionally lags even as the economy recovers. Therefore, a further temporary extension of EUC is necessary to help those who need it.

The President's actions to expand exports, accelerate appropriated spending on public works and federal contracts, eliminate excessive government regulation and ensure that credit is available to sound borrowers, particularly to credit-worthy small and medium-sized businesses, are among the reasons our economy is now moving in a positive direction.

The President also has proposed to the Congress an economic agenda that would stimulate growth and provide the jobs Americans want. These proposals should be enacted quickly. After all, the best remedy for unemployment is economic growth and its associated job creation.

Third, the EUC extension must be paid for in a manner that is consistent with economic growth. It must be financed through offsets that maintain the fiscal discipline of the bipartisan Budget Agreement, but do not increase tax burdens. Raising taxes at this stage of the recovery would threaten job growth and existing jobs.

Fourth, it is essential that this EUC extension be passed quickly so that there will be no break in benefits for unemployed workers. I am ready to sit down today with you and our respective staffs to hammer out an extension of EUC. We can do that quickly. Permanent, structural changes to the unemployment compensation system are complicated, costly issues. The men and women who need help should not have their assistance delayed while we debate permanent changes, many of which are controversial, complex, and opposed by the States. The Administration also opposes these changes, due to the delay and for substantive reasons.

For example, increasing the Federal taxable wage base is an unacceptable increase in taxes that would harm the economy. This proposal is strongly opposed by the Administration and many of you.

Proposals to impose Federal mandates on State unemployment compensation laws relating to disqualifications of claimants and other issues would constitute an unwarranted Federal intrusion into issues that are appropriately 'the responsibility of State government. Governors have repeatedly stated opposition to new Federal mandates on State UI programs.

Removing the Unemployment Trust Fund from the unified Federal budget has profound implications on budgetary policy and the deficit which raise an array of extremely complex issues.

The President does not want this extension delayed. Permanent structural changes to the unemployment compensation system will not occur in an expeditious time frame. Such a delay would be a cruel blow to those that desperately need our help.

The Administration considered proposing a specific extension package. We decided, however, that such a proposal could generate a counterproductive political bidding war for unemployment benefits which might lead to bad policy and an unacceptable result. This would only hurt the unemployed. We have had success in working with you, Mr. Chairman, and Senator Packwood and the rest of the Committee to reach bipartisan compromises in the past. Our joint efforts in the most recent extension is an example of what can result if we focus on people rather than politics.

We believe extension of EUC is a measure on which we can all quickly agree. It is a compassionate and appropriate way to help those who continue to need assistance. The Administration and Congress have worked together during the past year to provide these important emergency benefits to the unemployed and have done so in a manner that is consistent with long-term economic growth. It is again time to join together to achieve this objective.

I still believe the Congress can act quickly. Working together, Congress and the Administration can show—to those who will directly benefit and to those who have a job but want to help their fellow citizens—that political posturing does not always rule the roost.

Mr. Chairman I look forward to working with you and other Committee members, starting today, to enact a bipartisan extension. I will be pleased to answer any questions you might have.

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PREPARED STATEMENT OF ISAAC SHAPIRO

Mr. Chairman, thank you for the opportunity to testify here today. My statement is based largely on a Center on Budget and Policy Priorities report released last

month. I co-authored the report—*Far From Fixed: An Analysis of the Unemployment Insurance System*—with Marion Nichols.

#### UI SYSTEM FAILED MISERABLY FOR MOST OF PAST DECADE

Before the enactment of the temporary EUC program, the UI system was providing less protection to the unemployed than during any other recession since the end of World War II. From July 1990 when the recession began until November 1991, only 40 percent of the unemployed received benefits in an average month.

This record low level of protection continued an alarming trend in unemployment insurance protection.

- From 1984 to 1989, the share of the unemployed receiving benefits averaged 33 percent. In five of these six years, the share of the unemployed receiving benefits fell to the lowest level ever recorded.
- The proportion of the unemployed receiving benefits typically rises during recessions, and 1990 and 1991 were no exceptions.<sup>1</sup> But the increases were modest, with just 37 percent of the unemployed receiving benefits in 1990 and 42 percent receiving benefits in the more severe recession year of 1991. (The increase from 1990 to 1991 largely reflects the weaker labor market prevailing in 1991.)
- The percentage of the unemployed receiving benefits in 1990 was lower than in any other recession year since the end of World War II. The percentage of the unemployed receiving benefits in 1991 was nearly identical to the previous low for a recession year.
- By contrast, in the recession year of 1980, some 50 percent of the unemployed received aid. In the more severe recession year of 1975, an all-time high of 76 percent of the unemployed received aid.
- If the share of the unemployed receiving benefits had been the same in 1991 as in 1980, nearly 750,000 more jobless workers would have received aid in an average month last year.

The permanent unemployment insurance system includes two basic parts: regular and extended benefits. Throughout the 1980s and into the 1990s, both parts have proven inadequate. A number of factors contributed to the decline in protection, but federal and state cutbacks played a major role.

#### State Protection

Regular, state-funded benefits are provided for up to 26 weeks in virtually all states. Gary Burtless of the Brookings Institution has found that the share of the unemployed receiving state benefits is now about one-fifth lower than in the 1967–1979 period.

The proportion of jobless workers receiving benefits varies from state to state, ranging from 21 percent in South Dakota in 1991 to 70 percent in Alaska. This disparity reflects differences in state economies, the demographics of state workforces, and to a significant extent, differences in state unemployment insurance programs.

Some state programs are highly restrictive. In 14 states, fewer than one-third of the unemployed received benefits in an average month in 1991.

Of particular concern is that some of the states with low levels of unemployment protection had very weak economies. West Virginia had the nation's highest unemployment rate last year—10.5 percent—but only 31 percent of its jobless workers received benefits in an average month. In Mississippi, the unemployment rate was 8.6 percent, fourth highest in the nation. Just 30 percent of the unemployed received benefits in that state.

In many states, unemployment protection fell sharply in the 1980s. One way to measure this decline is to compare the portion of unemployed workers receiving benefits in a state in 1991 to the portion receiving benefits in 1980. Both were recession years with similar unemployment rates.

In 34 states, the proportion of jobless workers receiving benefits was lower in 1991 than in 1980. In some states, the decline in unemployment insurance protection was severe. There were six states—Illinois, Kentucky, Michigan, Montana, Ohio, and West Virginia—where the proportion of the unemployed receiving benefits declined 15 percentage points or more between 1980 and 1991. For example, in Michigan, the decline was 27 percentage points; 68 percent of the unemployed re-

<sup>1</sup>The proportion of the unemployed consisting of people who have been laid off or fired rises during a recession. Since it is these job losers that the unemployment insurance system is primarily designed to assist—as distinguished from unemployed people who leave their jobs voluntarily or are new entrants or reentrants into the labor market—the proportion of the unemployed receiving benefits normally rises in a recession.

ceived benefits in 1980 but 41 percent did in 1991. In 12 other states, the unemployment protection rate fell between 10 and 15 percentage points.

### *Extended Benefits*

The second part of the permanent unemployment insurance system consists of the federal-state "extended benefits" program. When the level of unemployment insurance receipt in a state rises above a specified threshold, up to 13 additional weeks of "extended" benefits are provided to most of the unemployed workers in the state who have used up their regular benefits and are still looking for a job. The concept behind the extended benefits program is that when unemployment is high, it usually takes longer to find a new job.

The number of jobless workers who exhausted their state unemployment insurance benefits jumped by nearly half in 1991; some 3.5 million state UI recipients exhausted their benefits. Only a small fraction of these workers, however, were immediately eligible to receive extended benefits. Large cutbacks in the extended benefits program in the early 1980s greatly restricted its scope.

- Eligibility for the extended benefits program during the current recession peaked in April and May 1991. Even then, just eight states qualified for the extended benefits program.
- Massachusetts and Michigan lost their eligibility for extended benefits in June, even though their unemployment rates exceeded nine percent. West Virginia became ineligible for extended benefits in July despite an unemployment rate of more than ten percent.
- In July, some 350,000 unemployed people had their state benefits expire. Only 18,000 of these workers lived in states where they could qualify for extended benefits. That left 332,000 workers without additional aid, the largest number of state exhaustees not qualifying for additional aid in any month on record.

### RECENT TEMPORARY LEGISLATION HELPS BUT IS INSUFFICIENT

During most post-World War II recessions, the federal government has enacted a temporary program of supplemental unemployment benefits for workers who have exhausted their regular or extended benefits and are still looking for a job. In November 1991, some 17 months after the recession began, the Emergency Unemployment Compensation program was established.

Not only did the EUC program take a long time to be enacted, it also only partially and temporarily addresses weaknesses in the unemployment insurance system. Nevertheless, it is providing substantial assistance to the unemployed, increasing the percentage of the unemployed receiving unemployment benefits from 40 percent to more than 50 percent.

### ONGOING NEED FOR UNEMPLOYMENT INSURANCE REFORMS

In March 1992, the unemployment rate was 7.3 percent, tied for the highest monthly rate in nearly seven years. There are 9.2 million unemployed people, 2.7 million more than when the recession began.

Thankfully, there are indications the economy is growing again; unfortunately, the recovery is expected to be weak. Nearly all current economic projections forecast that it will take a number of years before unemployment returns to pre-recession levels. Even the Bush Administration's economic forecast projects the unemployment rate will be *higher* in 1992 than in 1991 and will remain at high levels for an extended period of time. Under the Administration's forecast, the unemployment rate will not return to its pre-recession level—5.3 percent—until 1996. The Congressional Budget Office projects that this will not happen until 1998.

Whatever the exact course of the recovery, however, the weaknesses of the unemployment insurance system will continue to cause problems. The system is inadequate in good economic times as well as in bad.

A strong national labor market does not eliminate weaknesses in all state and local labor markets; the unemployment rate is likely to remain high in some states long after the national rate declines. Unemployed workers in those states will still face long job searches. They will be unlikely, however, to receive adequate unemployment insurance protection.

- In 1989, the national unemployment rate of 5.3 percent was the lowest in 15 years, but six states had unemployment rates that averaged seven percent or more. None of these states qualified for the extended benefits program.
- In 1988, when the national unemployment rate averaged 5.5 percent, 10 states had average unemployment rates above seven percent. Four states had



rates greater than *eight* percent. Only one of these states qualified for the extended benefits program.

Moreover, during both good times and bad, the proportion of the unemployed who receive *regular* unemployment insurance benefits is very low in some states. In 1989, there were 16 states in which fewer than one in every four unemployed workers received benefits. Even when labor markets are tighter and job searches are shorter, *some* unemployment insurance protection is needed to help workers until they find a job.

For those who do not receive help from the unemployment insurance system, the rest of the safety net is frequently inadequate. Those parts of the safety net that are designed to provide cash assistance to the non-elderly poor are themselves considerably weaker than in the past. A number of states instituted major reductions in cash aid programs for the poor in 1991, and additional cuts are likely in 1992. Furthermore, most such programs are not specifically designed to help the unemployed; in fact, these programs generally exclude even low- or moderate-income jobless workers because of stringent resource and asset tests.

In short, unless permanent and comprehensive reforms to the unemployment insurance system are established, the unemployed will be forced to rely more heavily on other parts of the safety net which also are badly tattered.

#### UNEMPLOYMENT INSURANCE REFORMS

To repair the unemployment insurance system's cracked foundation, comprehensive reform is needed. Reforms can be fashioned both to strengthen the provision of assistance to the long-term unemployed and to raise the proportion of the unemployed receiving regular unemployment benefits.

##### *Strengthening Assistance to the Long-term Unemployed*

The first step toward strengthening unemployment insurance assistance to the long-term unemployed is extension of the emergency unemployment compensation program beyond its mid-1992 expiration date. For good reason, it appears such an extension will occur.

When the EUC program was established in November 1991, the unemployment rate stood at 6.9 percent. The current unemployment rate of 7.3 percent is significantly above the November level. In addition, in the last recession, long-term unemployment did not peak until six months *after* the recession ended. In both the recession of the early 1980s and that of the mid-1970s, the federal government maintained temporary supplemental benefit programs through the early years of the recovery.

In the first three months of this year, moreover, more than one million jobless workers exhausted their basic state benefits, *the largest three-month total since the recession began*. In March alone, 345,000 individuals exhausted their state benefits. In the absence of the EUC program, only a small fraction would be qualifying for additional benefits under the extended benefits program.<sup>2</sup>

Further extension of the temporary EUC program, while imperative, would not sufficiently address the permanent problems in how the unemployment insurance system responds to long-term unemployment. The permanent program of assistance to the long-term unemployed—the extended benefits program—remains anemic. During recovery periods, states that fail to share in economic prosperity have generally been unable to qualify for extended benefits, even if their unemployment rates are very high. During periods when the national economy turns down and joblessness increases, only a handful of states have been able to qualify. In the next economic downturn, the long-term unemployed should not have to wait 17 months—the amount of time that passed during the current recession before the EUC program was enacted—before receiving additional aid.

Federal policy changes have played a major role in making it more difficult for states to qualify for extended benefits. In 1981, the federal threshold used to determine when a state qualifies for these benefits was raised substantially. Accordingly, it would be sensible for Congress to enact legislation that both extends the EUC program and makes permanent reforms in the extended benefits program. This would allow states time to make corresponding changes in state laws governing the extended benefits program while the EUC program continued providing additional relief during the current stretch of high unemployment.

Congress should also ensure that the extended benefits trigger more closely reflects how difficult it is to find a job in a state. Since the current insured unemploy-

<sup>2</sup>In the absence of the EUC program, only six states would currently be qualifying for the extended benefits program.

ment rate trigger excludes a large and increasing number of unemployed, it is not a good indicator. For example, Wayne Vroman of the Urban Institute has found that in several states, the total unemployment rate must reach about 15 percent before the states would qualify for the extended benefits program. (Florida, South Dakota, Texas, and Virginia are the states in this situation.)

Reforms should also be considered in another set of restrictive federal criteria enacted in the early 1980s that have reduced the effectiveness of the extended benefits program. The changes established federal eligibility criteria that make many individuals who meet the eligibility requirements for state unemployment benefits—and who have exhausted these benefits—ineligible for extended benefit assistance. Individuals who would be precluded under these criteria from receiving extended benefits are also barred from receiving EUC benefits.

The Interstate Conference of Employment Security Agencies has made it clear that these federal restrictions are barring the provision of EUC benefits to some who should receive them, while also placing unnecessary burdens on employers and adding to administrative costs. For example, the federal restrictions bar a worker from receiving any extended or EUC benefits for all the remaining time the worker is unemployed if the worker's job search efforts are interrupted for a single week for any reason, even if this is because the worker has become ill or must care for a sick child.

#### *Increasing the Proportion of the Unemployed Receiving Regular Benefits*

As noted, there is wide variation among states in the share of the unemployed receiving unemployment benefits and there are some states with especially limited protection. These variations, in part, reflect substantial differences in state eligibility standards and policies. In some states, moreover, changes in state policies during the 1980s contributed to the decline in unemployment protection. Policies governing who can qualify for state unemployment benefits deserve review.

#### *Include Most Recently Completed Quarter of Work Experience in Eligibility Determination*

The federal government could strengthen certain standards governing state unemployment insurance programs. For example, a worker's eligibility for benefits—and the amount and duration of benefits the worker receives—depend on the worker's earnings during a "base period." In most states, the base period is the first four of the last five completed calendar quarters before a worker files for benefits. This means that earnings in the current quarter and the previous quarter (three to six months of an applicant's most recent work experience) are ignored. For a worker filing for benefits in May 1992, the base period would be January 1991 through December 1991, and earnings for this year would not count. This severely restricts benefits for workers whose employment is concentrated in recent months.

Six states do include all or nearly all recent months of work history in determining eligibility. Federal standards could require that every state count earnings in the most recent completed calendar quarter.

#### *Modestly Limit State Disqualifications, Particularly Workers Who Leave Their Jobs for Family-Related Reasons*

Another possible reform would involve placing modest limitations on state discretion in disqualifying unemployment insurance applicants. Workers who voluntarily leave their jobs are typically disqualified from receiving benefits, as they generally should be. But states sometimes apply this disqualification even if the employee had to leave work for reasons largely beyond his or her control—and even if the employee had many years of prior work experience during which unemployment insurance taxes were paid based on the employee's wages. For example, if an employee is forced to leave a job either because a child or other family member becomes ill for an extended period of time, or because his or her child care arrangements have fallen through, the employee is often ineligible for unemployment insurance for the full duration of the unemployment period. In another example, in about half of the states, a worker who leaves a job because of a serious illness is generally ineligible for unemployment benefits even if the worker recovers and starts looking for work but cannot find it.

While it is sensible to treat workers who lose their jobs involuntarily differently from most voluntary job leavers, it is not clear that voluntary job leavers who have a substantial employment record—and who had to leave their jobs for good reasons that may be largely outside their control—should be excluded from benefits altogether. Instead, these voluntary job leavers might be made eligible for benefits or required to wait a certain period of time before they become eligible for assistance. An especially strong case can be made for extending benefits to workers who leave their jobs because of family responsibilities—such as to care for a sick family mem-

ber or to reassume child care responsibilities if other arrangements have fallen through.<sup>3</sup>

### *Outreach*

Another reason the share of the unemployed receiving unemployment insurance benefits has fallen is that a growing number of unemployed people who may be eligible for unemployment insurance benefits fail to apply for them. A study by economists Rebecca Blank and David Card found that a decline in the share of eligible unemployed workers who actually apply for and receive benefits was the most important factor explaining the decline in state UI protection in the 1980s. This study also found that the proportion of eligible workers who apply for unemployment insurance varies widely among states. Another study, by Wayne Vroman, found that a substantial proportion of job losers do not apply for benefits because they believe they are ineligible.

Taken together, these findings suggest that lack of understanding of eligibility rules is a barrier to receipt of the benefits and that outreach could increase the likelihood that eligible individuals would apply for assistance. The most direct and timely approach would be to require employers to inform newly unemployed individuals of their potential eligibility.

### FINANCING REFORMS

Reforms such as those described here can be financed within the unemployment insurance system. Currently, employers pay a federal tax equal to 0.8 percent of the first \$7,000 of each worker's wages. This federal "taxable wage base" of \$7,000 has been raised only three times since being set at \$3,000 in 1935. By contrast, Social Security taxes are paid on the first \$55,500 in earnings. When the unemployment insurance and Social Security programs were created, their taxable wage bases were set at the same level.

The unemployment insurance tax structure creates inequities. An employer pays the same amount of federal UI tax for an employee earning \$7,000 as for an employee earning \$50,000 or \$100,000. Yet the worker paid at the higher wage level gets larger unemployment benefits if he or she loses a job.

If the wage base were raised sufficiently, it could be coupled with a substantial reduction in the unemployment insurance tax rate that employers pay—and still produce an increase in revenues sufficient to finance the costs of extending unemployment protection to a larger share of jobless workers.

Alternatively, improvements in unemployment insurance protection could be financed outside of the system. If this is done, revenues should be raised in a progressive manner that takes a larger share of income from the wealthy than from the middle class or the poor. This is particularly appropriate in light of the evidence demonstrating that income trends over the past 15 years—as well as changes in federal tax burdens—have heavily benefited the wealthiest segment of the population.

In this vein, the UI reform proposal introduced in the House by Rep. Downey has a good financing alternative. It would extend two existing revenue sources now scheduled to expire at the end of 1995—the "PEP" (Personal Exemption Phase-out) provisions. (The Center on Budget and Policy Priorities released a short analysis this week on the advantages of extending the Pease provision, the larger and somewhat more controversial of the two extensions.)

### CONCLUSION

Some are arguing that now is not the time to consider permanent and comprehensive reforms to the unemployment insurance system. This argument, I believe, is primarily an exercise in political deflection.

As has been well-documented in recent years, the unemployed have been poorly served by the UI system not only during this recession but throughout the 1980s

<sup>3</sup>A key reason that unemployment insurance benefits have traditionally been denied to people who voluntarily leave their jobs is the "experience rating" system, under which the larger the number of ex-employees receiving unemployment insurance benefits an employer has, the greater the unemployment insurance taxes the employer must pay. As a result, many employers object to the provision of benefits to individuals who have left their job for any reason that is not the employer's fault.

A possible response to this objection would be not to charge the employer's account when the employer is not at fault for a voluntary quit, but still to provide unemployment insurance benefits when an individual had a substantial job record and had to leave employment for reasons largely outside his or her control. The benefits for these individuals could be funded out of general unemployment insurance taxes collected from all employers. This approach would separate the issue of who pays for the benefits from whether such an individual ought to receive benefits.

recovery as well. In good times and bad, the system has proven woefully inadequate. No further proof of the need for permanent reforms is required.

Note also that some of the permanent reforms would provide needed aid to the unemployed even during the period of another EUC extension. Others should be enacted quickly because they will require lead time to be implemented. Still others should be put in place before the next recession, so the unemployed will not have to wait 17 months again before the President signs a bill providing them with necessary additional assistance.

If permanent and comprehensive reforms are not enacted, once a EUC extension would expire, the unemployed would again face an unemployment insurance system providing record low levels of protection.

Attachment.

#### STATEMENT OF THE CENTER ON BUDGET AND POLICY PRIORITIES

Representative Downey's new legislation to extend emergency benefits and make permanent changes in the unemployment insurance system includes a temporary extension of two existing revenue sources now scheduled to expire at the end of 1995—the "Pease" and "PEP" (Personal Exemption Phase-out) provisions. The temporary extension of the Pease provision has been the subject of some controversy.

The Pease provision, established in the 1990 budget agreement, imposes a modest limitation on the itemized deductions upper-income taxpayers may claim. The provision reduces the total deductions a taxpayer may claim by an amount equal to three percent of the amount by which the taxpayer's adjusted gross income exceeds \$100,000. Thus, if a taxpayer's AGI were \$150,000, his or her itemized deductions would be reduced by \$1,500 ( $\$150,000 - \$100,000 = \$50,000$ .  $\$50,000 \times 3\% = \$1,500$ ).<sup>1</sup>

Each dollar that a taxpayer's deductions are reduced does not result in a dollar tax increase. In this example, the \$1,500 drop in deductions would result in a tax increase of \$465.

#### PEASE PROVISION WIDELY MISUNDERSTOOD

The Pease provision has been widely misunderstood. Opponents claim it reduces the incentive for high-income taxpayers to make charitable contributions and to support necessary increases in state and local taxes. For example, a recent bulletin issued by Independent Sector states that "Reducing charitable contributions therefore is the only way a taxpayer can lessen the tax impact of his or her increased tax obligations resulting from the three percent floor." This, however, is not correct.

The amount that must be subtracted from itemized deductions under the Pease provision depends solely on the income of the taxpayer, not on the amount of the taxpayer's itemized deductions. As a result, under the Pease provision, virtually all taxpayers can still reduce their tax bill by making an additional charitable contribution or by paying higher state or local taxes.

The following points about the extension of the Pease provision contained in the Downey bill are also worth noting.

- Contrary to some information being circulated about the proposal, the Downey bill does not in any way enlarge or broaden the Pease provision in current law. The bill thus poses no assault on the current deductibility of charitable contributions or state and local tax payments. It is a simple two-year extension of current law and should have no other effect on these deductions.
- Other methods of financing unemployment insurance reforms face stiff opposition. Extending the Pease and PEP provisions<sup>2</sup> may be the only politically acceptable, progressive way to finance badly-needed permanent reforms. If the Pease extension is dropped, it is likely the bill will have to be scaled back and will consequently provide less protection to jobless workers.

<sup>1</sup>Three percent of a taxpayer's adjusted gross income above \$100,000 is the maximum by which a taxpayer's deductions may be reduced. Four categories of itemized deductions are exempt from the Pease limitation: medical/dental, casualty/theft, gambling losses, and investment interest. Other itemized deductions cannot be reduced by more than 80 percent. As explained below, however, the 80 percent floor is rarely used because it is rarely needed. For most high-income taxpayers, the Pease provision causes itemized deductions to be reduced by only a modest percentage.

<sup>2</sup>The PEP, or personal exemption phase-out provision, phases out the personal exemptions for taxpayers at high income levels. For married couples filing jointly, the personal exemption starts being reduced when income exceeds \$150,000 and is phased out entirely when income passes \$272,500.

• Instead of endangering state revenues, as some have suggested, an extension of the Pease provision would actually bolster state tax collections. Because many states base their state income tax codes on the federal code, the majority of states have incorporated the Pease provision into their own state tax systems—and raise more state income tax from high-income individuals as a result. Continuation of the Pease provision in federal law would maintain these badly needed state revenues for another two years; conversely, expiration of the Pease provision after 1995 would result in its disappearance from most state tax codes as well, thereby weakening the state revenue base for important programs.

These points are explained in more detail below.

#### HOW THE PEASE PROVISION AFFECTS TAXPAYERS

Some examples, drawn from IRS tax statistics, may clarify the effect of the Pease provision.

In 1989, the average income for taxpayers in the \$100,000-to-\$200,000 income category was \$132,500. Itemized deductions were claimed by 94 percent of these taxpayers; the average deduction was \$25,500. (The state and local tax deduction averaged \$9,000 and was taken by 94 percent of these taxpayers—virtually all who itemized. The charitable deduction averaged \$3,500 and was taken by 91 percent of the taxpayers in this income class.)

For the average taxpayer in this income category, the average amount disallowed due to the Pease provision would have been \$975<sup>3</sup>; the taxpayer's total itemized deductions would have been reduced from \$25,500 to \$24,525. The increase in federal taxes for this taxpayer would be just over \$300.

Of particular significance is the fact that if this taxpayer reduced his or her charitable contributions—or paid less state or local income tax—*this would have no impact whatsoever* on how the taxpayer was affected by the Pease provision. Whether the taxpayer's itemized deductions totaled \$25,000, \$15,000 or \$5,000, these deductions would still be reduced by \$975. Similarly, if this taxpayer made *additional* charitable contributions, the taxpayer's itemized deductions would continue to be reduced by the same \$975 (and the taxpayer would owe less in tax because of the additional contributions). This is because the Pease disallowance equals three percent of the amount by which a taxpayer's adjusted gross income exceeds \$100,000—and not a specific percentage of the taxpayer's itemized deduction levels.

This means all charitable contributions and state and local tax payments above the first \$975 reduce taxes for this taxpayer exactly as they would if the Pease provision did not exist.

A similar story is true for the very wealthy, a group about whom some charitable organizations have been concerned. (Some organizations have wondered if the Pease provision would affect contributions from "big givers.") Among taxpayers with incomes exceeding \$1 million, the average income in 1989 was \$2,572,000; average itemized deductions for this group were \$298,000. This \$298,000 average deduction level is far above the average Pease disallowance for this group, which would have been \$74,160. Here, too, a change in the level of this taxpayer's charitable contributions would have no bearing on how the taxpayer was affected by the Pease provision. Taxpayers in this income bracket had average charitable contributions of \$83,900 in 1989. Even if the average taxpayer in this bracket reduced his or her charitable contributions to zero, the Pease disallowance would remain \$74,160.

In short, the belief some organizations have that the Pease provision represents a "tax on charitable contributions"—and would reduce the tax advantages of such contributions—is almost always mistaken.

There are some very isolated and unusual circumstances under which the Pease provision can affect the tax advantage of a charitable deduction. These circumstances, however, apply only to those few rich taxpayers who have no other, or virtually no other, deductions.

Unfortunately, some opponents of the Pease provision have focused on these extreme cases. Assume, for example, that an individual in the over-\$1 million income bracket resides in a state with no personal income tax and lives in a rented apartment rather than owning a home. If such a taxpayer had no state or local income tax, property tax, or mortgage interest deductions, the Pease provision could have the effect of reducing the tax benefits of charitable contributions. (In this case, the Pease provision would have this effect because charitable contributions would represent the only deduction the taxpayer claimed that was not exempt from the provision.) But only 1.8 percent of the taxpayers in this income bracket do not have a

<sup>3</sup>The \$975 figure is calculated as follows: \$132,500 - \$100,000 = \$32,500. \$32,500 x 3% = \$975.

state or local income or property tax deduction. In other words, the percentage of "big givers" who would lose some of the tax advantages of charitable contributions is very small. Even in these rare cases, some incentive for charitable giving—particularly for large gifts—remains.<sup>4</sup>

#### THE SLIPPERY SLOPE

The argument that the Pease provision represents a tax on the charitable contributions many taxpayers make, or on their state and local tax payments, is often accompanied by a claim that the Pease provision—and the two year extension of it in the Downey bill—is a "slippery slope." The argument made is that extending this provision for two years would represent the first step toward sharper reductions in—or outright elimination of—the charitable and state and local tax deductions. There is little basis for such a claim.

In its recent bulletin criticizing the Downey unemployment bill, Independent Sector states: "If there was any doubt remaining, the Downey/Rostenkowski unemployment legislation makes clear that Congress will continue in its attempts to extend—and probably enlarge—the three percent floor on itemized deductions" (emphasis added). In fact, the Downey/Rostenkowski bill simply extends the Pease provision—currently set to expire after 1995—for two more years. It does not enlarge it in any way. Nor is any proposal to enlarge the Pease provision under serious consideration anywhere on Capitol Hill.

#### BEST FINANCING ALTERNATIVE AVAILABLE

The Downey/Rostenkowski bill extends the Pease and PEP provisions because earlier efforts to use an alternative financing mechanism to pay for permanent unemployment insurance reform failed. Last year, Rep. Downey introduced unemployment insurance legislation that was financed by increases in the unemployment insurance tax that employers pay. This represented the best approach to paying for unemployment insurance reform, but it died in the Ways and Means Committee due to opposition to the employer tax. Extension of the Pease and PEP provisions could prove to be the only politically acceptable way to finance badly needed permanent reforms to protect the unemployed, unless opposition now makes the Pease extension politically unacceptable as well. If that should occur and the legislation dies or is scaled back, we will have a weaker unemployment insurance system—and higher poverty rates among the jobless—in coming years.

Some opponents of the Pease extension have downplayed this point, claiming that alternative financing mechanisms are available. They point to tax provisions in the President's budget and the recently vetoed Democratic tax bill. But most of the revenue-raising provisions in the President's budget were rejected when the Democratic tax bill was written; they are controversial, and strong lobbies are arrayed against them. Similarly, the only revenue-raisers in the Democratic tax bill that bring in as much or more revenue than the Pease and PEP extensions are tax rate increases for upper-income taxpayers, and they traditionally have faced stronger political opposition than Pease and PEP, especially when they are being used for a purpose other than financing middle-class tax cuts.<sup>5</sup> Moreover, all of the revenue-raising provisions in the Democratic tax bill except for Pease and PEP represent new tax increases. Politically, the advantage of the Pease and PEP extensions is that they do not represent new taxes—as distinguished from extensions of tax measures already on the books—and only affect the top three to four percent of taxpayers in the nation.

It is likely that if the Pease extension—which raises \$7.2 billion over the next five years<sup>6</sup>—is dropped from the Downey bill, no other provision that raises an equivalent amount of revenue will pass political muster. If that occurs, the effort to kill the Pease provision will probably result in the Downey bill being scaled back and more unemployed workers going without benefits in the years ahead. Moreover, the disappearance of the Pease extension could make it harder to secure permanent un-

<sup>4</sup>As noted, for taxpayers with incomes above \$1 million (the group for whom average income is \$2.6 million), the average Pease disallowance is \$74,160. This means that once contributions equal \$74,160 for the average taxpayer in this bracket, all additional contributions are fully deductible. For contributions below this threshold, 20 percent of the contribution would be deductible (see footnote 1).

<sup>5</sup>In fact, the Pease and PEP provisions were included in the 1990 budget agreement for the very reason that some Members of Congress who would not accept additional rate increases on high-income taxpayers would accept the Pease and PEP approaches to raising more revenue from those at the top of the income scale.

<sup>6</sup>These added revenues would come in fiscal years 1996 and 1997, due to the extension of the provision.

employment insurance reforms, as distinguished from the simple—and less costly—temporary extension of emergency unemployment benefits through December 31 that the Bush Administration favors. Meanwhile, the winners would be the wealthiest Americans; they will get a tax cut after 1995 if the Pease provision expires.

Finally, there is serious question as to whether an alternative financing mechanism can be found that is politically viable while still being as progressive as extending the Pease provision, since Pease affects no taxpayers except those at the top of the income scale.

#### HOW WOULD STATE SAFETY NETS—AND STATE TAX COLLECTIONS—BE AFFECTED?

The Independent Sector bulletin contends that the extension of the Pease provision in the Downey bill "would further erode nonprofit services while the need for help multiplies daily." But this statement, like several others in the *IS* bulletin, is not accurate. The impact of letting the Pease provision expire is likely to be the opposite of what Independent Sector believes. Expiration of the Pease provision would likely lead—to erosion in needed benefits and services—because the inclusion of this provision in federal law causes over half the states to raise more state income tax revenue as a result.

In many states, the state income tax conforms in important respects to the federal income tax. Because the Pease provision has become part of the federal tax code, it is now also part of the state tax code in 27 states and the District of Columbia. In these states, the inclusion of the Pease provision in federal law has enabled states to raise more revenue from high-income tax filers. If the Pease provision disappears from the federal tax code, it will automatically disappear from most or all of these state tax codes. These states would then lose revenues. Given the long-term fiscal difficulties many states face, loss of revenues could lead to further reductions in benefits and services for those in need.

#### STATES THAT INCORPORATE THE PEASE PROVISION INTO THEIR STATE INCOME TAX CODES

Arizona	Missouri
Arkansas	Montana
California	Nebraska
Colorado	New Mexico
Delaware	New York
District of Columbia	North Carolina
Hawaii	North Dakota
Iowa	Oklahoma
Kansas	Oregon
Louisiana	Rhode Island
Maine	South Carolina
Maryland	Utah
Minnesota	Vermont
Mississippi	Virginia

#### CONCLUSION

The facts do not support the contention that an extension of the Pease provision—without any enlargement or broadening of the provision—will undermine charitable giving or the ability of state and local governments to raise taxes. In fact, the provision directly enhances the revenues of more than half of the states. In sum, the arguments against extending the provision do not stand up under scrutiny.

#### PREPARED STATEMENT OF WAYNE VROMAN

I would like to thank the Senate Finance Committee for the opportunity to appear today and discuss some of the important issues presently facing unemployment insurance programs in the U.S. My remarks will address three areas: (1) program financing problems in the current recession, (2) encouraging the states to make greater efforts towards improved solvency, and (3) benefits for the long term unemployed. The first two areas are linked, but both merit attention because some programs have inadequate trust fund reserves while at the same time others have ample reserves. Because the third topic, benefits for the long term unemployed, has received considerable attention over the past year, my comments will be very brief. At the outset let me emphasize that my remarks represent my own opinions and do not necessarily represent the official position of the Urban Institute or its sponsors.

## CONTINUING FINANCING PROBLEMS

It appears that the economy is now emerging from the recession, although the pace of the recovery is considerably slower than is typical during an economic upturn. The slow pace of real GNP growth, two percent in the first quarter of 1992, makes it likely that the unemployment rate will not descend rapidly from the plateau of 7.3 percent reached in February and March. If this is the case, most individual states will continue to experience high unemployment and large withdrawals from their unemployment insurance trust funds during the remainder of 1992.

There has been some borrowing by insolvent UI programs during the present recession, and there will be additional borrowing this year. Compared to the back-to-back recessions of the early 1980s, however, loans will be needed by a relatively small number of states and the scale of borrowing will be much smaller. Connecticut and Massachusetts borrowed last year and both will borrow again in 1992. Additionally, seven other UI programs are likely to need loans during 1992: Arkansas, the District of Columbia, Maryland, Michigan, Missouri, New York and Ohio.<sup>1</sup> Assuming that the economic recovery does proceed this year, total borrowing will probably fall short of \$5.0 billion. For comparative purposes it is useful to recall that 32 programs borrowed a total of \$24.0 billion between 1980 and 1987.

If this magnitude of borrowing for 1991-1992 is roughly accurate, it does not necessarily imply that the UI system as a whole is adequately financed. Two important factors influencing the volume of borrowing in this recession must be recognized. First, the recession has been quite mild relative to many past recessions. Assuming that the total unemployment rate (TUR) peaks at its present level of 7.3 percent that would imply an increase of only 2.2 percentage points over the prerecession low of 5.1 percent reached in March 1989. In contrast, the increase in the TUR was more than 4.0 percentage points between late 1979 and late 1982 when the TUR peaked at 10.0 percent.

The second factor associated with the low volume of borrowing is the comparatively high levels of most UI trust funds at the onset of the present recession. At the end of 1989 aggregate net reserves across the 53 UI programs totaled \$37.6 billion. Using an actuarial measure of trust fund adequacy, the reserve ratio multiple, about two thirds of the UI programs (35 of 53) had reserve balances which equaled at least half of a recommended actuarial standard, i.e., their reserve ratio multiples were .75 or larger.<sup>2</sup> Part of the explanation for the high levels of reserves achieved at the end of 1989 was the long period of sustained economic expansion of the mid to late 1980s. Another part of the explanation was that payout rates of regular UI program benefits were unusually low throughout the 1980s. The topic of the low payout rate (low IU/TU ratio in the jargon of those who closely follow the UI system) has been examined but a consensus as to its explanation has not been reached.<sup>3</sup> The low payout rate has persisted in the present recession, e.g., the IU/TU ratio in 1991 was only .391 compared to .433 in 1980 and .492 in 1976. Thus borrowing in the present recession could easily have been much larger had the recession been more serious, had prerecession reserves been less adequate or had the benefit payout rate been higher.

To help illustrate the continuing financing problem facing UI programs, it may be instructive to review the recent experiences of certain states from the North East. Table 1 presents summary data for the 1979-1991 period for five states: Connecticut, Massachusetts, Rhode Island, New York and New Jersey. Being from the same broad region, these states are subject to a number of common economic forces, but the recent histories of their trust funds present some interesting contrasts.

<sup>1</sup> Each of the seven had a reserve ratio multiple of less than .30 on December 31, 1991. Low reserve ratio multiples are often indicative of subsequent borrowing needs. The concept of a reserve ratio multiple is discussed below.

<sup>2</sup> The reserve ratio multiple is a measure of UI net trust fund reserves that compares net reserves to the scale of a state's economy (approximated by total covered payrolls) and the previous peak period of benefit payouts. In the past several have advocated that each state achieve a reserve ratio multiple of 1.5. A level of 1.5 means that reserves on hand are sufficient to support 18 months of payouts at the historically highest payout rate.

<sup>3</sup> Several factors contribute to the decline of IU (insured unemployment which measures the number of claimants for regular UI program benefits) relative to TU (total unemployment, unemployment for all reasons as measured in the monthly household survey of the labor force). Two broad classes of factors have been identified: statutory changes in UI benefit provisions enacted at the federal and state level and evolutionary changes in the U.S. labor market (declining unionization, declining employment in the manufacturing sector and a changing regional mix of unemployment towards the South and Rocky Mountain states where relatively fewer unemployed workers collect benefits.) See Wayne Vroman, *The Decline in Unemployment Insurance Claims Activity in the 1980s*, Unemployment Insurance Occasional Paper 91-2, U.S. Department of Labor, Employment and Training Administration, (1991).



The North East experienced difficult economic times in the mid to late 1970s. This is reflected in the 1979 net reserve balances and reserve ratio multiples of these states. Three (Connecticut, Rhode Island and New Jersey) had negative net reserves in 1979 while the other two (Massachusetts and New York) had only small positive balances. The table then traces the evolution of net reserves in each state over the next twelve years. National data are also included in the Table 1.

Several factors should be kept in mind regarding these five UI programs during the 1980s. First, the North East enjoyed strong prosperity through late 1988. Note that the state average TURs were lower than the national TUR with differentials being especially large during 1983–1985 and 1986–1988. Second, the economic downturn began earlier and was much more severe for these states than the national recession that started in 1990. Between 1988 and 1991 the annual average TUR (not shown in the table) increased by only 1.2 percentage points nationally (from 5.5 percent in 1988 to 6.7 percent in 1991). In these states, however, the comparable three year increases in total unemployment rates (TURs) were as follows: Connecticut—3.7 percentage points, Massachusetts—5.7 percentage points, Rhode Island—5.4 percentage points, New York—3.0 percentage points and New Jersey—2.8 percentage points. Third, the federal taxable wage base which is the minimum tax base allowed for any state UI program was \$6000 per worker between 1978 and 1982, and since 1983 it has been \$7000 per worker. Fourth, by the early 1980s New Jersey and Rhode Island had implemented indexing provisions that automatically tied their UI taxable wage base to changes in average worker wages.<sup>4</sup> In two of the other states (Massachusetts and New York) the state tax base matched the federal tax base in every year since 1979, and in the third (Connecticut) the departure from the federal tax base was small.<sup>5</sup> The low level of the federal tax base has implications for the adequacy of UI program financing. The experiences of the latter three states help to illustrate this point.

Note the evolution of the state tax bases in the 1980s. The contrasts represent a natural experiment showing interstate differences caused by indexation. Two tax bases rise substantially while three change by only modest amounts. By 1991 the tax bases in Rhode Island and New Jersey were more than twice the level of the tax bases in the other three states. The important point about indexing the taxable wage base is that the financial underpinning of the UI program automatically keeps pace with the growth in average wages.

Observe the contrasting patterns in the taxable wage proportions after 1982. In Rhode Island and New Jersey the taxable wage proportions held steady (at roughly .55 and .45 respectively) while substantial declines were registered in the other three states. By the end of the period only about one fourth of covered wages were taxable in Connecticut and New York.<sup>6</sup>

Failure of the taxable wage base to keep pace with inflation interferes with adequate financing of unemployment insurance programs. Observe in Table 1 that Rhode Island and New Jersey experienced larger increases in their reserves and reserve ratio multiples during the 1980s than did the other three states. To help emphasize this point note that the 1979-to-1988 increases in the five reserve ratio multiples were as follows: Connecticut—.76, Massachusetts—.41, Rhode Island—1.52, New York—.60 and New Jersey—1.38.

To summarize, the North East experienced a strong economic expansion during the 1980s and this was responsible for much of the accumulation in net reserves. However, while reserves increased, the scale of the potential financial liabilities also increased. To have been prepared to face the drawdowns in reserves during the 1990–1991 recession the three nonindexed states should have had even larger net reserve accumulations. In Rhode Island and New Jersey, larger and more adequate accumulations did take place, and to date these states have avoided borrowing despite substantial increases in unemployment since 1988.

Of course several factors affect solvency. But the varied experiences of these five states in the present recession to me illustrates the crucial role of having an adequate taxable wage base in helping to ensure solvency. Rhode Island may yet have

<sup>4</sup>Starting in 1975 New Jersey indexed its taxable wage base to 28 times lagged average weekly wages (or 54 percent of average annual covered earnings). Rhode Island indexed its taxable wage base to 70 percent of lagged average earnings starting in 1980.

<sup>5</sup>Connecticut's tax base of \$7000 in 1982 was \$1000 above the federal tax base for that year. Since 1983 the state's tax base has been \$7100, or \$100 above the federal tax base.

<sup>6</sup>Note that taxable wage proportions are shown for 1990 in the bottom panel of Table 1 because 1991 estimates are not yet available.

to borrow in 1992.<sup>7</sup> But contrast this with the situation in Connecticut and Massachusetts where there is a pressing need to enact a solvency package while each state is still in the midst of a serious recession. Their choices include a number of unpleasant options: raising employer taxes, cutting benefits, incurring further debts, and financing interest payments on their debts. The need to make these kinds of choices could have been avoided (or at least reduced) if larger reserve accumulations had taken place during the prosperous years of the 1980s.

I interpret the experiences of these five states as providing good evidence for the need to raise the taxable wage base in UI programs. Given the current federal conformity requirement, the easiest way to do this is to mandate a higher federal tax base. I think strong consideration should be given to raising and indexing the federal tax base. This has implications for both federal and state UI taxes. At the federal level, the FUTA tax rate could be reduced from its present .8 percent if the Congress wanted the action to be revenue neutral.

#### ENCOURAGING GREATER SOLVENCY EFFORTS BY THE STATES

When the financing experiences of UI programs across all states are compared some interesting contrasts are apparent. In general, states in areas besides the East Coast and states that had larger prerecession reserves have fared better than others. Table 2 helps to summarize the situation in the states over the past two years. The table shows the net reserve position of each state at the end of 1989 and at the end of 1991. It displays net reserve balances along with reserve ratio multiples and their respective two year changes.

Between December 1989 and December 1991 there was a reduction in net reserves of \$6.6 billion, declining from \$36.3 billion to \$29.7 billion. When the individual states are examined, however, three patterns emerge. First, many states actually increased net reserves during these two years. Of the 51 programs included in the table, 22 had larger net reserves in 1991 than in 1989, and 17 had larger reserve ratio multiples. Since the reserve ratio multiple adjusts for both the size of state economies and for previous high cost experiences, it is the better of the two measures for gauging reserve adequacy. The fact that 17 programs raised their reserve ratio multiples is due in part to the mild nature of the present recession.

The second pattern is the continuing large number of states with high reserve ratio multiples in 1991. Twenty states had multiples of 1.0 or larger in 1989. In 1991 the number was 19. The states that entered the recession with large balances have been quite successful in maintaining their balances.

The third obvious pattern in Table 2 is the concentration of reserve losses among states located along the East Coast. All nine states of the North East lost reserves, and their total loss was \$4.8 billion. Six of nine South Atlantic states<sup>8</sup> also experienced reductions, and the total loss of net reserves for these nine was \$1.0 billion. For the 18 states of the North East and the South Atlantic areas combined, the reductions totaled \$5.8 billion or 88 percent of the national total. The remaining areas of the country present a more mixed picture regarding changes in net reserves.

The concentration of large reserve losses among states along the Atlantic seaboard is illustrated in a second way in Table 2. There are 11 states where the reserve ratio multiple declined by .30 or more. Nine of the eleven are from the 18 previously identified eastern states.<sup>9</sup>

The experiences of the East Coast states provides information on the kinds of reductions in reserve ratio multiples that occur in a recession. The largest reduction in the table is .60 (Maine) and three other states had reductions of from .50 to .59 (Massachusetts, Rhode Island and New York). I think the table can also be instructive for setting a solvency standard or guideline for the states. At present there is no generally recognized solvency guideline besides the 1.5 reserve ratio multiple rule. Keeping in mind that the present recession has been rather mild by historic standards, one would expect larger reductions in reserve ratio multiples to occur in other recessions. Since the largest reduction in Table 2 is the .60 experienced by Maine and only three other reductions range from .50 to .59, it might be prudent to advise states to set reserves according to the following rule or guideline. Build up reserves to a level such that the state will be able to absorb a recession-related reduction in its reserve ratio multiple of 1.0 without having to borrow. In other words, make the standard or guideline a reserve ratio multiple of 1.0 instead of the present 1.5 that is often advocated.

<sup>7</sup> Its reserve ratio multiple at the end of 1991 was .44. Fourteen states had lower multiples. New York's reserve ratio multiple at the end of 1991 was .26.

<sup>8</sup> These are the first nine states under the regional designation South in Table 2, i.e., Delaware through West Virginia.

<sup>9</sup> Mississippi and Missouri are the other two states.

Let me emphasize that this suggestion is my own and is based partly on my previous studies of UI program financing experiences. As you know there never has been a federal solvency standard for state UI programs. If a 1.0 reserve ratio multiple were used to define reserve adequacy, it would give guidance to the states and have other desirable features. The level of this standard is much more modest (hence attainable) than the 1.5 reserve ratio multiple guideline. There would still be a borrowing window at the U.S. Treasury. Perhaps for states that entered a recession with a multiple of at least 1.0 (but had an exceptionally poor experience in benefit outflows during the recession), the conditions of borrowing could be made easier than for other states.

Previously I identified the two states that borrowed in 1991 (Connecticut and Massachusetts) and seven others most at risk of needing loans in 1992 (Arkansas, the District of Columbia, Maryland, Michigan, Missouri, New York and Ohio). When their 1989 reserve ratio multiples are examined, five were .40 or lower while the highest were .76 in New York and .75 in Maryland. Simply stated, the states that have borrowed or are presently most at risk of borrowing all entered this recession with reserve ratio multiples well below the 1.0 standard that I am advocating today.

One other point about reserve adequacy deserves attention. Recall that 17 states increased their reserve ratio multiples between 1989 and 1991. Note in Table 2 that 11 of the 17 are states with indexed taxable wage bases. These states are concentrated in the West, 10 of 13 in this region, which is the geographic area that most successfully maintained its reserves during 1990 and 1991. Note also that two of the three western states that had reductions in reserves (Colorado and California) do not have indexed tax bases.

Returning to the subject of a solvency standard, what might induce the states to increase their efforts to achieve a reserve ratio multiple of 1.0? I can suggest three possible inducements, all involving financial considerations. (1) Have the U.S. Treasury pay extra interest to those states whose prerecession reserves met this standard. This could take the form of an increment above the normal interest rate paid on trust fund balances, e.g., one percentage point higher than the normal interest rate. To limit the cost of this inducement, the increment could be applied only to reserves in the range from a multiple of .50 to a multiple of 1.00. A state's maximum financial advantage from such an arrangement would be obtained from achieving a multiple of 1.0. The maximum potential cost of this proposal in 1991 would have been about \$240 million. (2) Have the Treasury provide interest free loans during a recession if a state entered the recession with a reserve ratio multiple of 1.0 or larger. This would allow states to borrow and not have to make special arrangements to finance the interest payments on the borrowing. (3) Allow the states greater discretion in use of reserves held at the Treasury if they achieve a reserve ratio multiple of 1.0 or larger. This third suggestion deserves some more elaboration.

At present, monies held in the state accounts at the U.S. Treasury can be withdrawn for only one purpose, to pay UI benefits. In an environment of increasing budget stringency, policy makers in the states are apt to keep monies from flowing into the Treasury accounts in order to make alternative uses of the funds. One explicit policy that has been implemented in three states (North Carolina, Idaho and Oregon) is to create a state reserve fund which, in effect, diverts a portion of annual UI tax receipts from the state's account at the U.S. Treasury into a special state account, termed a state reserve fund. The principal in the state reserve fund remains dedicated to the payment of UI benefits, but interest earnings can go for other uses. Two broad classes of uses are funding positive adjustment programs such as state-level worker training programs and funding SESA activities that a state may feel are not adequately funded through federal formula allocations, e.g., UI program administration or ES activities.<sup>10</sup>

If a state satisfied a federal solvency standard it could then have discretion to use some part of its excess trust fund accumulation, e.g., the portion that exceeds the solvency standard, for purposes other than paying UI benefits. This discretion should not extend to the point of endangering solvency. Also, the solvency standard should not be achieved through restrictions on benefit eligibility or payment levels. The point of having a solvency standard is to provide a target level of prerecession reserves that prudent trust fund managers would try to achieve to avoid large scale borrowing during a recession. If the solvency standard were met why not let the state decide how to best use its "excess" reserves? Many details here could be suggested. Perhaps only certain positive adjustment activities, e.g., worker training, would be permitted. Perhaps the alternative uses should be restricted to persons who previously worked in UI covered employment. But the general point is to re-

<sup>10</sup> One analysis of state reserve funds is found in Kelleen Worden and Wayne Vroman. "State Reserve Funds: An Idea for the 1990s?" The Urban Institute, (April 1991).

ward states for prudent behavior in the form of increased flexibility in the use of trust fund reserves.

All three of these suggestions represent possible ways to influence the states to build large, but not excessive, reserves prior to the onset of future recessions.

#### LONG TERM BENEFITS

Under current statutes the Federal State Extended Benefits (EB) program is activated whenever a state's insured unemployment rate (IUR, the number of active claimants for regular UI program benefits as a percentage of covered employment) for a thirteen week period equals or exceeds 5.0 percent, and is at least 20 percent higher than the average IUR for the same thirteen weeks during the preceding two years.<sup>11</sup> This trigger mechanism has been in place since the early 1980s. The changes have made it more difficult to activate EB. The national trigger was eliminated, the automatic trigger threshold was raised (from a 4.0 percent IUR to the present 5.0 percent) and EB recipients were removed from trigger calculations. In the present recession many states experienced high unemployment, but their IURs did not reach the EB trigger thresholds.

The current EB trigger mechanism is under review at the UI Service of the U.S. Department of Labor. In my remarks today I will emphasize one aspect of the current triggers that leads to inequities across states.

The IUR in a given state reflects many factors but the two to be emphasized here are the level of unemployment in the state and the ease with which unemployed workers gain access to benefits from the regular UI program. The TUR (total unemployment rate as measured in the monthly household survey of the labor force) is a good measure of the unemployment situation. The ratio of the IUR to the TUR is strongly influenced by ease of access to UI program benefits. Across states there is wide variation in both the TUR and in the IUR/TUR ratio.

Table 3 helps to illustrate these two aspects of variation. It shows annual TURs and IURs for 1991 for certain states and the national average. The eleven states selected for inclusion in the table are the so called "direct use" states for which the Bureau of Labor Statistics publishes monthly unemployment estimates based solely on the monthly household survey. For the eleven the range of TURs is from a low of 5.8 percent in North Carolina to a high of 9.2 percent in Michigan. Even wider proportional variation is observed in the IUR/TUR ratios shown in the third column of data. These range from a low of .30 in Texas to a high of .61 in New Jersey. Because of the variation in the IUR/TUR ratios, note that the IURs vary even more widely across states than the TURs.

The final column in Table 3 presents a rough calculation of the annual TUR that is needed to activate EB in each of these 11 states. It ranges from 6.6 percent in New Jersey to 13.2 percent in Texas. A 6.6 percent TUR is well within the historic experience of New Jersey over the past 25 years for which there are TUR estimates for these 11 states. However the 13.2 percent rate in Texas is almost 50 percent higher than its highest historic rate. Between 1967 and 1991 the highest annual TUR in Texas was the 8.9 percent reached in 1986, the worst year of the collapse in the energy sector. In practical terms EB will never be activated in Texas as long as the current triggering mechanism based on IURs is used.

The calculation shown in the final column of Table 3 is an estimate which I have constructed and its derivation merits some explanation. The typical seasonal pattern in claims for UI benefits is for claims in the first quarter of the year to be about 25 percent higher than the annual average. Thus with an annual IUR of 4.0 percent, adding 25 percent for the first quarter causes the IUR to reach the EB trigger threshold of 5.0 percent.<sup>12</sup> The IUR/TUR ratio for 1991 was then divided into 4.0 percent to derive the estimated TUR needed to reach an annual IUR of 4.0 percent. In Texas, for example, the 1991 IUR/TUR ratio of .30 multiplied by a TUR of 13.2 percent yields an annual IUR of 4.0 percent.

Note some of the contrasts in Table 3. Texas and New Jersey both had TURs of 6.6 percent in 1991 but the IUR was only 2.0 percent in Texas compared to 4.0 percent in New Jersey. New York and Florida had very similar TURs last year, but their respective IURs were 3.8 percent and 2.3 percent. In effect, the current IUR-based EB trigger mechanism makes it impossible (or at the least very difficult) to activate long term benefits in states where access to regular UI program benefits is difficult. This simply is not fair to the long term unemployed workers in states with low IUR/TUR ratios.

<sup>11</sup> An optional trigger of 6.0 percent (regardless of the earlier IURs) also is allowed.

<sup>12</sup> This assumes the 120 percent requirement is also satisfied.

The remedy to this situation is straightforward. Base EB triggers on the TUR, not the IUR as at present. Even if the TUR is used, states where access to regular UI benefits is below-average will receive below-average amounts of EB (relative to their numbers of long term unemployed), but zero EB benefits would be even more below average for such states.

Table 1.—SUMMARY OF RESERVES FOR SELECTED STATES, 1979–1991

	Conn.	Mass.	Rhode Island	New York	New Jersey	United States
<b>1979:</b>						
Res Ratio Mult .....	-0.51	0.16	-0.62	0.20	-0.45	0.41
Net Reserves .....	-267	132	-96	403	-507	8583
Tax Base .....	6000	6000	6000	6000	6600	6000
Taxable Wage Proportion .....	0.43	0.49	0.51	0.42	0.46	0.47
<b>1982:</b>						
3 Year Avg. TUR% .....	6.3	6.6	8.3	7.9	7.8	8.1
Res Ratio Mult .....	-0.37	0.39	-0.42	0.32	-0.29	-0.10
Net Reserves .....	-252	436	-76	819	-423	-2644
Tax Base .....	7000	6000	8600	6000	8200	6000
Taxable Wage Proportion .....	0.38	0.42	0.55	0.34	0.44	0.41
<b>1985:</b>						
3 Year Avg. TUR% .....	5.2	5.2	6.2	7.4	6.6	8.1
Res Ratio Mult .....	0.06	0.62	0.31	0.53	0.40	0.30
Net Reserves .....	51	930	73	1699	769	16181
Tax Base .....	7100	7000	10600	7000	10100	7000
Taxable Wage Proportion .....	0.34	0.40	0.56	0.34	0.46	0.42
<b>1988:</b>						
3 Year Avg. TUR% .....	3.4	3.4	3.6	5.1	4.3	6.2
Res Ratio Mult .....	0.27	0.57	0.90	0.80	0.94	0.76
Net Reserves .....	322	1133	277	3260	2364	31104
Tax Base .....	7100	7000	12000	7000	12000	7000
Taxable Wage Proportion .....	0.30	0.35	0.54	0.29	0.44	0.39
<b>1991:</b>						
3 Year Avg. TUR% .....	5.1	6.3	6.4	5.8	5.2	5.8
Res Ratio Mult .....	-0.28	-0.11	0.44	0.26	0.92	0.54
Net Reserves .....	-354	-234	144	1191	2564	31495
Tax Base .....	7100	7000	14400	7000	14400	7000
Taxable Wage Proportion <sup>1</sup> .....	0.27	0.33	0.55	0.27	0.46	0.38

<sup>1</sup> Data refer to 1990, the last year for which taxable wage proportions have been published.

Source: Data published by the UI Service and the Bureau of Labor Statistics of the U.S. Department of Labor. Average TURs refer to unemployment rates for the indicated year and the preceding two years. Reserve ratio multiples are an actuarial measure of trust fund adequacy which are recommended to be 1.0 or 1.5. Net reserves measured in millions.

Table 2.—SUMMARY OF NET RESERVES, DECEMBER 1989 AND DECEMBER 1991

State and region	Tax base index	Net reserves (millions)			Reserve ratio multiple		
		Dec. 1989	Dec. 1991	Change	1989	1991	Change
<b>NORTHEAST:</b>							
CONNECTICUT .....		274	-354	-628	0.22	-0.27	-0.49
MAINE .....		206	78	-128	0.94	0.33	-0.60
MASSACHUSETTS .....		909	-235	-1144	0.45	-0.11	-0.56
NEW HAMPSHIRE .....		204	128	-76	0.89	0.54	-0.35
RHODE ISLAND .....	Yes	304	144	-160	0.93	0.43	-0.50
VERMONT .....		197	193	-4	1.59	1.47	-0.12
NEW JERSEY .....	Yes	2795	2564	-231	1.06	0.91	-0.16
NEW YORK .....		3181	1191	-1990	0.78	0.26	-0.50
PENNSYLVANIA .....		1616	1156	-460	0.55	0.36	-0.19
<b>MIDWEST:</b>							
ILLINOIS .....		1268	1172	-96	0.47	0.39	-0.07
INDIANA .....		770	899	129	1.04	1.12	0.07
MICHIGAN .....		370	-167	-537	0.13	-0.06	-0.19
OHIO .....		778	647	-131	0.30	0.23	-0.07

Table 2.—SUMMARY OF NET RESERVES, DECEMBER 1989 AND DECEMBER 1991—Continued

State and region	Tax base index	Net reserves (millions)			Reserve ratio multiple		
		Dec. 1989	Dec. 1991	Change	1989	1991	Change
WISCONSIN .....		1041	1172	131	1.17	1.18	0.02
IOWA .....	Yes	518	595	77	1.20	1.25	0.04
KANSAS .....		472	572	100	1.35	1.47	0.13
MINNESOTA .....	Yes	359	309	-50	0.52	0.41	-0.11
MISSOURI .....		372	119	-253	0.50	0.15	-0.35
NEBRASKA .....		127	146	19	0.93	0.95	0.03
NORTH DAKOTA .....	Yes	45	51	6	0.69	0.71	0.01
SOUTH DAKOTA .....		45	50	5	1.47	1.43	-0.05
SOUTH:							
DELAWARE .....		207	224	17	1.19	1.17	-0.01
DIST OF COL .....		76	12	-64	0.40	0.06	-0.34
FLORIDA .....		2041	1692	-349	1.30	0.98	-0.32
GEORGIA .....		1018	962	-56	0.97	0.83	-0.14
MARYLAND .....		598	225	-373	0.75	0.26	-0.49
NORTH CAROLINA .....	Yes	1471	1374	-97	1.20	1.02	-0.18
SOUTH CAROLINA .....		415	455	40	0.68	0.64	-0.01
VIRGINIA .....		718	591	-127	1.16	0.88	-0.28
WEST VIRGINIA .....		146	157	11	0.41	0.40	-0.01
ALABAMA .....		623	586	-37	1.21	1.03	-0.18
KENTUCKY .....		393	358	-35	0.69	0.56	-0.13
MISSISSIPPI .....		388	349	-39	1.67	1.36	-0.31
TENNESSEE .....		657	613	-44	0.90	0.77	-0.13
ARKANSAS .....		131	104	-27	0.40	0.28	-0.12
LOUISIANA .....		306	560	254	0.43	0.70	0.27
OKLAHOMA .....	Yes	323	426	103	1.34	1.63	0.29
TEXAS .....		989	943	-46	0.73	0.62	-0.11
WEST:							
ARIZONA .....		493	438	-55	0.84	0.68	-0.15
COLORADO .....		239	312	73	0.75	0.88	0.13
IDAHO .....	Yes	220	244	24	1.37	1.32	-0.05
MONTANA .....	Yes	80	91	11	0.63	0.65	0.02
NEVADA .....	Yes	321	296	-25	1.12	0.89	-0.23
NEW MEXICO .....	Yes	174	221	47	1.48	1.68	0.20
UTAH .....	Yes	239	328	89	1.25	1.51	0.26
WYOMING .....	Yes	54	99	45	0.71	1.15	0.45
ALASKA .....	Yes	180	243	63	0.93	1.15	0.22
CALIFORNIA .....		5419	4190	-1229	0.89	0.62	-0.27
HAWAII .....	Yes	340	421	81	1.40	1.64	0.24
OREGON .....	Yes	804	1044	240	1.35	1.55	0.20
WASHINGTON .....	Yes	1364	1708	344	0.97	1.06	0.08
U.S.Total .....		36278	29696	-6582	0.85	0.63	-0.21

Source: Data for 1989 published by the Unemployment Insurance Service of the U.S. Department of Labor. Data on net reserves for 1991 from the U.S. Department of the Treasury. Reserve ratio multiple for 1991 estimated at the Urban Institute.

Table 3.—UNEMPLOYMENT MEASURES IN ELEVEN LARGE STATES, 1991

State	Unemployment rates in 1991			Estimated TUR needed to activate EB <sup>1</sup>
	TUR	IUR	Ration	
California .....	8.5	4.2	0.49	8.1
Florida .....	7.3	2.3	0.32	12.7
Illinois .....	7.1	3.1	0.44	9.2
Massachusetts .....	9.0	4.6	0.51	7.8
Michigan .....	9.2	4.1	0.45	9.0
New Jersey .....	6.6	4.0	0.61	6.6
New York .....	7.2	3.8	0.53	7.6
North Carolina .....	5.8	2.7	0.47	8.6
Ohio .....	6.4	2.8	0.44	9.1

Table 3.—UNEMPLOYMENT MEASURES IN ELEVEN LARGE STATES, 1991—Continued

State	Unemployment rates in 1991			Estimated TUR needed to activate EB <sup>1</sup>
	TUR	IUR	Ratio	
Pennsylvania .....	6.9	4.1	0.59	6.7
Texas .....	6.6	2.0	0.30	13.2
United States .....	6.7	3.2	0.48	8.4

<sup>1</sup> Calculated at the Urban Institute. The estimate assumes that a first quarter IUR of 5.0 percent would be reached if the annual IUR were 4.0 percent. The TUR associated with the 4.0 percent annual IUR was then computed using the indicated IUR/TUR ratios for 1991.

Source: Data on state TURs published by the U.S. Department of Labor, Bureau of Labor Statistics. Data on IURs published by the U.S. Department of Labor, UI Service.

#### PREPARED STATEMENT OF SENATOR HARRIS WOFFORD

Mr. Chairman and Members of the Committee on Finance, I appreciate the opportunity to offer suggestions for improving the unemployment compensation system and extending emergency benefits. Our nation's economy remains stagnant, thousands of workers have lost their jobs, and families are in danger of losing their homes. Unemployed Americans find themselves facing an uncertain economic future.

I want to commend the Chairman and Members of the Committee on Finance for beginning a discussion of unemployment compensation reform, including proposals to extend emergency benefits before we near expiration of the current program. When I arrived in Washington a year ago, extending unemployment benefits was the very first issue I pressed. While some economists now suggest that the economy may be improving, far too many Americans are still without work and benefits to the unemployed again need to be extended until jobs become available.

The Federal-State unemployment compensation system is essential to maintaining the well-being of millions of American families. As Pennsylvania's Secretary of Labor and Industry, I administered our state's unemployment compensation program. I am familiar with the strengths and shortcomings of the current system. Unfortunately, in times of economic hardship, the unemployment compensation system is under great stress and its shortcomings are magnified.

The recession has spotlighted weaknesses in the permanent Federal-State extended benefits program. During the 1980's, legislative changes to the extended benefits program made it difficult for states to initiate benefits and for unemployed workers to receive them.

As the Committee explores these issues, I suggest examining the basis on which states initiate extended benefits. I believe such an examination should include a review of when benefits should be extended. Particularly, the Committee should consider whether extended benefits might begin on the basis of each individual worker's long-term joblessness and willingness to seek work or training rather than on statewide unemployment rate calculations.

Further, I believe that improvements need to be made to the regular unemployment compensation program to improve an unemployed worker's chances to become employed and to avert long-term joblessness. Earlier this month, I introduced the "Unemployment Compensation, Reemployment, and Fairness Act of 1992" (S. 2614), which offers several ideas to modernize the basic state unemployment compensation program.

This legislation proposes improvements in three areas of the unemployment compensation system: Worker Reemployment; Fairness to Employers; and Unemployment Trust Fund Integrity. S. 2614 would encourage job retention and reemployment, promote procedural fairness for employers, and provide for authority to use benefit funds when they are needed.

The bill's principal features are:

- First, to enhance worker reemployment, the bill:
  - allows states to implement short-time compensation (work-sharing) programs which spread the available work by reducing the hours of all workers and provides partial unemployment benefits rather than laying off some workers permanently;
  - expands employment opportunities by allowing states to pay benefits to those unemployed who seek to start their own business;
  - and requires states to review the reemployment prospects of workers early in their period of unemployment.

—and requires states to review the reemployment prospects of workers early in their period of unemployment.

- Second, to ensure employer fairness, the bill requires states to provide for an administrative hearing to employers whose tax rates or taxes are in dispute.
- Third, to ensure the integrity of the unemployment trust fund, the bill removes the unemployment trust fund from the Federal budget battle so that money that is in the fund can be used to provide benefits when workers need it.

Mr. Chairman, the further extension of emergency benefits is an urgent problem for unemployed workers and their families. I salute the Committee for its leadership in moving quickly on this problem.



## COMMUNICATIONS

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LEGAL ASSISTANCE FOUNDATION OF CHICAGO,  
Chicago, IL, May 13, 1992

Hon. DAN ROSTENKOWSKI,  
2111 Rayburn Building,  
Washington, DC.

Re: H.R. 4727

Dear Mr. Rostenkowski: I am the supervisor of the employment law project at the Legal Assistance Foundation of Chicago ("L AFC"), the agency funded by the Legal Services Corporation to represent poor people in Chicago. Much of our work concerns unemployment insurance ("UI"). We, therefore, counsel and represent Chicagoans concerning many of the issues that are implicated by H.R. 4727, and I am writing to you about two of them.

### I. MOVING THE BASE PERIOD

#### A. *The Base Period Now Used By Most States*

Adopting Section 501 of H.R. 4727, which would require "wage record" states to move their "base periods" so as to evaluate claimants' eligibility, when necessary, by reference to their most recent wages, would constitute an enormous improvement in the country's UI program.

Like most states, Illinois uses a "base period" comprised of the first four of the last five completed calendar quarters prior to the date on which the claimant files a claim for benefits. Ill. Rev. Stat. ch. 48, §347. Thus, for a claim filed on March 23, 1992, eligibility would be based on the wages the claimant had earned from October 1, 1990 to September 30, 1991. The wages earned in the last quarter of 1991 would not be included because it is the fifth of the five completed calendar quarters prior to the date of application, and the wages earned in the first quarter of 1992 would not be included because that quarter was not completed when he applied on March 23.

To be eligible for regular UI in Illinois, a claimant must have earned at least \$1600 dollars during that whole base period and at least \$440 outside the calendar quarter in which the claimant earned the most wages. Id. at §560 E. Some claimants have earned sufficient wages to qualify for benefits, but they cannot qualify when they first become unemployed because the wages they earned in the last completed calendar quarter (the "lag quarter") are not counted in assessing their eligibility.

For instance, assume a claim was filed in Illinois on March 23, 1992, after the claimant earned \$440 in the third quarter of 1991 and \$1160 in the fourth quarter of 1991. He has earned just enough wages to qualify, but because the wages he earned in the fourth quarter of 1991 are not counted in his base period, the claimant is not yet eligible. That claimant is not prohibited from filing a later claim, however. Therefore, if he files again in the second quarter of 1992, he will establish a base period that consists of the calendar year 1991 which will then include the wages he needs to qualify for benefits. However, if the claimant either does not know he can file a second claim or he returns to work before he can do so, he will never receive benefits for this period of unemployment.

Another group of claimants needs not only the wages they earned in the lag quarter, but also the wages earned during the quarter in which they first filed their applications (the "filing quarter"). For instance, using a March 23, 1992 filing date again, assume that an Illinois claimant earned \$1160 in the fourth quarter of 1991 and \$440 in the first quarter of 1992. That claimant will remain ineligible until Oc-

tober, 1992 when she can file a claim that will trigger a base period that includes both the fourth quarter of 1991 and the first quarter of 1992.

### B. Comparing "Wage Record" And "Wage Request" Systems

The Illinois-type base period is used in "wage record" states where employers report all wages they pay on a quarterly basis. The gap between a claimant's base period and her "benefit year" (which is the one year period, beginning with the Sunday of the week in which a claimant files her claim, during which she can claim up to 26 weeks of regular benefits) was created so that eligibility determinations could be made on the basis of wage information that employers had already reported and the state employment security agencies ("SESAs") had already recorded. Since employers in wage record states do not report wages for any quarter until the first thirty days of the next quarter, the wages a claimant earned during the filing quarter are never available when a claimant first files in a wage record state, and the wages he earned in the lag quarter will not come onto the system until sometime after the filing quarter begins. In contrast, in "wage request" states, where employers only report wages for workers who have filed claims, the SESA can request the most recent wages.

### C. The "Movable" Base Period

Some wage record states (e.g., Ohio, Washington and Minnesota) move the base period to pick up wages in the lag quarter when a claimant is not eligible by reference to the first four of the last five completed quarters. Indeed, Vermont has adopted a system which picks up not only lag quarter, but also filing quarter wages when necessary. In *Pennington v. Ward*, 85 C 3564 (N.D. Ill.), we challenged Illinois' failure to use a movable base period. Judge Paul Plunkett in the United States District Court for the Northern District of Illinois has held that our complaint in *Pennington* states a valid claim for relief. Enclosed are the relevant decisions.

We tried the case in the fall of 1990, and while we are still waiting for Judge Plunkett's decision, the evidence offered at trial confirms that even wage record states like Illinois can move the base period to adjudicate claims based on the lag quarter wages when necessary. That is so because modern computer technology makes more recent wage data available to SESAs much sooner than that data became available prior to computerization.

At the trial in *Pennington*, we relied on the testimony of Mr. Peter Kauffman, whose vitae is enclosed. Mr. Kauffman helped develop and refine the UI Cost Model System which was used by the Employment and Training Administration of the Department of Labor and the SESAs to measure costs and allocate manpower in unemployment insurance systems. Using this cost model system, Mr. Kauffman studied the relative advantages and disadvantages of wage record and wage request systems. In April of 1980, he reported on that study to the National Commission on Unemployment Insurance and published a shorter version in *Unemployment Compensation: Studies and Research*. I have enclosed both copies of that study.

Mr. Kauffman's study confirmed that "a wage record system serves the needs of the UI system best," primarily because it "operates at a substantially lower total cost, even when computer costs are included." *Unemployment Compensation: Studies and Research* at 596. But the largest single disadvantage to a wage record system is its effect on those who need their most recent wages to qualify for benefits. *Id.* at 590. Mr. Kauffman, therefore, suggested that "[a] wage record system could overcome this disadvantage to a large degree . . . by adopting a movable base period for [claimants] . . . who have insufficient wage credits." *Id.* at 596.

### D. The Marginal Ongoing Costs Of Movable Base Periods

#### 1. Moving the Base Period To Capture Lag Quarter Wages

Mr. Kauffman and the state's experts independently studied the costs for moving the base period in Illinois and, while they disagree about the one-time costs, they drew virtually identical conclusions about the ongoing costs of a movable base period. The data they used included the wages reported to the Illinois Department of Employment Security ("IDES") for each claimant who applied for benefits in Illinois in 1986. Of 526,469 such claimants, 63,518 (or 12%) lacked sufficient wages in the first four of the last five completed calendar quarters to qualify for benefits. Of that group, however, 15,034 had sufficient wages to qualify if their lag quarter wages had counted, and another 9,115 would be eligible if their filing quarter wages were counted.

Presently, IDES receives wage data from employers during the first 30 days of each quarter, but it waits to "post" this data on its computers until the weekend before the next quarter begins. If IDES simply posted the data more frequently

throughout each quarter, the lag quarter wages for many claimants would be available on the computer system when they applied.

This process would require little additional ongoing cost for a series of reasons that should hold true in all states. First, it would not affect approximately 88% of claimants who qualify using the existing base period definition.

Second, for those claimants who need their lag quarter wages and for whom those wages are available when they file, IDES would have little or no ongoing costs. Immediately after the computer issued a finding that a claimant lacked sufficient wages in the first four of the last five completed calendar quarters, it would issue a second finding against the last four completed quarters prior to filing.

It is less likely that the wages for those claimants who filed claims early in the quarter, before their employers had reported the data or IDES had recorded it, would be available on the computer. For each such claimant, however, IDES's computer could run a "threshold test" which would eliminate further processing for many claims. The computer would examine the wages in the last three of the completed calendar quarters before the date of a claim. If those quarters have less than \$440, the claimant could not have earned the necessary amount outside the quarter with the highest wages and thus, IDES could immediately disqualify that claimant no matter how much she earned in the lag quarter. For any claimant whose lag quarter wages were not available and who passed the threshold test, the computer would be programmed to issue a second monetary eligibility finding as soon as the claimant's lag quarter wages were posted on the computer. Those claimants who qualified for benefits could then be paid retroactively to the date of their claim.

While states use various requirements for wages earned (or time worked) during the base period, most systems would allow for some use of threshold tests. For instance, the State of Washington requires that claimants have worked at least 680 hours during their base period to qualify for benefits. Mr. Kauffman studied Washington in connection with litigation called *Duncan v. Turner*, a suit that settled after Washington adopted its movable base period. He determined that threshold tests could be used to eliminate processing for many claimants in Washington, too.

The largest cost of a movable base period would be for accepting bi-weekly certification forms (in which claimants confirm that they are still unemployed and that they are able to, available for and actively seeking work) for claimants who had to wait for their lag quarter wages to be posted but who did not then qualify for benefits. That cost would be substantially offset, however, by a savings associated with the movable base period. Under the present system, claimants who lack sufficient wages in the first four of the last five calendar quarters must refile at a later date to obtain a finding based on their lag quarter wages. For any claimant who does so, IDES bears the costs of processing two claims.

In contrast, under the movable base period, IDES would process only one claim for such claimants and simply program its computers to issue a second finding for those claimants who have insufficient wages to qualify in the first four of the last five completed calendar quarters. The costs saved by eliminating these second claims largely offset the costs incurred by accepting certification forms for claimants whose lag quarter wages are unreported when they file. The net costs in Illinois would be an increase of about the time of one additional staff person per year.

## 2. Moving The Base Period To Capture Filing Quarter Wages

Mr. Kauffman concluded that it is not feasible for a large state like Illinois to move the base period to capture filing quarter wages, as Vermont is doing, because that system requires very large increased costs. But, even if the base period moved to count only lag quarter wages, claimants who need their filing quarter wages to qualify could file a compensable claim three months earlier than they can now. For example, Mrs. Pennington first applied for benefits on June 7, 1984, thereby establishing a base period of January 1 to December 31, 1983. She needed the wages in both her lag quarter (January 1 to March 31, 1984) and in her filing quarter (April 1 to June 30, 1984) to qualify. Under the existing definition of the "base period," the first date on which she could file a compensable claim was October 5, 1984. If the base period had moved to pick up lag quarter wages, however, she could have filed a compensable claim on July 2, 1984.

If the base period is moved only enough to pick up lag quarter wages, however, those claimants who need their filing quarter wages may never know to file a second claim. If federal law required that states notify claimants of the first date when they might file a compensable claim, however, that problem would be substantially ameliorated. To give such notice, states need only program their computers to tell those claimants who are denied benefits but might qualify after moving the base period to count filing quarter wages, of the first date in the next quarter when claimants can file claims against the filing quarter wages.

I recommend that notice requirement to you as a salutary addition to the movable base period concept that will assist those claimants who need their filing quarter wages to qualify. To accomplish this, Section 501(a)(3) of H.R. 4727 could be amended to add subparagraph (C) as follows:

“(C) if a claimant has insufficient wages or employment during the base period consisting of the most recent 4 calendar quarters ending before such filing, but he might become eligible if the wages he previously earned or employment he previously worked during the calendar quarter in which the claimant filed his claim were counted, the State shall notify the claimant, in writing, of the first date on which he can file another claim for which the base period will include the quarter in which he filed the prior claim that was denied.”

#### *E. One-Time Costs*

Estimates of the one-time costs that states would have to bear to move the base period vary widely, but even IDES's expert in *Pennington* testified that they would be about \$2,500,000. That figure was inflated because the state's expert relied on assumptions that were wrong. In particular, he assumed that there would be substantial costs to institute a wage request system when the base period could be moved without using wage requests at all.

Whatever the one-time costs are, such costs are properly understood by amortizing them over the useful life of the change. The type of changes in computer systems that would be required to implement a movable base period are ordinarily amortized over at least five, and perhaps as long as ten years, thus reducing even the state's high estimate to between \$250,000 and \$500,000 yearly. It might be a wise investment to use some of the funds that have built up in the extended benefit trust fund, but have not been spent during the recession, to assist states in upgrading their technology. If such funding coincided with a period during which states were required to develop movable base period systems, the states could finance that change while also purchasing any other “state of the art” technology that would improve the operation of their UI programs.

#### *F. The Benefits Of A Movable Base Period*

The costs of adopting a movable base system are negligible when compared to the enormous benefits to those workers who have earned sufficient income, but are nonetheless treated as if they lacked sufficient attachment to the work force to qualify for benefits. Two of the Congressional Research Service's recent reports confirm findings in a number of independent studies which conclude that only a small fraction of the nation's unemployed workers receive UI. Falk, *Unemployed Workers Do Not Receive Unemployment Compensation: Impact and Incidence*, CRS Report for Congress, Nov. 15, 1990; Falk, *The Uncompensated Unemployed: An Analysis of Unemployed Workers Who Do Not Receive Unemployment Compensation*, CRS Report for Congress, Nov. 15, 1990; *Far From Fixed: An Analysis of the Unemployment Insurance System*, Center on Budget and Policy Priorities, March 1992.

In Illinois, only 38% of the unemployed received benefits in an average month during 1991 making it one of 16 states that fell below the national average for UI coverage. *Far From Fixed* at 13-17. Of 63,518 Illinoisans who were denied UI for lack of sufficient base period wages in 1986, 15,034 claimants actually had sufficient base period wages if their lag quarter wages had been counted, and another 9,115 had sufficient wages if their filing quarter wages had been counted. Though states disqualify claimants with earnings so insubstantial that they could not be said to have been sufficiently attached to the work force to qualify for UI benefits, the defining characteristic of the claimants who would be served by a movable base period is that each of them *has* earned enough income to qualify for benefits; they only *appear* to lack sufficient earnings because states do not recognize their most recent income.

Indeed, the very fact that the immovable base period fails to count a claimant's most recent wages means that they UI system actually *disserves* the purpose of paying benefits to those with a stronger and more recent attachment to the work force.

The following table, which exhibits the operation of the immovable base period on three Illinois claimants, proves the point:

	1st quarter wages	2nd quarter wages	3rd quarter wages	4th quarter wages	Lag quarter wages	Filing quarter wages	7th quarter wages
Claimant 1	0	0	\$440	\$1160	0	0	0
Claimant 2	0	0	0	\$2600	\$2600	0	0
Claimant 3	0	0	0	\$2600	\$2800	( <sup>1</sup> )	\$2800

<sup>1</sup> Obtains new job just before beginning of 7th quarter.

By any measure of work force attachment (e.g., amount of wages earned, number of hours worked, how recently the claimant was employed prior to applying for benefits), Claimant 1 has the most tenuous attachment of the three claimants. Yet, he is awarded benefits when he applies. By the same measures, Claimant 2 has a stronger and more recent attachment to the labor force than Claimant 1, yet Claimant 2 is denied benefits, at least until she waits to apply again in the seventh quarter. By every measure, including the fact that he returned to work most promptly, Claimant 3 has the strongest attachment to the work force. Yet, he receives no benefits at all.

Moreover, many states including Illinois are cutting back welfare programs because their general revenues are shrinking. Many of those who are thereby cut from welfare programs would be added to the UI system if states moved their base periods. And that change would not cost states' general revenues, since UI is funded from the unemployment trust fund.

Finally, unemployment insurance was designed not only to help those who lost their jobs, but also to "prevent a decline in the purchasing power of the unemployed, which in turn serves to aid industries producing goods and services." *California v. Java*, 402 U.S. 121, 132 (1971). Delaying or denying benefits to tens of thousands of claimants in Illinois alone disservices both of these purposes.

Therefore, I urge you to enact Sec. 501 of H.R. 4727 to confirm that, as a part of the states' obligation to pay benefits "when due," wage record states are required to move their base periods to count lag quarter wages when necessary to make claimants eligible for benefits. I also urge you to amend that provision so as to require that states notify claimants who might become eligible by use of their filing quarter wages on the first date that they could file a compensable claim.

## II. ELIMINATING THE HARSH WORK SEARCH REQUIREMENTS FOR RECEIPT OF EXTENDED BENEFITS

Like all UI recipients, those who receive extended benefits ("EB") under the Federal-State Extended Unemployment Compensation Act of 1970, 26 U.S.C. §3304(a)(11), noted Pub. L. 91-373 (as amended) ("EUCA"), must "actively engage in seeking work." EUCA §202(a)(3)(A)(ii). But, EUCA also requires claimants to conduct "a systematic and sustained effort to obtain work." *Id.* at §202(a)(3)(E)(i). Though nothing in the "systematic and sustained" standard need be interpreted unfairly, in fact, in Illinois at least, that language is used to deny EB to many claimants.

Moreover, unlike claimants for regular benefits, claimants who are denied EB for failure to meet the work search requirement in one week cannot receive benefits in later weeks even if, during those later weeks, they do conduct "a systematic and sustained" work search.<sup>1</sup> Section 202 of H.R. 4727 would solve numerous inequities in the EB program, by eliminating these special work search requirements.

Under a system devised by the USDOL for both regular benefits and EB, representatives in the state's job service offices would fashion a work search plan for each claimant based on his background and labor market conditions. A claimant would then be expected to comply with his work search plan in seeking work or risk losing benefits. At least in Illinois, however, the system has never worked that way. Instead, during the recession in the early 1980's, IDES created a series of work

<sup>1</sup> Claimants who are denied EB for an inadequate work search can requalify if they are re-employed for at least four weeks and earn at least four times their average weekly benefit amount. EUCA, §202(a)(3)(B). As a practical matter, however, the vast majority of claimants who become re-employed remain so for a sufficient time to requalify for regular benefits, thus making re-qualification for EB largely irrelevant.

search "rules of thumb" that were required of EB claimants. For example, EB claimants had to be willing to look for jobs: (1) that paid the greater of minimum wage or their weekly benefit amount; (2) that required an hour and a half in travel time, one way, to or from work; and (3) on every shift. Claimants were also required to make at least five job contacts each week, but only "in person," not telephone or mail contacts, were acceptable.

IDES did not notify claimants of these rules. Instead, it gave each claimant a questionnaire in which the claimant was asked questions such as "what is the lowest starting wage you will accept?" Even a claimant who answered that he was willing to accept a job paying much less than he had previously earned was denied benefits if he did not say that he would accept the greater of minimum wage or his weekly benefit amount. And, if the claimant contested that denial, when he was notified of the hearing on his claim, he still was not told the reason that he had been denied benefits so that he could properly prepare for the hearing.

In *Cosby v. Ward*, 843 F.2d 967 (7th Cir. 1988), the United States Court of Appeals for the Seventh Circuit held that IDES had violated EB claimants' due process rights by failing to notify them of the work search rules of thumb, and of the issues to be heard at hearings. *Id.* at 982-86. But the Court held that states did not have to fashion work search plans to guide claimants because, the Court said, the USDOL letters, which describe the process for making and using work search plans, did not have the force of law. *Id.* at 979-81.

*Cosby* was resolved by entry of a partial settlement agreement, a copy of which is enclosed. Under that settlement, IDES agreed to notify claimants of its work search rules of thumb and of the issues to be raised at hearings, but it retained the power to use its rules of thumb. It continues to use those rules as confirmed by the notice, a copy of which is enclosed, that it gives claimants who apply for benefits under the Emergency Unemployment Compensation Act of 1991.

IDES justifies requiring compliance with its EB rules of thumb by asserting that, as claimants remain unemployed longer, they should have to lower their expectations as to acceptable work. But the unemployment insurance system contains other incentives to prod claimants to find work. For instance, UI benefits are only a percentage of a claimant's former wages; even to receive regular benefits, claimants must not only look for, but also accept work; and, as claimants near the time at which they will exhaust their benefits, they must be willing to accept less remuneration or risk going without income at all.

There is no reason to also require that, during recessions, claimants must accept bad jobs. Indeed, UI benefits are intended to constitute "a means of assisting a worker to find substantially equivalent employment." *California v. Java*, 402 U.S. 121, 132 (1971). The 26 week period during which claimants can receive regular benefits is extended during recessions precisely because, during such times, economic conditions make it unlikely that workers can locate substantially equivalent employment. Indeed, it is inefficient and wasteful to force skilled workers into unskilled jobs since, when a recession lifts, we want those skilled workers to return to jobs that utilize their skills. Moreover, a process of using the UI system to force people into jobs that pay less undercuts the goal of "prevent[ing] a decline in the purchasing power of the unemployed, which in turn serves to aid industries producing goods and services." *California v. Java*, 402 U.S. 121, 132 (1971).

The failure of the UI system to cover many workers who are unemployed is severe. Eliminating the harsh work search requirements that are now associated with EB would increase the coverage and return the system to its intended purposes. I urge you, therefore, to enact Section 202 of H.R. 4727 so that states will evaluate claims for EB using the state law standards by which they evaluate regular UI claims.

Very truly yours,

JEFFREY B. GILBERT, *Attorney at Law*

*Perrysburg, OH, May 15, 1992.*

WAYNE HOSIER,  
U.S. Senate,  
Committee on Finance,  
Washington, DC.

Dear Mr. Hosier: The problem with the unemployment insurance system lies totally in the approach taken by Congress. The emphasis should not be how to extend more benefits to the unemployed, but rather how do we insure that unemployed peo-

ple become productive. All anyone has to do is simply look in the newspaper want ads or drive through any business district to determine that there is a multitude of jobs in our society that are available to anyone with a modest amount of ambition. Instead, the focus of the government has been how to make life more comfortable for those people who do not bother to be productive citizens.

We can argue theory all day. However, the best support is real life examples of what is actually happening in our economy. I was moved to write this letter simply because I have seen many real life situations in the last several months that I find appalling. As examples, I offer the following:

(1) An individual was sent for a job at a bank and was hoping not to be accepted for the job so that she could instead work a seasonal job. She knew she would be laid off from the seasonal job and be able to collect unemployment compensation for a significant part of the year.

(2) An employee who literally refused work that was available from the company where she was employed was only disqualified from unemployment for that particular week. She was able to collect unemployment for subsequent weeks since the employer did not want her services due to her uncooperative behavior.

(3) Another individual was laid off by a company because he was unreliable. He simply did not go to work if he was not in the mood to do so. Not only has he been able to collect unemployment, but he made future plans under the assumption that he would not be forced to work since he really was not actively looking for work. His unemployment benefits have been extended under recent law.

(4) Many employees now "volunteer" to be laid off. This is done by "reverse seniority." How can unemployment be a problem when people are this anxious not to work?

(5) The attitude of several people with whom I have talked regarding their employment status is that they see no reason to begin looking for work until approximately two weeks before their unemployment benefits will expire. Everyone I talked to fully expected their benefits to be repeatedly extended so that they would not have to seek a job.

(6) I even saw a newspaper article interviewing an individual who might be removed from the welfare rolls in Ohio because he is a single, able bodied adult. He publicly made the statement that he was simply not interested in working for McDonalds for \$5 an hour, but would rather stay on welfare and wait for a better job.

The problem is quite simple. Many people now believe that they have a right to expect to make \$10 and \$15 per hour at a bare minimum. Anything less than that amount is deemed "menial labor" that is beneath them.

The Senate Finance Committee should show leadership by making it clear to the American public that "menial" and "labor" are mutually exclusive terms. There is an honor in any job well done. Again, getting back to real life examples, I had the occasion to have a pizza delivered to my house several months ago. The delivery was made by a man in his mid 40's. He was educated and had a relatively good job, but had decided that he should supplement his income in an effort to set aside some money for his childrens' education. If such a man can do what some of you believe to be "menial labor," I see reason why the same should not be expected from people who are on unemployment insurance. **The absolute unfairness of the situation can be best seen when one realizes that the man trying to supplement his income by working a second job is being heavily taxed on that supplemental income in order to provide public assistance to people who feel such a job is beneath them.**

In closing, I suggest that people on unemployment insurance be expected to work. First, many of these people are working under the table for cash and double dipping by collecting the unemployment insurance. A policy of making them work would eliminate these cheater from the claimants. Also, the prospect of having to work for public benefits would undoubtedly provide motivation for some of the claimants to find work in the private sector.

There are many projects that could utilize the services of the unemployed. Recycling centers and the highway litter clean up are two obvious examples. There are many jobs in the private sector that also could provide productive activity for the unemployed if we begin to expect something for the benefits provided to them.

Very truly yours,

CALVIN G. SMITH

## STATEMENT OF THE U.S. CHAMBER OF COMMERCE

The U.S. Chamber of Commerce Federation of state and local chambers of commerce, businesses, and associations takes great interest in the health and future of the nation's unemployment insurance (UI) system. Chamber members have a vital stake in the UI system, which not only is financed by employers, but also helps to stabilize employment and sustain purchasing power during economic downturns. The Chamber Federation would like to offer its views on the current state of the system and on proposals to reform it.

This country may be finally experiencing an economic turnaround. However, we recognize that robustness in the job market typically lags behind the first signs of economic recovery. We can expect high levels of unemployment to continue for some period of time, such that many of the long-term unemployed will again face the prospect of exhausting their benefit eligibility. The Chamber Federation did not oppose last fall's efforts to extend benefit payments as such, and does not do so now. Nevertheless, we would like to point out once again that the need for additional benefits is a reflection both of the severity of the long recession and the lack of firm pro-economic growth policies on the part of Congress and the Executive Branch. A further extension of benefits still is only a palliative; new job creation is the needed cure.

Another current proposal with which the Chamber is concerned is that of substituting the Total Unemployment Rate (TUR) for the Insured Unemployment Rate (IUR) in triggering extended benefits. The TUR reflects unemployment in the entire population, and thus includes persons who do not meet basic UI eligibility requirements—those who voluntarily quit their jobs, were discharged for misconduct, or who have not worked long enough to meet minimum qualifying standards. By contrast, the IUR properly measures unemployment only among the population eligible for UI. The Chamber strongly believes that the IUR trigger should be retained.

Familiar from previous years, some members of Congress are suggesting that the UI system's perceived problems can be solved by increasing employer taxes. Last year, the taxable wage base would have been indexed to the Social Security wage base; this year, it would be indexed to average annual covered wages. In either case, it expands employers' tax liability without affecting claimants' benefits. There is no need for this tax increase. There is abundant money in the federal unemployment trust fund already. Again, it should be remembered that what the unemployed will always need most is jobs. An annual tax increase that raises the cost of labor can only inhibit both job creation and economic vitality.

Among new suggestions to be considered this year is one which would remove the unemployment trust funds from the unified budget. The Chamber Federation supports this proposal. These are dedicated trust funds and, as such, should be used only for the purposes for which employers' taxes are imposed, i.e., for program administration, extended benefits, and loans to states that have depleted their benefit reserves. Where compelling needs exist, access to employer tax monies should not be barred by budget rules.

Finally, a critical facet of the Chamber's 1992 National Business Agenda is a new examination of the human dimension of enterprise. To promote the overall development of a highly motivated, trained, and productive workforce, we must look toward a spectrum of policies affecting education and employment. The UI safety net clearly plays a key role. Over the next six months, the Chamber Federation will be developing a human capital investment plan incorporating all of these concepts.

Accordingly, the Chamber Federation is pleased to see a focus this year on better assisting the dislocated worker. We believe, however, that as part of this debate, two concerns must be kept in mind. First, services for the structurally unemployed already exist, such as Title III of the Job Training Partnership Act. We suggest that before yet another new program is created, it should be determined if already existing programs can be better coordinated within the UI system so as to thoroughly serve the needs of dislocated workers. Second, financing for any programs should not come from unemployment taxes. These monies are paid into the system by employers to pay for benefit costs and basic labor exchange functions, and that is what they should be used for. Employers should not automatically be expected to pay also for training costs, relocation costs, and self-employment costs.

The Chamber looks forward to working with this Committee in this area. We also thank you for your consideration of our views, and request that this statement be made part of the April 29 hearing record.

